BRINGING HEALTH THROUGH FOOD TO AS MANY PEOPLE AS POSSIBLE

DANONE economic and social report

09

Interview with Franck Riboud
Stepping up the pace

SPECIAL REPORT
BOUNGING BACK FROM THE DOWNTURN, READYING FOR THE FUTURE

Features
New horizons in China, a stopover in Argentina, making nature the destination
“From Madrid to Mexico and Tokyo to Warsaw, 2009 was as mixed and eventful as expected in many of the countries where Danone does business. Early on, our group decided to hold on course as storms raged.

Beyond the indicators and percentages showing our success in rebounding from the downturn, this year’s report testifies both to the responsiveness of our teams and to our group-wide commitment—market by market—to defining the right approach and the best responses to consumers’ changing expectations.

In 2009, the Danone adventure once again inspired new projects and initiatives that grew out of our convictions and gave shape to our mission. As we formed new partnerships, paid special attention to our ecosystem, and made the most of our natural resources, we were rewarded with a year of powerful experiences that we are proud to share with you in this report.”

The editorial team

danone09 danone.com
Visit us on the web to learn more about the people who bring the Danone adventure to life.
GOODBYE
DANIEL

Although the Danone brand is now generally associated with the Riboud name, its origins and much of its success are due to another family—the Carassos. Daniel Carasso, who died on May 17, 2009 at the age of 103, was the second in a line of family heroes that began in Barcelona when his father first launched the business and named it after his son: “Danone” is derived from Danon, an affectionate Catalan nickname for Daniel. Then in his teens, the youngster would grow up to build the brand for over three-quarters of a century.

Daniel Carasso was born into a Sephardic Jewish family in Thessaloniki on December 16, 1905. In 1919, his father Isaac took the family back to their Spanish homeland where he began producing and selling yogurt using dairy cultures to favor digestion. In this, Carasso drew on the work of Russian scientist and Nobel laureate Elie Metchnikoff in the early 20th century, establishing a commitment to health that Danone continues to this day.

In 1929, young Daniel decided to strike out on his own, setting up the Société Parisienne du Yoghourt Danone in Paris even though yogurt was practically unknown in France at the time. Where his father saw yogurt primarily as a health product sold in pharmacies, Daniel transformed it into an appetizing treat with a broader customer base and scope for large-scale production.

In 1941, Daniel Carasso was forced to flee Nazi-occupied France for the United States, where he grew his business, changing its name to Dannon to adapt to American spelling and pronunciation. Back in France after the war, he turned to industrial expansion in earnest, opening new plants and expanding the company’s product range to include fruit-flavored and low-fat yogurts.

In 1967, he tied up with Gervais, the market leader for fromage frais. Rapid growth of supermarkets had brought lasting change to French retailing, making further expansion essential to preserve bargaining clout. But Dannon had sold its US subsidiary, and Daniel Carasso was no longer satisfied with running a purely French business. Enter Antoine Riboud: as head of BSN, which already owned Kronenbourg and Evian, he was looking for new opportunities to round out his company’s presence in food and beverages. “My dream was to make Danone a global brand,” Daniel Carasso often said later, “and that was the stage my thinking had reached when I met Antoine Riboud. Our strategies were a perfect match.”

In 1994, what was by then a multinational business dropped BSN and Gervais from its name to become simply Danone—a brand now present in 50 countries, with yogurt sales totaling 51 billion servings a year. After Daniel Carasso’s death, what remains is his legend—and Danone’s abiding commitment to innovation, which he never ceased to champion.

Adapted from Lætitia Clavreul’s Le Monde article of May 24, 2009
**Did you know?**

Most family meals contain 10 times more salt than ours.

**Jar Meals**

is tailor-made to meet your baby’s specific needs:

✓ No added salt
✓ No preservatives
✓ No artificial anything

...because healthy babies are happy babies

milupa.com

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Our cover photo features youngsters in Argentina, where Danone is market leader for fresh dairy products and bottled water. Photograph by Thomas Haley.
Contributors

Ron Oswald
After working with unions in Africa, the Caribbean and Central America, Ron Oswald joined the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations (IUF), where he has been Secretary General since 1997. (See p. 80)

William Green
William Green has worked as a journalist in the United Kingdom, for Numico in the Netherlands, and for Aeron Products and IBM in the United States. He currently heads the Communications team at Danone’s Medical Nutrition division. (See p. 39)

Stéphane Dupays
After serving as plant manager at Danone’s Longchamps facility in Argentina in 2006, Stéphane Dupays was named Industrial Director at Danone Argentina in 2009. He began his career with Danone in France, in 1994. (See p. 72)

Myriam Cohen-Welgryn
Myriam Cohen-Welgryn joined Danone in 1999. In 2002 she was appointed as head of Marketing for the Biscuits line, becoming General Manager of Danone Ireland in 2007 and returning to headquarters in 2009 as General Manager Nature - VP Environment Worldwide. (See p. 64)

Ricardo Uauy
Ricardo Uauy is currently Professor of Public Health Nutrition at the London School of Hygiene and Tropical Medicine in the United Kingdom, and at the University of Chile’s Institute of Nutrition and Food Technology (INTA). (See p. 85)

Jean-Léon Vandoorne
Jean-Léon Vandoorne worked as a journalist, then Editor in Chief of Les Echos, and later Ch’ti Nouvelle, LSA and other titles. He is currently a freelance writer and editorial consultant. (See p. 80)

Chris Terry
A photographer with more than nine years’ experience in publishing and the press, Chris Terry also works for humanitarian organizations including the British Red Cross, Blesma, Combat Stress and Fifteen Foundation. (See p. 85)

Thomas Haley
A native of Oregon, photographer Thomas Haley has covered major international events for Sipa Press. He has lived in France since the 1970s. (See p. 8)

Jacques Ponsy
Jacques Ponsy joined Danone in 1986. After holding several other positions, he was named Managing Director of Danone Waters China in January 2009. (See p. 54)

Peng Qin
Peng Qin was named Vice-President of Danone China in 1999, becoming Chairman in summer 2002. He holds dual French and Chinese citizenship. (See p. 54)

Cécilia de Pierrerebourg
Cécilia de Pierrerebourg joined the Corporate Communications department at Danone China in Shanghai after serving in the Corporate Communications department at group headquarters in France. She was previously an account manager at Burston-Marsteller, where Danone was one of her clients. (See p. 54)

Jian Li
Jian Li worked at several corporations in the healthcare industry before joining Danone. He is currently Managing Director of Danone Medical Nutrition China. (See p. 54)

Isabelle Domercq
Isabelle Domercq joined Danone in 1998 and has been Managing Director of Danone Fresh Dairy Products China since 2006. Her experience in Asia includes three years as VP Marketing in the Asia-Pacific region for Waters and Fresh Dairy Products. (See p. 54)

Jeffrey Lu
After 15 years with Numico China and Johnson & Johnson in China and the United Kingdom, Jeffrey Lu is currently Managing Director of Danone Baby Nutrition China. (See p. 54)

Jian Li
Jian Li worked at several corporations in the healthcare industry before joining Danone. He is currently Managing Director of Danone Medical Nutrition China. (See p. 54)

Our thanks: to all those who contributed to Danone 09, including Danone teams in Argentina, Austria, Brazil, Bulgaria, China, the Czech Republic, France, Germany, Hungary, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Poland, Portugal, Russia, Scandinavia, Spain, Turkey, Ukraine, the United Kingdom, and Vietnam. (See p. 85)

Béatrice Faure-Fonseca, Danone Products France has been signed the Responsible Investors’ Charter drawn up by the Sustainable Development Committee of France’s Union des Annonceurs.
“Using the crisis to accelerate”

Danone responded to a year of crisis with an aggressive strategy to strengthen positions and accelerate growth. A look back at a challenging year—and ahead to the cautious yet resolute ambitions announced for 2010.

INTERVIEW WITH FRANCK RIBOUD

What was Danone’s strategy for getting through this year of crisis?

Franck Riboud: At the end of 2008, we decided to go on the offensive: we weren’t willing to just sit there and take it, waiting for the storm to blow over or simply weather it out. Instead we wanted to turn the crisis into an opportunity—a chance to speed up or initiate changes that would give us a lead on the competition. With that in mind, we defined our priorities very early on, at the end of 2008, and did so far more quickly and clearly than many others.

Still, 2009 didn’t get off to a very good start.

FR: You’re right. And you really could describe the first three months of 2009 as “in crisis”—it was one of the slackest quarters in Danone’s history. But we used it to prepare for a rebound, taking the first steps in deploying our strategy for the downturn. Which paid off very quickly: positive signs appeared in the next quarter and sales began growing again, especially in volume, for all our businesses. The rebound was confirmed and gathered strength in the third quarter. And we did even better in the fourth quarter, with organic growth over 5% and volumes up nearly 9%—some of the strongest quarterly gains in volume in our history. So for Danone, the business dynamics for the year were actually positive in 2009, lifting our performance.

What about 2010?

FR: We’re cautious. Visibility is still low, and I haven’t got a crystal ball. The financial crisis could return. The economic crisis isn’t over yet, and the social crisis linked to rising unemployment may not even have begun. Still, if we focus on Danone, 2009 gave us some grounds for satisfaction, bearing out some of our thinking. And we can now be pretty definite about our targets for this year—sales growth of at least 5% like for like, margin equal to last year’s record level and a 10% increase in cash. Being cautious doesn’t prevent us from being ambitious.

You’ve made volumes a clear priority. What does that mean exactly?

FR: Right from the end of 2008, we decided that the important thing in a slump is to maintain demand for our products—to ensure that consumers remain loyal and keep buying Danone products, perhaps even increase their...
purchases. And win over new consumers. Our experience of the local downturns we have been through in a number of countries over the past ten years has taught us that the best indicator of good health in a slump is sales volume—quite simply, how many kilos of yogurt or infant formula, or how many liters of mineral water you’re actually selling. If you succeed in holding volumes steady or increasing them, you win a lead that you can’t lose when business rebounds.

On top of that, for an industrial business, the focus on volume means keeping factories running and preserving jobs. In an economic downturn, I see safeguarding employment as the prime responsibility of a business. And that responsibility has its rewards—restricting is expensive, and closing a plant is very expensive. Especially in a downturn. It’s in everyone’s interest to do everything possible to avoid it.

In practical terms, how do you go about boosting volumes?

FR: The crisis has brought a change in consumer behavior. Or, more accurately, it has accelerated changes that resulted from an increasingly complex set of underlying trends. Keeping step with those new trends, which vary from one market to the next and even from quarter to quarter, is not simple; there’s no single surefire solution, such as price cuts across the board. On that point, consumers have certainly shown a taste for low prices in the downturn, but they have also been very partial to premium products, even when these are relatively more expensive than those of our competitors. So, adapting isn’t just a matter of tweaking one variable—you have to be willing to start from scratch and question all of the standard wisdom. You have to aim for the right combination, and be ready to change quickly if the results don’t live up to your hopes. At Danone we’ve called that a “reset”—because in a way, we’ve started all over.

Could you give us an example?

FR: One of the best comes from our Dairy Product operations in Mexico, where we’ve staged a spectacular rebound after going through a very tough time at the end of 2008. Our teams in Mexico adjusted their prices, sometimes drastically, slashing them by as much as 25% for certain ranges, while at the product level it’s been same innovating with new offers such as Activia in family-size containers and a very simple new line targeting the heart of the market—something that didn’t really exist in Mexico before, and that has got off to an extremely vigorous start. We have also continued to innovate with our premium lines, an example being the new “shot” of Activia—a mini-portion in a small bottle that is already a big success. We’ve deployed this multi-pronged strategy— with variations, of course—on a dozen of our main markets over the past few months.

And what about the overall result?

FR: Our success in Mexico isn’t the only one. In Poland, for example, we recorded double-digit sales growth in 2009 but improving momentum. What is that momentum has not been confined to emerging markets: our business has shown plenty of pace in the United Kingdom and in Germany. In France, volumes are also trending up again, and in Japan annual growth rates are over 30%. The result is that our market shares were on the rise in the vast majority of countries, including in value, in the fourth quarter. Which was our main aim.

Sales volumes grew much more quickly than sales revenues in 2009, in keeping with your priorities. Some observers might see that as a change of strategy.

FR: They would be wrong; that idea is based on a gross misunderstanding. Given the emphasis we place on R&D and the way our premium brands like Activia, Actimel or Aptamil in baby nutrition have been market drivers over recent years, many observers have drawn the false conclusion that we’ve been aiming for higher prices all the time. But we’ve articulated our fundamental strategy very clearly for a good number of years. Our mission is to bring health through food to as many people as possible. Obviously enough, the health aspect means added value in food. But let’s not forget the end of the sentence—if you want to reach as many people as possible, you can’t be running after higher prices all the time. Over the past ten years, we’ve expanded our affordability strategy with very low-priced ranges and products selling for less than 10 eurocents. The economic crisis has simply led us to accelerate a process we were already engaged in. The fact that we haven’t had to adopt a completely new strategy is certainly one reason for our resilience.

When volumes rise faster than revenues, isn’t profitability at risk?

FR: The two things aren’t necessarily at odds. To start with, Danone’s margin has been rising for 15 straight years. Of course we benefited from lower raw material prices last year, but that isn’t the only explanation. We’ve managed things very carefully, and we keep a very close watch on productivity—which is a habit at Danone. That’s all to the good, but I repeat that this margin isn’t my constant concern. My primary concern is to create more value by selling more Danone products, and doing that as efficiently as possible. There is a mathematical limit to margin rates, but not to the number of Danone products we can sell. So we’re engaged in a new strategy that we sold more in 2009 than ever before.

In all four divisions?

FR: Yes. I’ve talked a lot about Dairy Products, which account for nearly 60% of our sales, but sales volumes and revenues were up in all four of our business lines in 2009.

Some people are saying your water business is shaky.

FR: It’s not. Sales and profitability continue to rise. The fact is simply that there is still a big gap between emerging markets, where our organic growth is topping 10% and volumes are surging, and mature markets where conditions are still difficult but improving. You have to learn to live with that. But there is nothing inevitable about the way business works on mature markets. While we are obviously not expecting to achieve the same rates of growth in France, which has the highest per-capita consumption of still waters anywhere in the world, as in say, Indonesia or Mexico, we can find a way ahead. As an example, the UK was our toughest market over the past few quarters, with double-digit drops in sales, but it was back on a positive track in 2009 for both volumes and revenues. And in France our Dvian brand is gaining market share again, thanks to innovation, particularly in advertising. Its most recent TV spot got over 90 million views—the biggest audience ever for a commercial on the internet. More generally, innovation holds great promise in the sector, particularly for packaging and environmental concerns.
“Health through food starts with meeting local nutritional needs.”

Are your two newest divisions, Baby Nutrition and Medical Nutrition, still driving growth?
FR: Yes. Which shows again that the acquisition was soundly based and that integration has been a success. Sales growth topped 7% for Baby Nutrition and was over 10% for Medical Nutrition. Those are exceptional results in current conditions, and our teams deserve to be congratulated. They also illustrate the resilience of the two sectors, even though they’re obviously not completely immune to economic troubles.

Still, growth rates are no longer in double digits. Would it be fair to say they are leveling off?
FR: I’m sure a lot of businesses would like to be leveling off as nicely, if that’s what you want to call it! In Baby Nutrition, our business in China is continuing to grow at a rate of around 15%. And while we’re cautious on Russia, where some distribution networks are fragile, we’re seeing growth of 15% in Indonesia, 9% in Poland and 7% in Germany. In France, our market share has risen to a record high of over 50%, beating our closest rival by 25 percentage points. So Baby Nutrition is still a very strong driver for growth. Our offering of milk products meets essential needs for the health of children that have stopped breast-feeding. And we are very well positioned in this area, particularly on geographical markets with high rates of population growth.

And what about Medical Nutrition?
FR: With sales now close to €1 billion, our Medical Nutrition division is starting to carry real weight. Not only financially, but also from a strategic point of view. We are only beginning to see how it will affect Danone—and how Danone will affect it.

Are you going to tie it in with other businesses?
FR: Let’s not get ahead of ourselves. Medical nutrition has its own logic—products are often reimbursed by public health insurance organizations, R&D lead times are very long, and distribution is through pharmacies and hospitals. It would be a dangerous mistake to try and impose a mass-market model in this area. I’ve heard talk, for example, about the work of our Medical Nutrition teams on Alzheimer’s disease, with people saying that Danone is preparing to launch a yogurt for sufferers from the disease. That is obviously ridiculous and it would certainly be irresponsible for us to attempt anything of the kind. As well as counterproductive. What we can say, though, is that the discoveries made will certainly be factored into mass-market products one day or another. Note I say one day—I want to be very careful not to rush things.

Danone Institutes are an international network of spanning in 19 countries*. Founded in 1991, they have lent their support to over 900 research projects, launched dozens of educational programs and organized nearly 100 symposiums to promote better understanding of the links between food, nutrition and health.

*Argentina, Belgium, Canada, Chile, China, the Czech Republic, France, Germany, Indonesia, Israel, Italy, Japan, Mexico, Poland, Russia, Spain, Turkey, the United States, and Uruguay.
Danone’s strategic focus on health has been a powerful lever for growth over recent years. But isn’t it increasingly questioned? For example, is the EU regulation that imposes more stringent conditions for health claims about food.

FR: That’s another area where there have been misunderstandings. People often seem to think that our health strategy concerns only functional foods, products that have a specific effect on a given function of the body, such as intestinal transit. It’s true that we tend to advertise those products actively. But when we talk about health through food at Danone, we’re talking primarily about fundamental issues of public health, which in most countries center on nutrition. So we’re talking about basic nutrients and healthy, appetizing and affordable products. We’re talking about giving people easy access to the one absolutely essential beverage: water. So believe me, there are no doubts about our strategic focus on health. It has the support and encouragement of top officials, scientists and public authorities—and we place a lot of emphasis on continuing, constructive dialog with all of them.

About the EU regulation on health and continuing, constructive dialog with all of health officials, nutritionists and public health. It has the support and encouragement essential beverage: water. So believe me, there are no doubts about our strategic focus on health. It has the support and encouragement of top officials, scientists and public authorities—and we place a lot of emphasis on continuing, constructive dialog with all of them.

At the same time, it’s only normal that there be some teething problems to start: the system will need some time to hit its stride. The EU authority is swamped with applications for approval and the assessment criteria aren’t always clear. These will no doubt be more clearly defined in the months ahead, and the procedure itself could perhaps be improved. So we’re likely to see a period of uncertainty and debate ahead of us. But we’ll be able to deal with that. And if we have to do without health claims for some of our products for a few months, well, we’ll manage. The success of Activia, for example, is built on many other factors, too.

Is Danone’s strategy for dealing with the current crisis a sound basis for its long-term development?

FR: Our current strategy isn’t just about the near term or simply a reaction to events. On the contrary, it’s all about building the business. By focusing on volumes and market share, we are reinforcing our positions and creating new momentum. We’ve also consolidated our finances with a capital increase, and have positioned ourselves to take advantage of small and medium-size acquisition opportunities. At the same time, we are continuing to invest on a huge scale. Despite the slump, we haven’t cut advertising; we’ve continued to support our brands and invest in opening up new markets. In 2009 we moved into South Korea and Mozambique and started up a first operation in India. In Thailand, we built a new dairy products plant, and in Brazil we started up in water. In China, we’ve acquired new capacity for yogurt production and started work on a new mineral water plant near Shenzhen. We have projects just about everywhere.

About China, is it still a priority for Danone after the sale of your interest in Wahaha?

FR: One of the reasons we decided to put our involvement with Wahaha behind us and not get bogged down in a dispute that could have gone on much longer is that we wanted to be free to put all our energy into building our future there. We have some great companies in China in all four of our business lines, with leading positions across the country or in their regions. Overall growth has been very strong, reaching nearly 20% in 2009, and prospects are very promising. So China is very definitely a strategic market for Danone, in the same way as Brazil, Mexico, Japan and Russia.

More generally, there is recurrent talk of making massive acquisitions.

FR: We haven’t changed our thinking on that. We’re not looking for acquisitions on a scale to transform our business, as was the case with Numico. We are on the lookout for smaller or medium-size opportunities in each of our four business lines.

In 2009, societal commitments were also very much in evidence at Danone, particularly with environmental initiatives, and including the creation of your Ecosystem Fund. What’s the logic behind these very different initiatives?

FR: Investment in areas of societal concern is also an investment in the future of Danone. It’s what we invest in to cut CO2 emissions, direct and indirect, by 30% in five years, or when we invest in dialog with employees and their representatives at a time when there are serious risks of tension. Or when we maintain high training budgets when the first temptation could be cut them. Or when we draw on the support of our shareholders, in the thick of the economic crisis, to set up a €100 million fund for social and economic progress in regions where we do business. All that is certainly about responsibility, but as I said, it’s a way of investing in our own future. In facing up to the big issues of the day, we are better attuned to society and make ourselves more useful. And that helps put continued meaning into our operations, making Danone stronger and placing us at the forefront of our industry. Which helps ensure that we’ll be able to continue what we think of as a unique adventure.

“Investing in a voluntary program to cut CO2 emissions by 30% in five years is investing in our future.”

Le Puy de Dany (opposite) in France’s Auvergne region, towers over the catchment area for Volvic mineral water.
Danone’s consolidated sales for 2009 came to €14,982 million, showing a like-for-like rise of 3.2%. Operating margin rose 61 basis points to 15.3% and net income was up 11.5% to €1.41 billion on a comparable basis. While lower prices for raw materials played a part, these strong performances are first of all the result of the strategy deployed from the first quarter on, focusing on sales volumes and an attentive ear for consumers, whose behavior has changed radically in response to the economic crisis.

In concrete terms, this meant price adjustments, repositioning ranges and rolling out new, more affordable formats—all without diluting our mission of bringing health through food to as many people as possible. This new strategy does not in any way weaken our commitments on health and nutrition, built on products offering nutritional profiles to match consumers’ specific needs and respond effectively to public health challenges at local level. The same commitments are also reflected in ongoing efforts to raise awareness and encourage better diet with the support of the 18 Danone Institutes.

In 2009, action taken led to steady improvement throughout the year, with gains accelerating in the closing quarter for all four business lines: Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition.
Throughout 2009, growth in sales volumes accelerated in most countries where Danone operates. Even on our historic markets in Western Europe—the most hotly contested and the most mature—sales showed like-for-like increases, driven by rebounds in Germany and the UK, and continued pace in Scandinavia and Switzerland. In North America, gains continued with 9% volume growth in the fourth quarter of the year, bringing the total close to levels observed on emerging and recently entered markets.

Markets in the latter category already account for over 40% of Danone’s total sales—and 51% for the Waters division—and volume growth topped 10% in Asia and South America. Major contributions to business development included like-for-like rises from 2008 of 14% in Mexico, 12% in Indonesia and 7% in China. Japan and Brazil were also main sources of momentum for Fresh Dairy Products.

Our investments to reach new consumers have continued. In 2009, the Fresh Dairy Products division made its first moves into South Korea, Mozambique, Syria and Lebanon, and consolidated operations in Colombia, Kazakhstan and Chile. It also launched its first operation in India and set up new production units in Thailand and China. In Waters, Mexican brand Bonafont made its debut in Brazil, while the Baby Nutrition division is now present in Chile, Rwanda and Nigeria. In Medical Nutrition, new bases were set up in Colombia, Indonesia and Thailand during the year.

* Like-for-like
Danone took early note of shifting patterns of consumer behavior and adopted a new strategic turn as of the closing quarter of 2008. Measures deployed included repositioning of ranges, price adjustments and increased advertising to boost volume growth, with the Fresh Dairy Products and Waters divisions a priority. The results speak for themselves: volumes rose 4.2%* for Baby Nutrition and 10.7%* for Medical Nutrition—the businesses least exposed to the economic downturn—and picked up for both the Fresh Dairy Products (+6.2%*) and Waters (+4.6%*) divisions from the end of the first half of 2009.

This combination of price cuts and heavy advertising outlays was not without risk at a time when many competitors were trimming budgets. But despite the troubled economic environment, our top brands—which are also the least flexibly priced—also scored strong gains, the case for Medical Nutrition products and for Activia in the Fresh Dairy Products division. Demand also held very firm for Danacol and Actimel throughout the year, and our Baby Nutrition lines scored significant gains in market share. Danone has thus emerged from a challenging year stronger than ever, with market share up by an average of half a point in all four core businesses. Building on those bases, we expect sales growth to reach at least 5%* in 2010.

Our Waters division now generates over 51% of sales on emerging markets, making strong showings in Indonesia, Argentina and Mexico. In Fresh Dairy Products, recently opened markets have shown continued pace, and good performances were once again reported in China, Japan, the United States and Mexico.

Building on Danone’s strong positions, our Medical Nutrition division will continue to expand in China, the United States and Brazil, while the priority for Baby Nutrition will be Latin America.

* Like for like
“The initiatives taken in 2009 revived volume growth and also increased the value of our brands.”

Jordi Constans and Felix Martin Garcia from Spain, Co-Executive Vice Presidents, Fresh Dairy Products

“Introducing Choco+Milk

“It’s not a drink, it’s a chocolate smoothie.” In November 2009, Danone Fresh Dairy Products entered the Indian market with Choco+Milk, a delicious pairing of chocolate flavor and smoothie texture. Currently available only in Hyderabad—India’s fifth-largest city, with six million potential consumers—the product had reached nearly 1500 points of sale by February 2010. It will soon launch in two other major Indian cities, Bangalore and Chennai, with the same product positioning.

Intense Success for Activia

Intensely Creamy

Just over a year after its launch in late 2008, Activia Intensely Creamy—a dessert yogurt that favors digestion—has expanded its success by adding new flavors. In 2009, the highly popular Velvety Vanilla was voted Best Fast-Moving Consumer Goods Launch by The Grocer Magazine, the UK’s leading industry magazine. Now number one in the premium yogurt segment, Intensely Creamy has outperformed projections by 142%. And with 36% market penetration, this innovative product accounts for 14% of Activia’s UK sales and 72% of the brand’s growth in the British market.

40% growth in 2009

Danone Scandinavia—our business unit for Sweden, Denmark and Norway—posted 2009 growth of 40%, the strongest in any developed country where we do business. Sales have increased 80% over the past three years thanks to Activia, Actimel and Danonino, three products that account for 90% of the unit’s performance.

Scandinavia

40% growth in 2009

Danone Scandinavia—our business unit for Sweden, Denmark and Norway—posted 2009 growth of 40%, the strongest in any developed country where we do business. Sales have increased 80% over the past three years thanks to Activia, Actimel and Danonino, three products that account for 90% of the unit’s performance.
Danoninho yogurt packs calcium and vitamin D for kids

Our Danoninho range of fromage frais products now includes a yogurt version sold in multipacks and individual servings to make the product more affordable for lower incomes. Thicker and creamier than traditional yogurt, Danoninho is fortified to give children aged three to eight the calcium and vitamin D they need. Danoninho yogurt has been launched in markets including Bulgaria, Romania, Russia, Ukraine, and Brazil, where it is already generating 20-30% of sales for the brand with little displacement of other Danoninho products.

New markets

Wider horizons

This year Fresh Dairy Products broke into new markets in Syria, Lebanon, South Korea and Mozambique, where our South African business unit launched its flagship yogurt brand Nutriday. These yogurts can be stored at room temperature for up to three months—a strong selling point in a country where reliable refrigeration is virtually nonexistent—and are produced locally in a micro-plant in Maputo, the Mozambican capital. With a capacity of 5,000 metric tons a year, the plant supplies the Mozambican market and in the future will export to other countries on or near the Indian Ocean.

40 clinical studies on Actimel and Activia are displayed on our dedicated website www.etudes.danone.com. The studies were made available in November 2009 and reflect Danone Research’s efforts to expand access to its scientific results, which have previously been presented only at international conferences and in specialized journals.

Japan

New media spur growth

In Japan, where 96% of households have high-speed Internet access and 70 million people use social networks, the web is a marketing powerhouse, and in 2009 our Japanese business unit revolutionized its approach, increasing total monthly visits to www.danone.co.jp by a factor of 13. And thanks to a more qualitative approach to search engine optimization, Danone Japan has quintupled search-driven traffic to its website and improved visitor registration, gathering information on the consumption habits and expectations of 700,000 new members of the Danone community in Japan. Other initiatives focused on bloggers and the general public, increasing awareness of Danone yogurts generally, and Activia—sold in Japan as Bio—in particular. Coupled with an intensive point-of-sale advertising campaign launched in 2008, these outreach initiatives have given Danone Japan a multichannel presence, propelling it into the top ranks of a fiercely competitive market. Though Danone has been present in Japan for only three years, we now hold 6% of the fresh dairy products market—up from 4.4% in 2008—and Bio is the number-two brand in its segment.

4.7 billion euros total 2009 sales of Activia, Actimel, Danoninho and Danacol, Danone’s four flagship dairy products.

Our Fresh Dairy Products division continued to add new markets last year, expanding into South Korea, Mozambique, Lebanon and Syria. Danone also entered the Indian market.

A business success story

After falling 10% in the first quarter of 2008, sales volume for Danone Mexico turned around to end the year up 13.3% from 2008. Driving the comeback was an ambitious, can-do strategy built on price adjustments, increased reliance on neighborhood sales outlets, and a number of innovations. These included revitalizing Danone’s traditional yogurt range to provide healthy treats at more affordable prices, packaged in individual portions, a family pack, and a large economy size to accommodate different consumption styles. In launching Activia Flora, Danone Mexico met its goal—offering a less sophisticated, more affordable version of the product—and used the opportunity to remind consumers of the functional benefits of the entire range. Also key to the comeback were a campaign that appealed to young Mexicans with figures based on the popular Dino City and a new jelly version of Danonino sold at 1 peso, Mexico’s lowest price for this segment.

Mexico

Waking up to Activia Breakfast

Though our traditional yogurts are already number one in Bulgaria, Danone set the ambitious goal of launching a new product in May and June of 2009. Because the Bulgarian market is viewed as highly conservative, we researched the Activia Breakfast launch with special care, emphasizing grains for healthy growth, an affordable price, a lifestyle-oriented advertising campaign, and fun mix-it-yourself packaging. This innovative launch also urged Bulgarians to enjoy yogurt in a completely new way—by starting the day off right with Activia Breakfast. Sales exceeded targets by 292%, and Activia Breakfast already accounts for 25% of the brand’s total sales.

Bulgaria

Lasting success for Share Your Meal

Launched in 2003 to aid Poland’s 170,000 malnourished children, the Share Your Meal program is now familiar to 84% of Poles. As always, its message gets right to the point: “When you buy Danone products, you help provide free meals.” The program, which has already served nearly 9,000,000 meals, is run by Danone Poland in partnership with the Polsat Foundation, food banks and various NGOs, with additional support from an annual two-day food drive at Polish supermarkets. In 2009, nearly 300 volunteers, many of them Danone employees, took part in Share Your Meal.

Poland

Innovation

Danoninho yogurt packs calcium and vitamin D for kids

Our Danoninho range of fromage frais products now includes a yogurt version sold in multipacks and individual servings to make the product more affordable for lower incomes. Thicker and creamier than traditional yogurt, Danoninho is fortified to give children aged three to eight the calcium and vitamin D they need. Danoninho yogurt has been launched in markets including Bulgaria, Romania, Russia, Ukraine, and Brazil, where it is already generating 20-30% of sales for the brand with little displacement of other Danoninho products.

New markets

Wider horizons

This year Fresh Dairy Products broke into new markets in Syria, Lebanon, South Korea and Mozambique, where our South African business unit launched its flagship yogurt brand Nutriday. These yogurts can be stored at room temperature for up to three months—a strong selling point in a country where reliable refrigeration is virtually nonexistent—and are produced locally in a micro-plant in Maputo, the Mozambican capital. With a capacity of 5,000 metric tons a year, the plant supplies the Mozambican market and in the future will export to other countries on or near the Indian Ocean.

40 clinical studies on Actimel and Activia are displayed on our dedicated website www.etudes.danone.com. The studies were made available in November 2009 and reflect Danone Research’s efforts to expand access to its scientific results, which have previously been presented only at international conferences and in specialized journals.

Japan

New media spur growth

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Poland
Spoonable Bio in Shanghai

Relaunched in Shanghai in mid-January as a 100% Danone product, Activia—sold in China as Bio—has become the top product in the “digestive comfort” category in less than a year, outpacing local competitors. And new spoonable Bio—a thicker version complementing the original Bio drink, sold with a straw—has also been successful, propelling Danone into the number-two spot for fresh dairy products in Shanghai and the number-three spot in Guangzhou. In 2010, the Bio range will launch in Beijing, enabling Danone to reach the 17 million consumers in China’s second-largest city.

Ukraine Milk Communities promotes reliable supply network

One of the very first projects backed by the Danone Ecosystem Fund (see page 50), Ukraine Milk Communities is a co-creation of Danone Ukraine and Heifer, an NGO. The initiative was inspired by Danone Turkey’s Milking Parlors and will help small, isolated, low-income milk producers form agricultural cooperatives for support in key areas such as milking, milk collection, cattle feed, and veterinary care. As milk quality improves and farmers gain expertise, milk prices and farm revenues will rise. Twenty cooperatives are slated for creation by May 2010, giving Danone a reliable supply of quality milk and raising the standard of living for 1200 farmers—a powerful boost for the local farm economy and villages.

New Milkuat a hit with Indonesian children

In February 2009, we relaunched our chocolate milk drink Milkuat Pouch, driving sales up 251% by volume over 2008. While the recipe for success included several ingredients, the most important was reinventing the product as frozen yogurt. This new version, dubbed Frozen Ice Choco, is nutritionally equivalent to the original but much more appealing to children—able to compete with leading ice cream brands, but above all healthier. To leverage this innovative product, we expanded our distribution network to get closer to our target market and priced Frozen Ice Choco at IDR 1000—about ten US cents—to make it affordable for Indonesia’s underprivileged children, estimated at around 5 million.

Healthy Alphabet spells a healthier life

Providing educational resources for a healthier lifestyle is the goal of Healthy Alphabet, an initiative launched in the Czech Republic by the Danone Institute in cooperation with NGO Asis and local health groups in 2009. Designed for five-year-olds, the program aims to modify children’s eating habits by giving them—and their parents—a sense of responsibility for what they eat. Teachers also benefit from the expertise of leading Czech specialists in psychology, nutrition and exercise. Healthy Alphabet has already reached 5% of kindergartens, and organizers aim to raise participation to 75% in the next three years.

Densia: the first yogurt exclusively for adults 45 and over

In July 2009, Danone Spain launched new Densia yogurt to meet the special nutritional needs of consumers over 45. With 400 milligrams of calcium and 5 μg of vitamin D—twice as much as traditional yogurt—the new product helps maintain bone density in older adults, especially women. Buoyed by its warm welcome in Spain, Densia crossed the border into Portugal last October on World Osteoporosis Day. Today Densia is also sold in Italy, where studies show that 100% of women over 45 do not get enough calcium and two-thirds get inadequate vitamin D. (Source: INN-CA Study, INRAN, Italy.)
“Natural water is the only beverage the body really needs. Drinking it is a daily contribution to health.”

Thomas Kunz from Switzerland, Executive Vice President, Waters

“Drink more water, the only beverage you really need: the message is simple, but it’s fundamental to our strategy. It won us renewed growth on British, German and French markets in the second half of 2009, as well as added pace on major emerging markets. We’ll be stepping up our efforts in this direction, promoting the health benefits of water to win back consumers who have opted for sweet beverages without thinking about all the harm these can do to their health. And we’ll be spreading the word, following the example of the roller babies in our Evian commercial—a video that has attracted over 90 million viewers from around the world on the internet.

We also have to get closer to consumers and ensure in particular that our products are available through all distribution channels. This second focus of our strategy is yielding rewards on emerging markets, which account for over 50% of our sales and where we scored 14% growth in 2009, despite the economic downturn. In China, sales of our vitamin-enriched Mizone water were up nearly 40%, and growth was firm for Aqua in Indonesia and Bonafont in Mexico—countries where our market shares reached 50% and 40%, respectively. And the success of our Mexican brand Bonafont in Brazil shows that these models can be exported. Our teams are working to achieve that with new sizes to match consumer expectations and purchasing power—as illustrated by 3 to 8-liter jugs, a segment where our market share is on the rise.

Another strategic priority I’m particularly attached to is sustainability. Choosing water is in itself an ecological decision—all other beverages have a much larger carbon footprint. In this area, Evian is an example for our group as a whole, with its ongoing efforts to safeguard its spring and its commitment to the Ramsar Convention for the protection of wetlands. Evian will have reduced its carbon footprint per liter by 50% from 2001 to 2011. At the same time, since reductions of this kind can’t go on forever, we’re investing in offsets to achieve the carbon neutrality that Evian is targeting for year-end 2011. In 2009, we provided support for the Oceanium association and local people to replant over 2,000 hectares—nearly 5,000 acres—of mangrove in Senegal. That creates shared momentum throughout our group.”

Waters

The adult body eliminates 2.5 liters of water a day on average.
(Source: Danone Research)

Mizone: beyond China

With 30% growth in 2008 and 38.8% in 2009, Mizone has continued its spectacular performance in China, where it is undisputed market leader in fortified water. Improving penetration in big cities and expanding the brand’s geographic coverage should sustain double-digit growth well into the future. But China isn’t Mizone’s only success story in Asia. The brand also has an extremely promising record in Indonesia, where it posted nearly 40% sales growth in 2009, only three years after launching an improved formula.

Evian roller babies rock the world

Eleven years after Evian’s “Baby Ballet” campaign became a French favorite, the brand has taken its youth concept global. Launched last July 3, Evian’s “Roller Babies” clip made the Guinness Book of World Records as the most widely viewed advertisement on the Internet, with a current total of 94,000,000 views. This enormously popular ad has given the brand’s image a powerful boost, lifting sales dramatically in every country and on every screen. Live young!

Wise safety program wins DuPont award

The Dupont Safety Awards program presented its 2009 Performance Improvement award to Danone’s Waters division for global deployment of the group’s Wise safety standards, which have reduced accidents by a factor of six over the past six years. The decision was announced on November 4 at the eighth annual Safety Awards ceremony in Düsseldorf, Germany. Danone, an international leader in safety, works with about 100 businesses a year to improve their performance. Only five winners are selected.
billion liters!  
Aqua is Indonesia’s leading water company, with more than 50% of the market. In 2009 Aqua sold 7 billion liters of water, making it the world’s top-selling brand of packaged water by volume.

Portable water plants

Staying close to consumers  
The Mexican market for home and office water delivery is one of the world’s biggest by volume. Already one of the top players, our Waters division has stepped up growth in Mexico’s 20-liter returnable segment by using an innovative portable water plant. The concept is simple: two containers equipped with water processing and production equipment pump water from below ground and are then transported by truck to areas where new markets are emerging. Small, economical and easy to transport, these portable water plants enable Bonafont to reach 70,000 consumers a week. Fifteen units should be available by 2011.

R-PET  
The drive for 100% R-PET bottles  
Despite different regulatory environments, both Evian/Volvic and Bonafont have found new ways to increase the quantity of recycled PET (R-PET) in their bottles—with the ultimate goal of reaching 100%.

- As early as 2008, Evian and Volvic were pioneering use of R-PET. Today their 1.5-liter bottles—the most popular size—contain 35% R-PET, and their goal is to reach 50% by late 2010. Danone Eaux France is also working to develop bottles with 100% R-PET, beginning with its large three- and eight-liter sizes. To further these ambitions, Danone Eaux France is helping to improve recycling networks and collection rates, while Evian and Volvic have secured reliable supplies of R-PET by partnering with producer France Plastiques Recyclage.

- Bonafont—the water market leader in Mexico—has now launched in Brazil, bottling natural mineral water from a spring near São Paulo. Drawing on lessons learned from Bonafont’s success in Mexico and the experience of our Fresh Dairy Products division, Waters made a highly successful debut in Brazil’s biggest city. And mineral water consumption has already shot up in São Paulo State, where per capita consumption of bottled water is among the lowest in the world, at five liters a year.

A place at the table  
In 2009 Zywlec Zdrij flavored waters expanded its customer base, posting a 30% increase in sales by volume and a 17.5% rise in market penetration. The key to this extraordinary performance was offering consumers a whole new way to enjoy water—with a meal. Poles generally see water as having too little flavor, and prefer to pair food with fruit juice. So Danone launched a 360° ad campaign positioning light, delicately flavored Zywlec Zdrij water as the ideal table beverage. The entire campaign is geared around a new concept: “At mealtimes you think about what you eat, but not enough about what you drink. Think Zywlec Zdrij flavored water—the perfect companion for all your meals.” This appeal, the first of its kind in the flavored water segment, has persuaded many consumers to make the switch. Analysis shows that almost 60% of the brand’s additional sales volume has come from fruit juice drinkers and nearly one-third from soda drinkers.

Bonafont back in the lead  
In 2009, Zyrwle Zdrij flavored waters had almost 60% of the brand’s additional sales volume. To further these efforts, Bonafont launched a market garden in the region (roughly, “Seeds of the Future”) to provide fresh produce to local residents and providing jobs for adults struggling to find work. Also in 2009, the Evian water company’s Corporate Responsibility and Sustainable Development department launched a program to support Evian employees interested in starting their own businesses.
“We’ve gained market share despite a sharp slowdown.”

Christian Neu from Germany, Executive Vice President, Baby Nutrition

“We increased our market share once again to end 2009 with sales up 8%—an excellent performance considering the slackening trends in many countries. But while the economic crisis has led to lower birth rates and thus lower demand in industrialized countries, there has been no softening on emerging markets. Asia was once again a main source of momentum, with sales up 12%. Our team in China is doing an extraordinary job in unusually difficult conditions, and that market will become our biggest, ahead of France, in 2010. This despite the fact that our share of the French market has continued upward to reach 50%, placing us 20 percentage points ahead of our nearest rival. In Indonesia, sales were up 15% and there is a promise of even better to come. In Europe, too, we saw strong growth in Switzerland, Poland and the UK (a country where sales rose 18%). We have plenty of scope for future growth in Britain.

Our strategy for growth and communications promoting the advantages of growing-up milks over cow’s milk for infants aged 10 to 12 months paid off in many countries. We will be continuing our drive to make mothers and healthcare professionals more aware of how such growth formulas can benefit children as a complement or follow-up for breastfeeding in their first three or four years of life.

Our role is to remind everyone that babies are not simply miniature adults—and to explain the difference. On another theme, our contribution to group efforts to reduce our carbon footprint has begun with a detailed assessment of the current situation, which will allow us to draw up an effective action plan for the next three years. We’ll be aiming at optimizing our milk drying and packaging technologies.”

264 babies are born every minute worldwide, totaling nearly 139 million a year.*

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**New insights into the benefits of breast milk will help our researchers improve infant formulas.**

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**R&D**

**Baby nutrition and metabolism**

Recent studies show that infant and early childhood nutrition can play a crucial role in adult metabolic health, with specific nutritional ingredients and compositions influencing predispositions for chronic conditions such as obesity, diabetes, asthma, and heart disease. Danone’s Baby Nutrition division is participating in several research programs designed to increase understanding of human metabolic programming. New insights into the benefits of breast milk will help our researchers improve infant formulas.

**China**

**Bebelac powers new segment**

Launched in a single province for a six-month test in the premium segment of the infant formula market, Bebelac rapidly won 10% market share. The brand made its debut in nine Chinese provinces in 2009, and promises to be another growth engine for Nutricia in China. Bebelac joins Dumex, our umbrella brand, which leads the pack with 40% market share in the super-premium segment.

**Austria**

**Aptamil honored for effective advertising**

In September 2009, Aptamil Austria’s Aura campaign—developed and broadcast in 2008—won an Effie Award for effectiveness in advertising. The spot highlights the intrinsic benefits of Aptamil but underscores emotional value, showcasing a brand that goes beyond science to listen and stay close to mothers. Reaction was swift: since the campaign aired, sales have soared 33% and market share has increased in a slack market.
Success for Aptamil and Cow & Gate

Baby nutrition brands Aptamil and Cow & Gate posted record growth in the UK last year, with Cow & Gate increasing market share from 33.4% to 35%, and Aptamil rising from 22.3% to 28.9%. Sales were up 17% to 35%, and Aptamil rising from increasing market share from 33.4% in the UK last year, with Cow & Gate.

Cow & Gate posted record growth

Baby nutrition brands Aptamil and Cow & Gate

Success for Aptamil

From infant formulas to balanced care concept, with products ranging while Cow & Gate provides a complete formulas adapted to each age group, Aptamil helps the youngest children more clearly within their markets:

Both repositioned themselves from increased sales volumes.

The secret of their success?

Blédina: rising star

With volume down 2.6% overall, 2009 was a challenging year for the French baby food industry. But market leader Blédina proved more resilient than competitors, pushing its market share up 3.9 points to 40.4% and widening its lead over its closest rival, at 22.9%. That’s cause for optimism in 2010, especially since Blédina plans on a new range to launch a number of innovative projects this year. These include prenatal positioning for Laboratoire Gallia, work on a new range to complement existing baby foods in jars and prepared dishes sold in plates/bowls, and our constant quest for innovations that bring Danone products closer to homemade— all to make life simpler for mothers.

Six countries generated more than 40% of Baby Nutrition sales in 2009: France, the United Kingdom, Italy, Germany, Poland and Russia.

Working with midwives to improve public health

Promoting best practices in nutrition and hygiene for newborns and their mothers is the heart of Srikandi, a program launched by Sari Husada, one of our Baby Nutrition units in Indonesia. With mortality rates high—35 per 1000 for children and 3.07 for 1000 for mothers—better public health means longer, better lives. Srikandi relies on a network of 110,000 midwives to disseminate lifesaving public health information, especially in isolated rural areas. In the program’s education component, midwives study infant nutrition, learn how to advise mothers on breastfeeding, and visit model maternity hospitals. A second component instills personal initiative: trainees, who number 6000-7000 a year, are encouraged to submit practical ideas for reducing infant mortality or improving nutrition or hygiene. By late 2009, 500 projects had been submitted, 150 selected, and 93 implemented with funding from Sari Husada. Run in partnership with the Indonesian government, Srikandi has won several honors, including one recognizing its contribution to the Millennium Development Goals established by the United Nations.

CN 30 scientific articles were published in specialized international journals by Danone Baby Nutrition researchers in 2009.

France

Blédina: rising star in a sagging market

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(1) Source: Nielsen en CAM

Economic and social report Danone 2009

Danone Baby Nutrition

shines at ESPGHAN

Danone Baby Nutrition played a prominent role at the 2009 conference of the European Society for Pediatric Gastroenterology, Hepatology and Nutrition (ESPGHAN), a major event for pediatricians and other child and infant nutrition specialists worldwide. Danone personnel organized a satellite symposium on recent advances in the field and staffed an interactive booth designed with Danone Medical Nutrition, and representatives from Danone’s center for specialized nutrition spoke at various sessions on specialized nutrition—a strong presence that bolstered Baby Nutrition’s credibility within the scientific and pediatric community.

No. 1 Danone is market leader for baby nutrition in Indonesia, China, Malaysia and Thailand, and our Dumex brand ranks second in the Asia-Pacific region as a whole.

Italy

Mellin’s BabyCena and BabyBuonanotte named products of the year

Mellin’s BabyCena and BabyBuonanotte—Italian for “supper” and “good night”—won Italy’s Market and Innovation-Product of the Year 2009 award for the baby food category, marking the second year in a row that Mellin was recognized by a jury of over 30,000 Italian consumers. The new range focuses on evening nutrition with light, easy-to-digest meals and beverages for babies.

United Kingdom

Success for Aptamil and Cow & Gate

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“Growth potential is huge on all our markets, in all parts of the world.”

Flemming Morgan, from the UK, Executive Vice President, Medical Nutrition

“Our sales growth was in double digits again in 2009—all the healthier as the rise was entirely attributable to volume increases. We boosted our presence on European markets with growth reaching 9, 10, even 11%. And we stepped up the pace in Turkey and a number of emerging markets including Brazil and China, where sales rose by nearly 30%. We are now starting to move into new countries such as Indonesia and Thailand, which will drive growth in the future.

Our core products combating malnutrition among the elderly and other vulnerable groups did very well in 2009, as did our products for medical nutrition for children. Successes like these show we’re beginning to convince healthcare professionals that our products not only improve patients’ quality of life and health, but also have a very positive impact on the total cost of care.

Innovation is naturally another important source of momentum. This is illustrated by Fortimel Compact, which packs the same quantity of energy and nutrients into a 125 ml bottle as was formerly in a 200 ml bottle. Results in the UK, Germany, Poland and Belgium are excellent to date, and we plan to roll out Compact on all our markets. We are also working to meet the needs of lower-income groups; an example is Nutridrink, now available from Brazilian pharmacies in powder form at a price that is affordable for elderly people exposed to the risk of malnutrition. We are steadily increasing investment in clinical studies to establish beyond doubt the benefits of our products, thereby meeting the needs of both patients and healthcare professionals.

Drawing on the findings of ten years of research and clinical studies, we’ve developed Souvenaid, a product that may improve the memories of Alzheimer’s sufferers. Following very encouraging initial results, additional clinical studies are under way, one of them with funding from the European Commission. Other preliminary studies have shown the efficacy of another of our products in slowing the deterioration of HIV patients’ health, providing further evidence of the capacity of our scientific teams to achieve positive results. We will continue to make research and product development targeting global issues in health our priority.”

Projections from WHO indicate that the world population of over-65s will increase three-fold by 2050, but that life expectancy for good health will decline.

(Source: WHO)
Medical Nutrition

Reining in costs
Rapid innovation in medical nutrition enables Danone to offer products targeted to assist doctors specializing in diabetes, cancer, respiratory diseases, and other areas of medicine. Nutritional products like Diasip and Respifor play an important role in managing disease and recovery, alongside conventional drug treatment, operative procedures and physiotherapy. Other solutions, like Ketocal for people suffering from drug-resistant epilepsy, may help patients after other treatments have failed. The advantages for both doctors and patients are better clinical outcomes and more rapid recovery.

In cost-conscious healthcare systems, including medical nutrition in disease management protocols is also of value, since stronger, more active patients mean shorter treatment times and expensive hospital stays.

Medical Nutrition unfazed by the economy
Medical Nutrition sales continued on a firm upward path in 2009 despite the economic downturn, showing a rise of 11.4% for the year—nearly all driven by volume—to set the average annual gain over five years at 12.2%. Growth was evenly spread across geographic areas and product categories generally, although results were particularly strong in pediatrics and allergies, and in the core business of nutrition for the sick and elderly.

Sales growth in 2009
15%
Only 15% of world’s population has access to medical nutrition according to the WHO.

Partnerships
Raising awareness of malnutrition among the elderly
Malnutrition among the elderly is a social and medical problem with increasing repercussions in all parts of the world. When an older person starts to lose weight and become less active, family caregivers and even family doctors may accept this as a normal consequence of growing old. With adequate supportive nutrition, however, elderly people can maintain independent lives for longer, and those who are sick can gain the strength to fight their condition. In many countries, Nutricia partners with care associations and charities to raise awareness of the problem. In France, for example, the Nutrimission program campaigns for better care of the estimated 450,000 malnourished seniors living at home, along with many others being looked after in institutions and hospitals.

R&D
Infatrini—a response to childhood denutrition
About 5% of the world’s children need special nutritional support to avoid long-term health consequences as they grow up. Within Danone, Nutricia has developed a large number of products in a range of formats, among them Infatrini, the only formula that satisfies WHO guidelines for children suffering from acute denutrition. Another example is Nutrin Low Energy Multi Fiber for children suffering from neurodisabilities.

Prevention
Diagnosing metabolic disorders in Turkey
A pioneer in programs to identify public health threats, Nutricia has launched an extended initiative in the Anatolia region of eastern Turkey to detect metabolic disorders early in infancy and provide access to appropriate treatment and follow-up care.
Danone bounces out of the slump

Boosting volume growth, building staff responsiveness and helping our business ecosystem prepare for the challenges of the future—these three critical levers are bringing Danone through the crisis stronger than ever.

Text by Jean-Léon Vandoorne

1 - Volumes
2 - Responsiveness
3 - Ecosystem
1-Volumes

As Danone told investors and financial analysts at the end of 2008, 2009 ushered in a new focus on volume amid fallout from the financial crisis. Volume means selling more than the quantity of product sold, and our strategy was thus to expand, not retreat. Our goal: sell more yogurts, rather than shore up margins or sales revenues, even if that means selling fewer products at high prices?

Part of the answer is basic common sense. With household spending down and real incomes under pressure, there is little hope of selling at higher prices. But it also is a matter of consistency: since the early 2000s, Danone has defined its strategy with major productivity initiatives. Danone has already consolidated its market shares.

Focusing on volumes in difficult times has other advantages, too. When markets contract, it’s important to ensure that consumers don’t lose the habit of buying your product; if they do, they may not return when the economy bounces back. Preserving consumers’ tastes for your brand is also good for retailers—both large supermarkets and neighborhood stores—since to remain attractive distributors need products that sell and draw customers.

Finally, and perhaps most importantly, focusing on volumes is the way to keep factories and production lines running. This is critically important for three reasons that carry special weight in an economic downturn. To begin with, it helps preserve a sound financial structure by spreading fixed costs across larger volumes. It also ensures continuing demand for suppliers of raw materials who need to sell their output, particularly when it is perishable. And, most obviously, it preserves industrial jobs. On that point we have a responsibility not only to our employees, but also to society at large, since cutting jobs contributes to the downward spiral in consumer demand.

So volumes are our priority. That strategy applies first of all to Fresh Dairy Products, which account for nearly 60% of Danone’s sales. By the end of 2008, the division had already opted for what we called a “reset”—a complete overhaul of strategy to lift volumes by acting simultaneously on three fronts. Firstly, with targeted price cuts. Rather than making sharp cuts across the board, we aimed to make selected ranges more affordable for households whose incomes have been squeezed. Demand has in fact remained very high for premium products in all countries, in food just as in electronics. And volume sales of Actimel, Aptamil and Activia, our flagship brands, have continued to rise steadily despite the economic slump. At the same time, consumers with more limited resources want to pay less for other types of product they consider basic necessities. These adjustments call for finely tuned analysis—country by country, brand by brand and range by range—to adapt pricing and cover the full range of purchasing power with different products. Some changes were simple tweaking, but others were more spectacular, with price cuts of up to 15% for certain products in Mexico and Poland. In some cases, this meant offering an identical product at a lower price, while in others it involved offering more for the same price—a “giraffe” in our in-house jargon.

But our reset strategy didn’t mean downgrading our range. To begin with, increased volumes fairly quickly offset the impact of targeted price cuts. Secondly, there was no related move to slash spending: on the contrary, investments remained high, with our

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**Fresh focus on emotion and reason in advertising**

Consumer advertising is a main focus of our Reset strategy, calling for new emphasis on perceived quality in terms of taste, pleasure and well-being in addition to functional benefits. In difficult times, consumers naturally tend to focus on products they enjoy. This new advertising strategy has backed products like Danette in France, Fantasia in Germany and Griego in Spain, as well as our top international brands. From cutting spending, Danone has bucked the general trend by holding outlays steady. This has enabled us to negotiate contracts in more favorable terms and thus gain increased impact for advertising, promotion and point-of-sale events and displays.
Affordability by inventing new models

Drawing inspiration from Grameen Danone Foods in Bangladesh, the Danone community fund was set up in 2007 to support and finance social businesses, more specifically initiatives fighting poverty and malnutrition around the world. Its first project was backing the expansion of Grameen Danone Foods, which by 2009 had converted 650 “Shokti ladies” to distribute Shokti, a locally produced yogurt fortified with micronutrients and sold at an affordable price. But Danone communities didn’t stop there. In 2008, two innovative new projects joined its business incubator: In Cambodia, the fund provided financing for 1,001 Fontaines, set up to provide inexpensive drinking water to rural communities. In one year, 35 water treatment and distribution stations were installed. In Senegal, it gave its backing to the Laiterie du Berger dairy, which uses milk collected by 650 Peul herders. In 2009, sales under the dairy’s new Dolima label doubled with 600 Peul herders. In 2009, sales under the dairy’s new Dolima label doubled with 600 Peul herders.

Against this backdrop, the focus of Danone’s advertising in several regions shifted by stages over the course of 2009, placing less emphasis on reasoning and more on feelings, pleasure and humor. The most recent campaigns for Actimel have adopted a good advertising. They follow the example of water brands such as Evian and most of our Baby Nutrition brands, among them Bledina and Cow & Gate, which often appeal to a sense of humor and identification rather than rely on scientific demonstrations.

Finally, despite the downturn, innovation is as important as ever—not least because it is an important driver for volumes, since consumers are always looking for something new. In addition, innovation can be the only way to meet the affordability requirements of some consumers. When it is simply not possible to lower the price for a product without endangering its profitability and thus its long-term viability, the solution is to invent a new product that can be made more cheaply—without compromising our superior quality standards. In Fresh Dairy Products, for example, our Mexican business unit has invented a new range of basic products as well as a highly affordable Activia mini-serve, and both have been spectacularly successful. Not that affordability is limited to Dairy Products—the approach is shared by all our business units and dates from well before the financial crisis. In Waters, large, more economical containers holding 3 to 8 liters are increasingly common on all our markets, while our Medical Nutrition division has increased its sales revenue without raising prices. And our Baby Nutrition division, which has a well-deserved reputation for expertise in premium ranges, has been working for several months to develop ranges with more affordable products. Developments like these round out premium offerings and can lead to sharply increases in volumes, perhaps best illustrated by the new GiziKita brand in Indonesia. Although priced 30% lower than the market benchmark, it cuts no corners on quality, delivering nutritional content that perfectly matches the needs of young children and expectant mothers.---

How do you rate the results of your strategy for renewal in the midst of the crisis?

BH: Broadly speaking, they’re more demanding.

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You’ve coined a new expression: “Afford-Valuity.” Could you explain what it means and how it relates to Danone’s strategy and mission?

BH: Our overriding goal is to create value. A Danone product offers a plus for consumers; it tastes good and it’s good for you. That recognized value is what we call valuity. And then we have the word “afford.” Because the price has to be right, of course, keeping in mind that our mission is to bring health through food to as many people as possible. All of that adds up to what we call our Afford-Valuity strategy, meaning that Danone is committed to making value accessible on a daily basis. And for us, value means health combined with great taste.
o get through a slump, you need the right strategy. But you also have to be able to deploy it very quickly, an area where Danone’s culture of agility and responsiveness clearly gives us an edge. That culture owes a lot to the nature of our business in food for the mass market—a sector where product life-cycles are short and demand is fickle, requiring a constant ability to adjust. But we have also deliberately developed and fostered responsiveness through distinctive organizational processes and working methods.

First of all, that means short lines of command—regional and continental structures trimmed to the minimum, and no corporate organization by country. For example, there is no “Danone Mexico” with cross-functional management responsibility for business units in Water, Dairy Products and Baby Nutrition. Instead, the independent managers that head our business units are directly linked to the worldwide management of their business lines. Decisions taken at the center get through quickly and directly, without getting lost or distorted along the way.

Speedy execution is also favored by a form of decentralized organization that leaves ample room for local business units to take full responsibility for their own performance. That may seem slightly counter-intuitive, since it’s easy to assume that a centralized model with everybody carrying out orders without any freedom of interpretation will move faster. But in fact, the opposite is true. It’s more effective to define general goals—which in our case means the new focus on volumes and market share—and then leave business units in different countries free to find their own solutions, taking responsibility for the initiatives they adopt to achieve those goals. That is firstly because staff members assimilate the new strategy better and, by the same token, are more committed to it. And secondly because it allows for immediate adjustment to local conditions—in line with the well-worn management adage “Think globally, act locally.”

A third factor underpinning rapid response is the networking culture Danone has built up over the past five years through a variety of organizational initiatives. Our Networking program, launched in 2003, is based on a very simple idea—bypassing the hierarchy to encourage direct links between managers with similar functions and responsibilities in different countries. The aim was to accelerate sharing of best practices among business units, and our efforts have naturally benefited from new Web 2.0 technologies, particularly the development of social networking, which has helped local successes spread quickly from one country or region to another. An example is Activia with cereals. Launched as a breakfast specialty by business units in Portugal and Bulgaria, it was being exported worldwide in a matter of months. There are also some good examples in new promotional approaches suited to depressed economic times.

Our group management moved to reinforce the responsiveness that has become a hallmark of our business with the decision—taken at the onset of the crisis—to emphasize proximity management. Franck Riboud set the tone by spending much of his time in 2009 visiting business units and meeting with management committees to renew contacts and show group support—as he says, a captain has to stay close to his crew in stormy weather. We also invested in training programs specifically designed to help proximity managers. While many businesses instinctively freeze or scale back training outlays in difficult times, in 2009 Danone launched its biggest-ever training program, the Danone Leadership College. A virtual in-house university, the program aims to enhance the management skills of the 15,000 team leaders—executives and non-executives alike—who are charged with leading and motivating our employees and helping them grow. This is an initiative that would set Danone apart even under normal circumstances, but it’s even more powerful in testing times.

The Danone Leadership College

To implement the program, we called on over 100 managers to act as in-house instructors and help train a majority of our team leaders. In 2009, the Danone Leadership College program was deployed at some 35 business units, reaching nearly 1,200 staff members.

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I n launching the Danone Ecosystem Fund, we’ve broadened our dual project for business success and social progress to include all the partners we depend on and who, in turn, depend on us—producers, farmers, suppliers and local retailers. A main focus of the fund is reinforcing employability wherever we do business. Our new emphasis on volumes means more work for factories, more loads for trucks, more orders for our suppliers. And when Danone grows, the partners in our ecosystem grow too, whether they are temporary workers, service providers, farmers, subcontractors or transport and logistics operators.

Milk supply to Danone plants alone accounts for 60,000 full-time jobs in farming. But the economic slump is a threat to our ecosystem and, by the same token, a threat for Danone. A business on our scale cannot succeed in an economic and social wasteland—we need the support of solid, long-term partners. As Danone’s founder Antoine Riboud put it back in 1972, “Danone’s territory does not end at the factory gate.”

It is thus clearly in Danone’s own interest to look after its economic and social environment, the communities where we do business, and our partners in mutually dependent relationships. We have already built up a rich and varied store of experience in this area, famously illustrated by our relationship with Muhammad Yunus in Bangladesh, which began nearly five years ago. In 2009, we decided that the time was ripe for a more systematic approach, taking commitments one step further to provide a lasting basis for action with a fund dedicated to reinforcing our ecosystem. The Danone Ecosystem Fund aims to support and strengthen all the stakeholders working closely with our business units and help them grow. This is not a top-down process. Instead the Fund relies entirely on initiatives proposed by our business units.

Almost as soon as it was established, the Fund began supporting its first projects. At the initiative of Danone Fresh Dairy Products France, the Fund is backing La Petite Reine (ARES group), an organization that brings the unemployed into the workforce by hiring them to make small deliveries to bakers, take-away outlets and neighborhood shops on electric delivery tricycles. This is a perfect match with Danone’s values, since it reduces carbon emissions, keeps us in touch with local consumers who are hard to reach through traditional channels, and provides jobs for people in genuine difficulty. The project is also very appealing as a means of exploring new approaches to distribution.

Danone Ukraine has also received the Fund’s support for a local initiative. In partnership with the NGO Heifer Ukraine, the business unit will set up some 20 cooperatives bringing together small dairy farms near our Kherson factory and helping them to operate more efficiently and benefit more from their production. The project provides for training, investment in milking equipment, and pooling of services such as fodder purchasing and milk collection. In time, a more structured sector will emerge—and with it, improved supply for our plants.

As the number of projects grows, Danone’s supply and purchasing processes will inevitably be affected. In view of this, the group VP for purchasing is directly involved in the operation of the Danone Ecosystem Fund, helping to smooth information flows and promote mutual understanding.

In 2009, Danone set up the Danone Ecosystem Fund to develop and strengthen the business of direct partners. In particular, it is backing La Petite Reine (ARES group), an organization that brings the unemployed into the workforce by hiring them to make small deliveries to bakers, take-away outlets and neighborhood shops on electric delivery tricycles. This is a perfect match with Danone’s values, since it reduces carbon emissions, keeps us in touch with local consumers who are hard to reach through traditional channels, and provides jobs for people in genuine difficulty. The project is also very appealing as a means of exploring new approaches to distribution.

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“We’re investing for the next ten years—not just a year or a few months.”

Interview with Emmanuel Faber, Co-Chief Operating Officer, by Armelle Jeandet

Was it hard to persuade shareholders to set up the Danone Ecosystem Fund in the middle of an economic crisis?

Emmanuel Faber: It was approved by 98% of our shareholders because they realized that it wasn’t about philanthropy—and even less charity—but a matter of consistency with our business model. Our shareholders understood that because they’ve heard us talk about it for years, and some of them have been with us for over a decade. They’ve seen how we’ve developed our mission and taken decisions to move it forward. I think our shareholders realize how we progress. If we had suddenly pulled the Ecosystem Fund out of a hat, without connecting our dual project for business success and social progress to everything we’ve done over nearly 40 years, we would never have got anything like the support we’ve had.

Over the long term, it is essential for us to ensure that Danone’s ecosystem survives and thrives. Once again, we’re investing for the next ten years—not just a year or a few months. Our shareholders understand that very well.

What criteria do you apply in selecting projects for the Fund to support?

EF: The first is return on investment as measured by jobs. The aim is to favor employment and, by the same token, employability. We want to know how many jobs we’ll create or preserve with each euro we spend. Our second criterion is innovation—we are looking for projects that break new ground, that can be used to explore new possibilities. The third is replicability. When one of our business units presents a project, we try to imagine how it could be applied in 20 or 30 other sites if it works. A fourth criterion is potential for growth, and thus the Fund’s long-term impact.

Or just 2 cups of Complete Care Growing Up Milk

because healthy babies are happy babies

Did you know?

Your toddler would need 20L of cow’s milk to cover his daily iron needs.

*Guidance Committee members include Franck Riboud, Emmanuel Faber, Bernard Hours and Frédéric Heurteau, all members of the Danone Executive Committee, plus Pascal Lamy, Director-General of the World Trade Organizations; Martin Hirsch, President of the Agence du Service Civique; Lourdes Arizpe, University of Mexico, anthropologist, and member of the UN Economic and Social Committee; Bill Drayton, Chairman, CEO and founder of Ashoka; Esther Duflo, economist and professor at MIT and College de France; Ron Oswald, General Secretary of UIF; and Gaby Bonnand, National Secretary of the CFDT.
When your mission is bringing health through food to as many people as possible, China—with its population of 1.3 billion—is a market you can’t ignore. But Danone is well aware that there are many different markets in China and takes a pragmatic, long-term approach based on clear assessments of local realities.

Despite some slowing at the beginning of the year, the Chinese economy expanded by over 8% in 2009, and many observers expect growth to exceed 9% in 2010. Although exports are still the main source of momentum, domestic demand is rising rapidly, spurred by government initiatives in the first half of 2009. This year China edged out the United States as the world’s leading automobile market. And as purchasing power rises, Chinese consumers are increasingly turning to the top of the range: the infant formula market is powered by the super premium segment, with 40% of the total, and the premium segment with 30%, while basic brands are losing ground. With 20 million births annually, in 2010 China is expected...
Sweeping change in recent decades has given rise to an urban middle class in China—a well-off population that contrasts with the majority still living in poor rural areas. In 2009 the number of middle-class households is expected to move past the 100 million mark and is projected to total 612 million in 2017. (TNS, Sept. 2008).

In China—as in Brazil and Indonesia—Danone prefers a gradual, balanced approach.”

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“Nutricia China, the 180 health professionals on our sales and marketing team are 100% local, working closely with Chinese hospitals, surgeons, neurologists and emergency personnel to meet their needs. Support from Danone’s R&D center in Shanghai—our first in Asia—is also a powerful asset for our Waters and Fresh Dairy Products (FDP) divisions. The center’s teams adapt Danone products to local tastes and health needs, and have helped Danone Dairy Products China propel Bio to the top of the “digestive comfort” segment in greater Shanghai, a market of 20 million.

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Local talent
More than ever, Danone’s mission and four business lines are a perfect fit for the Chinese market. And with 22 years’ experience in the country and 9,000 employees on the ground, we have a solid presence and the teams we need to succeed—Chinese teams who know their markets well. The management committees of Dumex and Danone Waters China, our two main business units, count only one non-Chinese member each, and at Danone’s R&D center in Shanghai—our first in Asia—is also a powerful asset for our Waters and Fresh Dairy Products (FDP) divisions. The center’s teams adapt Danone products to local tastes and health needs, and have helped Danone Dairy Products China propel Bio to the top of the “digestive comfort” segment in greater Shanghai, a market of 20 million.

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Like Brazil, Russia and Indonesia, China is a strategic market for Danone. The group is investing to increase and upgrade industrial capacity and train new talent, while recruiting young graduates.

All four business lines are present in China, and Danone continues to invest in premium brands including flagships Bio (Activia), Mizone, Aquarius, Robust, Health, Nutricia and Dumex.

Danone in China:
- 18% growth in 2009
- 24 plants producing mainly for the local market
- 9,000 employees
- 4% of group sales.

Danone continues to expand in China and develop its operations, which today include 9,000 employees and over 20 production sites.

powerful distribution networks that supply the Asian giant, and particularly the most prosperous coastal provinces.

Growing step by step
Even for a group as large as Danone, expanding in China requires a step-by-step approach and readiness to adapt. Bottled water is a good example. Chinese consumers still tend to drink it in the street, and traditional retailers account for 70-75% of sales. Offering a wide range of products—Mizone flavored waters with added vitamins, Health and Evian mineral waters, Robust purified water and Aquarius for home-and-office deliveries in Shanghai—Danone Waters China is present at 300,000 points of sale, but still reaches “only” 600 million Chinese consumers in 14 provinces. This is in line with a strategy that makes quality of execution the priority rather than uncontrolled geographic expansion.

The same principle shapes the unit’s marketing, with local television campaigns targeting some 20 major cities, as well as its approach to distribution networks through sales teams whose skills are constantly honed to ensure that Danone products are well positioned on store shelves. Dumex, which also relies on independent distributors to reach the 550 million consumers in China’s cities, has adopted a similar growth strategy. Now present in all of China’s megacities and 90% of its large cities, Dumex is gradually expanding into medium-sized cities as well. Before its 2009 launch of Bebelac in the premium market segment in eight provinces, Dumex fine-tuned its strategy, applying lessons learned in 2008 from a trial launch in a single region. Danone’s FDP unit adopted a similar approach in moving back into the Chinese market on its own: in 2009 it targeted greater development, which today include 9,000 employees and over 20 production sites.

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Shanghai and the city of Guangzhou—markets where it had previously worked with local producers—before tackling greater Beijing in 2010.

The safety imperative

Like all our markets, China demands impeccable quality in processed foods. New and tighter regulations were adopted after the 2008 crisis involving melamine-contaminated infant formula, which involved several direct competitors of Dumex. It was largely to guarantee quality that the food safety arm of the FDP unit set up a secure supply chain and works only with a limited number of very large farms. With advice and support from Danone experts, these suppliers are working hard to improve quality across the board, from feed to milking techniques and farm management. In the year following the melamine crisis, Dumex emphasized the safety of its supply chain and production facilities to reassure consumers. The message was heard and sales rose by 17% in 2009.

More broadly, higher consumer expectations and increasingly stringent requirements can only increase our competitiveness. Over the last few years, the group has deployed the Danone Manufacturing Way and Wise programs to optimize production and improve safety. Plants were quick to implement both programs and audit results have been extremely positive.

Attracting talent

China is a fast-growing country with a large population of well-educated, enthusiastic young people—who also have high expectations. In 2009 many multinational corporations responded to the economic downturn by cutting spending and recruitment, and for the first time graduates from top universities were struggling to find a job.

But Danone increased recruiting to train the managers we will need in China tomorrow. In 2009 we set up two dedicated campuses for management and operations courses, most of which are taught in Chinese. Chinese managers readily show personal commitment and value Danone’s culture of local decision-making, entrepreneurship and employee empowerment.

Chinese parents vote Dumex

The leader on China’s baby nutrition market in both value and volume since 2006, Dumex continued to grow in 2009 with sales up 17% in a market still recovering from the 2008 melamine scare. Dumex teams responded aggressively to the crisis, reassuring customers on both the quality and traceability of their super-premium brand. A pioneer of growing-up milks in China, Dumex successfully launched the Complete Care concept for babies from 6 months to age 3, and expanded its share of the premium segment under the Bebelac brand.

“Recruiting to train the managers Danone needs tomorrow.”

Danone Waters has been distributing its products to 600 million customers in 14 provinces since 1998.

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Waters: Mizone’s rise to stardom

Since the end of our joint venture with Wahaha, all of Danone’s Chinese water business is now conducted by a single business unit. Present in 14 provinces, Danone Waters China sells flavored waters with added vitamins under the Mizone brand, Evian and Health brand natural mineral waters, and Robust purified water, while delivering Aquarius water to homes and offices in Shanghai. In 2009 Danone Waters China broke ground on a new plant to bolster Health’s lead in the Shenzhen region, and expanded its sales force by recruiting a number of young college graduates. With 2009 growth of over 38%, up from 30% in 2008, Mizone lived up to its blockbuster potential, profiting from a complete overhaul of marketing and R&D to improve the brand’s taste and aroma without sacrificing its health benefits. Sold in a generous 600-ml bottle, the brand’s mainstay peach flavor now shares the shelf with some newcomers: following the successful debut of lychee-flavored Mizone in 2009, a new pineapple version is already showing promise.
Economic and social report

Danone, environmental responsibility is in our genes—in two ways. First, it’s our mission to bring health through food to as many people as possible, and that means preserving and renewing resources. Healthy food requires healthy ingredients that are as natural as possible.

Environmental responsibility is also inherent in a corporate culture founded on a dual commitment to business success and social progress. As Antoine Riboud explained back in 1972, “Corporate responsibility does not end at the factory gate (...). The energy and raw materials we consume change the face of our planet. Public opinion is there to remind us of our responsibility.”

Since then, environmental awareness has become broadly shared across society as a whole. Against this backdrop, Danone took early action to formalize and quantify commitments, recognizing protection of resources as a strategic priority at the beginning of the 1990s and adopting an Environmental Charter in 1996. In 2000, we set precisely defined targets for limiting water and energy consumption and reducing waste and packaging. After achieving

ZEROING IN ON CARBON

In 2008, Danone announced plans to slash its carbon footprint by an ambitious 30%. That vision has now been translated into an action plan for 2008-2012 in each business line.

Photo: Helio - Van Ingen

Mangrove ecosystems are key natural reservoirs, capturing CO2 and carbon.
nearly all of those targets by 2008, we shifted up a gear and defined five priorities for action: reducing our carbon footprint, promoting sustainable agriculture, and supporting biodiversity. We began by rigorously accelerating our efforts for the broadest indicator of environmental impact—carbon dioxide—and set the ambitious target of reducing our carbon footprint by 30% in kilos by 2012, taking into account not only our own direct impact and that of our factories but all the downstream stages in product life cycles we can effectively influence. To facilitate deployment, Danone set up a Nature management department to coordinate, assess and promote action throughout the group.

Fighting climate change

We plan to reach our goal—reducing our carbon footprint 30% by 2012—through progress in three areas: measuring our emissions reliably, reducing them, and implementing carbon offsets.

Reliable measurement—an essential first step

Danone is working with experts at PricewaterhouseCoopers to develop a method to measure carbon emissions, and allow results to be both reliably audited and included as a fundamental component of corporate reporting.

In 2008, we finalized tools to measure carbon emissions in the Fresh Dairy Products division. Drawing inspiration from the work of our Waters division—where Evian played a pioneering role—we extended these methods to our Baby Nutrition and Medical Nutrition divisions in 2009. As a result, we can now measure emissions for all of our businesses. Already approved for the Waters division, the tools are now being assessed for certification by Ademe* in France and Carbon Trust in the UK (see box page 69). The aim is to generate audited carbon performance statements just as we produce audited financial statements. Looking beyond Danone, standardizing measurement is an important issue, since it is the only way to ensure that all manufacturers speak the same language.

In 2009, Evian’s unstinting efforts were rewarded with its catchment area officially designated under the Ramsar Convention.

Second objective: reducing emissions

Our 2009 target was a 5% reduction in our carbon footprint, which we beat with the actual result coming in at 7.4%. Momentum is set to continue with targets of 6.5% for 2010 and 30% by 2012, achieved through a comprehensive approach covering every stage in production.

At our production plants, a highlight of the year was the creation of Danone Energy Campuses, meetings bringing together experts from factories around the world to develop standard-setting models for energy consumption, compare these with actual performances and identify areas with room for improvement. In Fresh Dairy Products, this reduced energy consumption by 11%. Our Ochsenfurt factory in Germany made a particularly strong contribution with 47 best practices, most of them suggested by plant workers. We are now studying deployment of these practices in over 20 sites worldwide, with a special focus on renewable energy sources, production of methane from waste, co-generation and geothermal energy.

In packaging, the main initiative was our “foam” project. Using a technology that injects air into packaging plastics to reduce density and CO₂ content, we cut plastic density by 19%. In 2009, 40 production lines participated in the project, and as many as 110 lines will be able to use the technology by 2011. Its critical advantage is that it does not detract from essential packaging functions such as food safety, display of nutritional information, security and secure supply sources for 50% of Evian Valenciennes World’s R-PET needs.

The first R-PET bottles produced in Danone’s partnership with France Plastiques Recyclage were used in 2009. Aim ensure secure supply sources for 50% of Evian Valenciennes World’s R-PET needs.

Long-term progress report

<table>
<thead>
<tr>
<th>2000/2010 targets</th>
<th>2009 results</th>
<th>Target:</th>
<th>Achieved with:</th>
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<td>Water (l/kg produced)</td>
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<td>Total energy (kWh/t)</td>
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<td>45%</td>
<td>- 7.4%</td>
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<tr>
<td>Packaging (pack ratio)</td>
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<td>5%</td>
<td></td>
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<tr>
<td>Waste recycling</td>
<td>80%</td>
<td>87%</td>
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2009 CO₂

2009 CO₂: 2000-2010 target for reducing water consumption at plants a full year early, overshooting the 30% savings target at 32%. A critical contribution was the Waters division’s excellent showing in 2009 (-19%).

Support eco-friendly agriculture

Rethink packaging to transform waste into a resource

Protect water resources and reduce our consumption

5 strategic priorities

Fight global warming

Protect and restore biodiversity

In 2009, Danone met its 2000-2010 target for reducing water consumption at plants a full year early, overshooting the 30% savings target at 32%. A critical contribution was the Waters division’s excellent showing in 2009 (-19%).

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**Danone 2009**
information and visibility.

Finally, in 2009 we produced our first bottles made entirely of recycled PET (R-PET) in Mexico, using a ground-breaking technology that converts old bottles into new ones without generating any fresh waste along the way. It naturally supposes active involvement in the collection of waste bottles used to make R-PET, and thus ensures a steady supply. Drawing on our successful partnership with PETstar, which supplies Bonafont with R-PET bottles in Mexico, Danone now plans to work with France Plastiques Recyclage to develop an R-PET factory in France to supply Evian Volvic Worldwide. Our long-term goal: 50% of bottles made of R-PET.

At Danone, our concern for the environment extends beyond our own plants and products to include suppliers upstream and transport downstream. Because 85% of the emissions linked to our operations are indirect, working with suppliers is essential. That is why we have set up the Danone Carbon Pact, a three-year action plan that helps our leading upstream partners measure and reduce emissions. In 2009, Danone signed 20 agreements with top suppliers accounting for 40% of raw material and packaging purchases for Fresh Dairy Products, and we will be extending the program to our other divisions in 2010.

Turning to transport, 2009 saw the implementation of our Marco Polo project adopted for bottled waters in the previous year, leading to a switch from road to rail for Volvic exported from France to Germany. The shift eliminated 26,000 truck deliveries, cutting carbon emissions by 30%, and business units in many other countries are now testing the program.

The third part of our carbon footprint program is carbon offsets.

However great our commitment and regardless of the efforts we make, there will always be residual CO2 emissions that we simply cannot eliminate. In such cases, we turn to carbon offsets to leverage the planet’s capacity to absorb emissions.

In this area, 2009 saw a major step forward with the first important project financed by the Danone Fund for Nature just six months after it became operational in 2008. Evian, the pioneering brand behind the initiative, aims to achieve 50% of the reduction in its carbon footprint through direct cuts in its own emissions and the other half through offsets. With the support of the Danone Fund for Nature—which identities and finances projects contributing to CO2 absorption—Evian launched its first offset project with a program for the restoration of mangroves in Senegal. Mangrove ecosystems are the planet’s richest sources of biomass. The Plant a Tree campaign in the Casamance region and Saloum delta, headed by the NGO Oceanium, committed to this type of initiative since 2006, drew on the active participation of local people to replant 2,000 hectares (nearly 5,000 acres) with 36 million mangrove saplings.

Dow Jones SI

Dow Jones Sustainability Index (DJSI) recognized Danone as the benchmark in its category for environmental reporting.

A unique approach to nature

Looking beyond achievements in these three areas—and back over our efforts in the past ten years—Danone’s approach to environmental protection sets us apart in three ways. Firstly, we emphasize partnership. We do not act alone. Instead we work with partners that are recognized for their expertise, such as the Ramsar Convention on Wetlands, France’s national energy and environmental agency Ademe and institute for agricultural research INRA, Carbon Trust and the International Union for Conservation of Nature, as well as local NGOs.

Secondly, our action reflects a comprehensive vision that combines protecting the environment, managing and even restoring resources, and economic and social development. Finally, these aims are now an integral part of our business. Targets for reducing our carbon footprint are built into our management bonus system, which in turn has rallied employees as a whole to the cause. In the end, the challenge we face in zeroing in on carbon is not just reducing our footprint, but effecting profound change in our practices to ensure that our future economic performance is lasting.

Our partners for Nature

Inra: the French National Institute for Agricultural Research.
Carbon Trust: a private-sector organization helping businesses and the public sector reduce carbon emissions and adopt technologies with low levels of greenhouse gases.

http://www.danone.com

http://www.danone.com
Our Ochsenfurt plant in Germany makes sustainable development and reducing consumption of natural resources a priority. The picture above shows residual milk protein in waste water being recovered for transformation into biogas.

As Danone naturally buys its milk from external suppliers, it cannot take all decisions on its own. We nonetheless do all we can to develop partnerships with farmers and agricultural organizations and find ways to limit the environmental impact of our dairy business. Since 2004 we have worked with the French National Institute for Agricultural Research (INRA) and Valorex, the flax-growers association, to demonstrate that adding flax to cattle feed significantly reduces methane emissions. In 2009 our France-based flax program, dubbed Linus, was extended to Spain and the US. We worked with the same partners to publish an article in the Journal of Dairy Science in 2009, demonstrating for the first time the links between certain amino-fatty acids and methane emissions. Measuring methane emissions from dairy herds—and thus better controlling them—could well become routine procedure in the near future.
Employee safety and performance at Danone’s Longchamps plant, outside Buenos Aires in Argentina, are among the best in the group. The plant’s success is grounded in participatory management and the empowerment and initiative of its 900 employees, who are constantly growing and expanding their skills.

For every employer, one responsibility stands out: keeping workers safe. At Danone, the key to safety is Wise, a rigorous program that we began deploying in 2004 and is now in effect in all our business units. Though industrialized nations might be expected to outperform emerging countries, Longchamps is the top performer in our Fresh Dairy Products division. But that hasn’t always been true.

The road to safety
Just three years ago, Longchamps had one accident requiring sick leave every month, and around 100 safety incidents a year in all. But in 2009 the giant plant, now counting over 900 workers, had no accidents and only 16 incidents in all. Managers achieved these impressive results with three key tools: the Wise program for workplace safety; our Proximity management and employee development spur performance at Danone’s Longchamps plant in Argentina.

Text by Jean-Léon Vandoorne Photos by Thomas Haley, Côme Courteault 2010
Danone Wise, a program that began in 2004, is designed to help management and workers adopt a rigorous approach to safety on the job. From 2006 to 2008, the frequency of work-related accidents requiring sick leave declined from 7.6 per million hours worked to 5.2—a 32% decline. The most striking reduction came in the Waters division, where the figure dropped 77%, from 13.4 to 4.7.

Danone Manufacturing Way (DaMaWay) program to optimize production processes; and DanOwners, which empowers machine operators by making each of them responsible for a specific mission or task within their units. Implemented together, the three programs established an immediate link between improved performance and workplace safety. The plant’s teams quickly adopted the new system. Each worker is now the dueño or owner, of his or her position, and if a problem appears, any employee can report it and suggest ways to prevent it. The enormous facility, which converts 1.2 million liters of milk into yogurt, fromages frais and other fresh dairy products daily, has thus been divided into small, human-scale sectors, enabling team members to fine-tune their equipment and adapt their own behavior.

The DaMaWay program began in late 2006 with a pilot project involving 20 people and one machine. At the end of 2007 it was expanded to include all 200 employees in the cheese and dessert sector, and in 2008 it was rolled out plant-wide.

Reaching out to partners

With Wise deployed simultaneously, several hundred small improvements were gradually made to the production line. Safety is now second nature for all employees, all the time. Once an operator has identified a problem and proposed a solution, it must be taken seriously.

While Danone provides the tools, each business unit is free to adapt them to its own situation in the interest of efficiency. To give its new safety program deeper roots, Longchamps launched a community initiative called El Camino de la Seguridad—the Road to Safety. The plant was divided into eight sectors, and each adopted a local school. Whenever a team wins a safety contest at the plant, it donates the prize money to its school, funding a project to make the

Youngsters in this Buenos Aires school are enrolled in the Danone Foundation’s Nutrition program.
and equipment. Such small changes the system generated over 8,000 ideas, involved in the solution process. In 2009, there is an incident, the worker is fully the plant to anticipate problems—and if suggestions improvements that require team, and green forms are used for quick report on a color-coded form. Blue ideas for improvement, writing up a break to discuss any malfunctions and a day, each team takes a 10-15 minute to encourage employee initiative. Twice a more participatory management style are former supervisors who have learned were promoted internally, while others talented former production workers who each. Each team has a leader: many are small cells averaging about 20 employees to proximity management built on success, Longchamps has now taken on school safer as well. Buoyed by its Longchamps owes its success primarily to proximity management built on small cells averaging about 20 employees each. Each team has a leader: many are talented former production workers who were promoted internally, while others are former supervisors who have learned a more participatory management style to encourage employee initiative. Twice a day, the team takes a 10-15 minute break to discuss any malfunctions and ideas for improvement, writing up a quick report on a color-coded form. Blue forms are issues handled directly by workers, red forms go to the maintenance team, and green forms are used for suggested improvements that require further review.

This constant attention to detail enables the plant to anticipate problems—and if there is an incident, the worker is fully involved in the solution process. In 2009, the system generated over 8,000 ideas, resulting in improvements to processes and equipment. Such small changes

### Empowering operators

Longchamps owes its success primarily to proximity management built on small cells averaging about 20 employees each. Each team has a leader: many are talented former production workers who were promoted internally, while others are former supervisors who have learned a more participatory management style to encourage employee initiative. Twice a day, the team takes a 10-15 minute break to discuss any malfunctions and ideas for improvement, writing up a quick report on a color-coded form. Blue forms are issues handled directly by workers, red forms go to the maintenance team, and green forms are used for suggested improvements that require further review.

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Some 900 employees work at Danone’s Longchamps fresh dairy products plant in Argentina. Like all of Danone’s 80,976 employees, they are eligible for professional and personal development programs.

Every morning 1,200,000 liters of fresh milk arrive at the Longchamps plant, which makes an essential contribution to the local community’s social and economic well-being.

Danone has conducted an employee survey every two years since 1999. In 2009 this was extended to all group staff with a questionnaire translated into 34 languages distributed to 68,000 people in 66 countries. Results show employee engagement—an indicator measuring employees’ commitment and personal involvement in the business—reaching a high 85% compared with a 78% average for the consumer goods sector. Similarly, 85% considered Danone a good place to work, compared with the average of 74% for consumer goods businesses. Results for 2009 also show significant improvement in opinions on all criteria from 2007, and a narrower gap between findings for managers on the one hand, and supervisors and workers on the other.

Make the difference between “good” and “excellent”—and they wouldn’t happen without the intelligence and commitment of the plant’s 900 employees. At Longchamps, employees know that their personal input is valued and that they make a difference.

A great place to grow

Production at Longchamps has risen sharply over the past 10 years, and the plant recruits regularly. It’s known as a good place to work: workers who log occasional overtime hours on Saturday earn twice the average salary for Argentina, and all employees receive health insurance in addition to medical and other benefits managed through their unions. The company also provides a top-up to all employees who want to increase their basic life insurance.

Longchamps also has close ties to the educational ecosystem formed by nearby schools and universities. The plant hosts around ten graduate trainees and 15-20 technicians and vocational graduates at all times, offering access to a relatively young, well-educated labor pool. That’s an advantage, but also a responsibility. Longchamps is not satisfied with being only a great place to work—an attractive plant where people like to be. It also wants to be a great place to grow. Over the past three years, investment in training has risen 50%, with managers receiving more instruction and operator training time increasing sharply, from four hours a year to 24. Training for operators is always provided by their supervisors and focuses on the practical realities of their job. And outstanding workers may be entrusted with managerial responsibilities after submitting the Best Idea of the Week or winning one of the plant’s many other contests. At Longchamps, training people is more than a responsibility—it’s an honor.
Can labor unions and management build a global dialog?

Danone has maintained ties to IUF*, the leading international union in the food sector, since 1976, with bilateral agreements dating back as far as 1986. In 2009, they took their European relationship global. How have they benefited?

Ron Oswald, General Secretary IUF; Muriel Pénicaud, Vice President, Human Resources, Danone

How does the historic 20-year relationship between IUF and Danone benefit you?

Ron Oswald: I think both sides benefit. We can discuss problems and solve them around a table instead of being forced into confrontation. It’s an opportunity to reason things out with the management of an international corporation.

Muriel Pénicaud: Our relationship has helped everyone move forward on both business and social issues. Today, representatives of labor unions and management address cross-border business issues through the European Works Councils, but our international dialog with IUF has been a continual source of innovation since before they ever existed. In particular, we’ve used it to reach eight worldwide agreements setting out a general framework and guidelines that local stakeholders can adapt and implement to reflect their own environment.

In 2009, the Consultation and Information Committee (CIC) was expanded to include non-European countries. What has that changed?

MP: In expanding the Committee, we’ve developed a global dialog on business and employment issues for all four Danone divisions, and we plan to join forces with Numico’s European Works Council by 2011. Opening up internationally has given us a broader view of our employees’ hopes and concerns, and we’ve gone beyond the requirements of European law to extend the dialog to emerging countries. With delegates from countries such as Indonesia, Argentina and Poland, we have a better grasp of the issues—what the different countries have in common and what sets them apart.

RO: We called for a worldwide meeting. Our members appreciated the opportunity for dialog with Danone’s senior management. And I think the unions in the Water and Dairy Products industries really appreciate having division-level dialog for each sector. They asked for these talks too. As the Committee evolved, it was a simple matter of good sense to move the relationship up to a global level. I have to say that Danone is a little ahead of other companies—as it often is. Danone is the first company to have this kind of dialog with IUF—on this scale and at the global level.

What are the main challenges for international corporations today?

RO: Job security has become the number-one issue for many of our members. Growing job insecurity is the major concern because it affects family income and fundamental rights. We need to decide how far we can go in accepting the social consequences of increased job insecurity, which is becoming far too widespread in more and more multinational corporations.

MP: The economic downturn and the uncertainties it has created have intensified two major concerns at the heart of our relationship with employees. The first is jobs. The best way to promote job security for our employees collectively is to stay competitive by increasing sales volume. From the individual standpoint, the solution is employability—investing in skills that will equip each employee for the challenges of professional life. We need to ensure that our employees have the resources they need to develop new skills so that they can thrive and succeed at Danone—and also stay competitive on the job market. The second concern involves security in the broader sense: working conditions, employee health—including stress prevention—and workplace safety. Safety is a major issue, and we’ve begun negotiating a worldwide agreement on that.

**Danone is the first company to have this kind of dialog with IUF—on this scale and at the global level.**

Ron Oswald

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*IUF: The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations (IUF) is an international union federation with 303 affiliated trade unions and organizations in 120 countries, representing more than 2.5 million members. IUF is headquartered in Geneva, Switzerland.

Muriel Pénicaud is responsible for maintaining and expanding the social innovation approach adopted by Danone. Since 2009, she has chaired the Board of Directors of the Danone Ecosystem Fund. She is a member of the France’s National Council on Labor Relations (Haut Conseil du dialogue social) and was recently appointed by the French Prime Minister to take part in a national stress-prevention initiative.
**Ron Oswald**

**Since 1997:**

British-born Ron Oswald has been General Secretary of the IUF since 1997. He became a union member in 1959 while working as a baggage handler for a British airline. From 1960 to 1987, he worked with unions in Africa, the Caribbean and Central America. He then joined IUF where he has been ever since, championing its efforts to win recognition of unions and workers’ rights from companies to create business and social progress.

### Economic and social report Danone 2009

**Danone and IUF launch global partnership**

On October 12, 2009, Danone and the International Union of Food Workers’ Associations (IUF) formalized their shared experiment in developing a global forum for labor-management dialog.

**Why did you accept?**

RO: It really is unusual for IUF to participate in a project like this. We’ve always preferred sector-wide projects to avoid creating the impression that we prefer one company to the other. But we were impressed. The Eco-system Fund project is totally new and different—it goes beyond the traditional idea of corporate social responsibility. The business units are very involved in the project, and our teams in the units want to be involved too. So IUF made an exception and agreed to be a part of the initiative.

**What do you think is most useful about this approach?**

RO: Danone is a business—operating in a capitalist system—and not a charity. It isn’t always the only company that impresses us, but Danone’s dual commitment to business success and social progress has always been very tangible and real. What surprises most of our members is that Danone uses dialog and negotiation. That isn’t true of every company, and it’s what people remember most about Danone. We’re not naïve: Danone has to meet the same market demands as the others. But the consideration shown to employees and managers’ dialog with them are qualitatively better with Danone than with some other companies. RO: Danone doesn’t claim it’s perfect. But because the dual commitment to business success and social progress is in our corporate DNA, we know it’s important for Ron—with his long experience at IUF, which represents both food and farm unions—to contribute a labor representative’s vision of the Danone ecosystem.

**Why did you ask Ron Oswald to join the Guidance Committee for the Danone Ecosystem Fund?**

MP: Yes. Once you get past the core legal requirements on employee rights, dialog and then negotiation are essential. To be effective, the dialog must address both business and employment issues, and it has to take the corporation’s goals and challenges into account.

**RO:** We tell companies, and even governments, that there are many cases of opportunistic moves with no negotiations, and that’s our great strength. Our dual commitment to business success and social progress is in our corporate DNA, we know it’s important for Ron—with his long experience at IUF, which represents both food and farm unions—to contribute a labor representative’s vision of the Danone ecosystem.

**MP:** Danone is so important. Getting back to an agreement with Danone is so important. Getting back to rising job insecurity, we’re trying to reach an agreement with management on insecure jobs, to limit that type of contract. Danone isn’t the worst case—for from it. Other groups have plants where 85% of the employees are in insecure jobs. That’s unacceptable.

**RO:** Stress is one of the growing risks that every business faces in promoting employee well-being. In France, we’ve signed a group-wide stress-prevention agreement with all of the unions. We’re also working in a number of different places to advance our new worldwide talks on working conditions, health—including stress—and workplace safety. I believe that efficiency and well-being in the workplace reinforce each other. That’s the heart of our dual commitment to business success and social progress.

### Danone and IUF launch global partnership

Danone and IUF launched a global partnership in 2009, based largely on geographic Europe, including countries outside the European Union, although regional IUF representatives from Europe, Latin America and Asia and union representatives from Central and Eastern European countries attended as full members.

### Economic and social report Danone 2009

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Nutrition: identifying the global challenges

Rich countries are fighting obesity and high blood pressure even as emerging countries struggle with undernutrition. Across the widening divide, people everywhere are paying the price for unhealthy diets. Can the food industry contribute to the search for solutions?

Prof. Ricardo Uauy, professor of Public Health Nutrition (INTA), University of Chile, and London School of Hygiene and Tropical Medicine, Sven Thormahlen, General Manager, Danone Research

What are the major nutritional challenges facing the world today?

Prof. Ricardo Uauy: It all depends on where you’re born. In industrialized countries, the threats are obesity, with all its consequences, and chronic conditions like diabetes and heart disease. In emerging countries—depending on how developed they are—it’s undernutrition, with vitamin, zinc and iron deficiencies. There’s also the problem of malnutrition among young children in Asia and Africa, and of pregnant women in Asia, particularly India and Bangladesh.

Sven Thormahlen: The big challenge is malnutrition. On the one hand, obesity continues to rise. On the other, some regions have enormous dietary deficiencies—even famine, which has still not been eradicated today. That’s a huge disappointment. WHO, the World Bank and other international organizations called for an end to world hunger by 2010. That sounded the alarm, but it still hasn’t happened. Conditions are very uneven around the world; some populations eat a varied, perfectly balanced diet. But others are getting too many calories and not enough nutrients, which ultimately leads to overweight or obesity, as well as significant deficiencies.

Do the main stakeholders—national and international health authorities, the scientific community and big manufacturers—recognize these challenges clearly?

ST: For the first two, I’d say yes. I think they understand the challenges very well today. Those in the food industry are at very different levels: some are fully aware of the challenges and have taken a clear position, while others lag far behind. The industry as a whole has failed to adopt shared priorities. The regulatory authorities overseeing food manufacturers find that they make all sorts of conflicting claims to suit their product portfolios. For several years now, Danone has made

“Our products must contribute to the aims of public health.”

Sven Thormahlen
7th Danone International Prize for Nutrition—remarkable gains

Danone supports academic nutrition research to find new ways of making people healthier. One of the best examples is our work through the Danone Institutes, whose mission includes generating research by awarding the Danone International Prize for Nutrition, among other programs. Established in 1997 with the support of the French Foundation for Medical Research and awarded every two years, the prize recognizes a researcher or research team for outstanding work in human nutrition. In October 2009, the Seventh Danone International Prize for Nutrition was presented to Belgian-born researcher Johan Auwerx, at the 19th International Nutrition Congress in Bangkok, Thailand. Dr. Auwerx, who is on the faculty at the Ecole Polytechnique Federale in Lausanne, Switzerland, received the prize for discovering the mechanisms used by certain nutrients to “communicate” with human cells, giving them instructions much as hormones do. Dr. Auwerx’s work focuses more particularly on fat-shedding processes in adipose tissue, paving the way for new strategies to prevent and treat obesity and cardio-metabolic diseases such as type 2 diabetes and high blood pressure.

LEARN MORE HERE www.danone.com

“A good diet would cut health care costs significantly.”

Professor Ricardo Uauy

network researcher: Johan Auwerx, at the 19th International Nutrition Congress in Bangkok, Thailand. Dr. Auwerx, who is on the faculty at the Ecole Polytechnique Federale in Lausanne, Switzerland, received the prize for discovering the mechanisms used by certain nutrients to “communicate” with human cells, giving them instructions much as hormones do. Dr. Auwerx’s work focuses more particularly on fat-shedding processes in adipose tissue, paving the way for new strategies to prevent and treat obesity and cardio-metabolic diseases such as type 2 diabetes and high blood pressure.

In what main areas can a group like Danone help solve these problems?

ST: Can we have products that help eliminate obesity? And can we make our products both nutritious AND affordable? And can we reach people with very low purchasing power? Those are our main challenges. So the mission Danone has adopted is to create products with health and nutritional benefits—products that promote public health and make a meaningful contribution to consumers’ health goals wherever we do business. Our teams are putting enormous effort into understanding the immune system, and we’re maintaining our focus on the nutritional value of our products.

In 2009, we successfully showed that combining certain nutrients may help slow the progress of Alzheimer’s and other neurodegenerative diseases. Bangladesh is a good example of our contributions to nutrition. In 2010 we expect to get results from the study on the nutritional impact of our Shoktidoi yogurt on children in Bogra. Finally, one of our primary contributions is our practical commitment to adding nutrient and encouraging the best possible diet for babies. That’s fundamental to our mission, because nutritionally, everything hinges on the first few years of life.

RU: If food companies still want to be in the market 10 years from now, they’ll need to change. Before we start looking at healthy foods and pharmaceuticals, we should remember that a good diet would cut health care costs significantly. Good health starts with a balanced diet and exercise. ST: It’s easier to do nothing, but if you still want to be in the market 10 years from now, you’ll need to change. How do healthy foods and pharmaceuticals complement each other?

RU: If food companies still want to be around 10 or 15 years from now, they need to do things that are less harmful to consumers’ health: less salt, less sugar, more fiber, more high-quality ingredients. They need to get rid of saturated fats and replace them with unsaturated fats, vegetable oils, olive oil and fish. Sometimes the best fats are also the least expensive. We get into the habit of consuming salt veryearly in life, and we get hooked. Less salt means less high blood pressure, fewer strokes and cardiovascular diseases. If we could reduce our salt consumption from 10 to 5 or even 3 grams, we’d reduce the number of high blood pressure-related deaths by 60-70%. Food companies should do it gradually: if you cut 3-5% every year, within 10 years you’ll have cut total salt consumption by 50%. Corporations need to rethink their business model. It’s easier to do nothing, but if you still want to be in the market 10 years from now, you’ll need to change.

Can a big corporation like Danone influence consumer habits in the medium or long term?

ST: There’s a continuum between being healthy and being sick—there’s no perfect state of health or disease. How can I address the issue of health as a whole, think preventively, instead of waiting until disease is already there? What can we do to avoid diseases or slow their effects? That’s where food should make its biggest contribution and complement a purely pharmaceutical approach. People often talk about a negative relationship between food and health, but in fundamental terms the relationship is eminently positive: a better diet means a better life.
but also in the rest of the world. Danone has developed policies centered on information, advice and personal service, providing day-to-day support not just to consumers but to our employees as well. As a result, we’ve influenced consumers’ eating habits. Take beverages in countries like Mexico, excessive and even exclusive consumption of sweetened beverages is a major cause of the rise of obesity. We can—we must—convince consumers that water will hydrate them better than anything else.

RU: Again I say to the food industry: use less sugar, improve your products with ingredients that add to health, not detract from it. Often what stops people from replacing sweetened beverages with water is a perceived lack of flavor. So eliminate sugar but not the sweet taste; use other sweeteners. It’s marketers that define markets, not people like me. I’m not against the food industry, and I have nothing specific against marketers. But I’d like to see them apply their skills to healthy products—products that are good for people’s health—and start working to change the short-term model that they presently follow.

How can food manufacturers work better with scientists?

RU: Some manufacturers are looking for good advice. Others don’t want anything to change. Industry should pay attention to recommendations from international organizations, because in time they’ll become the standards adopted by countries, and in some cases they are the basics for international law and trade. Here’s what I want to say to Danone: you need independent advice. If you’ve asked the wrong questions, sometimes you’re given the wrong answer, too. Take advantage of the independent opinions and advice all around you, the directives from international organizations. There’s room for innovation. The best approach is to get confirmation from researchers’ findings within the framework of international organizations.

ST: My answer points in the same direction—towards dialog. I’d say we need to expand our network of scientists even more. We have historic partnerships with organizations like the Pasteur Institute, and we’ll continue them. In addition, we have more and more partnerships with prestigious academic institutions in the United States and Canada. We also need to expand our contacts with the scientific community in every country where we want to succeed, because they have knowledge that we need. So the more we go into different countries, the more we need to develop products designed for their consumers, and the more we need to develop close ties to the local scientific community.

Danone’s Food, Nutrition and Health Charter

More rigorous than the previous one, this new Charter provides an initial response to the growing concerns expressed by national and international authorities on food-related public health issues. It is intended for stakeholders outside Danone as well as for our employees, and is based on five commitments that reflect Danone’s increasingly significant contribution to nutrition:

1. Offer solutions that are increasingly tailored to nutritional needs and recommendations, as well as to consumer tastes and incomes.
2. Develop products with relevant, scientifically proven health benefits.
3. Provide consumers with clear, factual information and advertise responsibly.
4. Promote healthy diets and lifestyles.
5. Address society’s leading health and nutrition challenges.

Learn more here: www.danone.com

DANONE RESEARCH, Spearheading our mission

Reinforcing the existing benefits of our products for digestive and cardiovascular health, the immune system, bone formation and weight management while at the same time exploring new benefits to underpin future innovation:

• Developing affordable solutions to open access to healthy food for low-income groups;

• Building recognition for the place of nutrition as a component of treatment for certain illnesses;

Danone Research brings together our worldwide R&D capabilities, representing a total workforce of over 1,200 present in some 15 countries.
Guylaine Saucier joined Danone’s Board of Directors on April 23, 2009. Here she shares insights from her first few months on the job.

You joined Danone’s Board in April 2009. Why did you accept this responsibility?

Guylaine Saucier: I share Danone’s values, particularly in the area of social responsibility. It’s important to work with people whose values are close to your own. That was a big factor in my decision, and so far events have proved me right.

You’ve sat on a number of boards in Canada and France. What’s different about this experience?

GS: What strikes me is Danone’s ability to stay entrepreneurial. That’s rare in a company with over 80,000 employees in nearly every part of the globe.

Decision-making is very decentralized: broad goals are set at headquarters, but a good board should contribute added value, a wide range of experiences that it can share with management.

You mentioned social responsibility. How does the Board of Directors contribute to that and evaluate it?

GS: I knew about Danone’s project in Bangladesh before I joined the Board, but I thought it was a one-off thing, rather marginal. Once I joined the company, I realized that it wasn’t just an isolated exercise in social responsibility—it’s part of a mindset, a philosophy that permeates the whole business.

Creating the Danone Ecosystem Fund this year is another example. Working with local dairy farmers in Turkey, Egypt, and Mexico to help them structure their businesses and meet quality standards is another. A lot of companies talk about social responsibility, but actually putting it into practice without losing sight of the bottom line is hard.

Do you discuss these issues frequently in Board meetings?

GS: That’s just it: it’s not on the agenda. It’s not a specific topic—it’s ingrained in Danone’s culture and operations. So it’s always there, in every discussion. That really impressed me, because I’d never seen anything like it. I’m not saying that other companies don’t think about social responsibility, just that their approach isn’t always as well integrated as Danone’s.

Has anything else struck you since you joined the Board?

GS: Research, especially for dairy products. I had no idea that researchers worked so hard to tailor products to the needs of local communities and evaluate the nutritional deficiencies that come with age and other health problems. Yogurt may be a simple product, but a lot goes into it.

2009 was a year apart for business, and it brought some tough decisions. Were any of them particularly memorable for you?

GS: The group is dynamic and innovative, but it also takes a prudent approach to the future. The capital increase in June is a good example. We didn’t need it right away, but we decided to get out in front, to make the future more secure. At the time it was still April, and it was hard for us to see then what the economy would do in the next two years. So it was a precautionary measure. At Danone, there’s always that link between tremendous drive and a certain degree of prudence. Which happens to be how I work and think, too.

France is often criticized for having boards that are too... French. Do things work differently in Canada?

GS: Once or twice a year, Canadian companies ask their boards to participate in one- or two-day strategy retreats. It’s nothing but strategy, and you don’t make any decisions—you just brainstorm. That makes it easier when the board meets later for more formal discussions on issues like the
future or the budget, because we’re more involved upstream. We’ve had the time to look closely at corporate strategy, analyze it, and occasionally add our two cents. I like working that way, and I don’t always find that willingness in France.

Is there a message that you’d like to share with Danone employees?

GS: Don’t lose the vitality and momentum that I’ve felt at Danone. It isn’t easy, because there’s a tendency to rest on your laurels as the years go by. This company has an energy that you don’t often see, and it’s critical to find a way to preserve that.

Can that be replicated in other companies?

GS: I think it’s unique to Danone. I never knew Antoine Riboud, but I’m told he was a force of nature. The original drive probably came from him, and his son Franck has succeeded in maintaining the momentum. It’s never easy for the second generation—I saw that when I stepped into my father’s shoes. When the time comes, you have to be able to pass it on to the next person.

Danone is strong today because that momentum has already been shared with all the people who put life into the business.

Guylaune Saucier

Guylaune Saucier, a native of Noranda, Quebec, is one of a growing number of professional directors. From 1975 to 1989, she served as Chair and CEO of Groupe Gérard Saucier Ltée, a major forest products corporation. She has been certified as a Director by the Institute of Corporate Directors and is a former Chair of Canada’s joint Committee on Corporate Governance, which was set up in 2000 by the Toronto Stock Exchange, the Canadian Institute of Chartered Accountants, and the Canadian Venture Exchange. She sits on the boards of numerous corporations, including Axa Assurance, Inc., Bank of Montreal and Groupie Reva, and has served as chair of many other boards. The first woman president of the Quebec Chamber of Commerce, Guylaune Saucier has also been active in the community, serving on the boards of Montreal University, the Montreal Symphony Orchestra, Hôtel-Dieu de Montréal, and other organizations. In 2004 she was named a Fellow of the Institute of Corporate Directors. In 2005 she received McGill University’s 25th Management Achievement Award.

“Exchanging views with shareholders—
a daily dialog”

“Developing good relationships with our shareholders is something we work on every day. And we maintain an ongoing dialogue through our Board, of course, but also through direct contact with some of our largest shareholders, including managed funds in the UK and France, and Caisse des Dépôts et Consignations in France. We also stay in touch with groups like Proxinvest and Fi Trust that work independently to improve corporate governance. We discussed the creation of the Danone Ecosystem Fund with our major shareholders well before the General Meeting. One by one, we called or met with them to assess its importance together, and discuss what it means for our company. As a result, we fine-tuned the project in a number of ways before submitting the final version to the Board and the General Meeting.”

Emmanuel Faber, Co-Chief Operating Officer

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Activities of the Board of Directors

Danone’s Board of Directors counts 14 members, eight of them independent, and has three specialized committees. Here we take a brief look at their activities in 2009.

The Board of Directors met ten times in 2009, with meetings lasting 90 minutes on average, and attendance averaging 86%. Recurring agenda items included business developments, the group’s finances and treasury, guarantees and endorsements, adoption of financial statements, financial communications, acquisitions and divestments, Danone’s share price, annual business plans and budgets, the annual contribution to Danone’s communities, corporate governance issues, and reports from the three Board Committees. In 2009, the Board focused particularly on performing its regular review of the group’s finances; studying and monitoring action plans in response to the changing economy; monitoring corporate governance issues under the Afep-Medef Code of Corporate Governance; including a review of the Board’s self-assessments; reviewing divestments, acquisitions and the group’s business plan; and renewing auditor appointments. Drawing on insights from its 2008 self-assessment, the Board changed its internal regulations in 2009. New procedures for better information on corporate strategy, the budget and monitoring of acquisitions were established, requiring that the Board be briefed on the group’s finances at least once every six months. The Directors also reviewed and discussed the group’s business plan and budget during a half-day session in December 2009, and they attended our September seminar in Evian, an annual forum for heads of all Danone business units around the world.

Audit Committee. The Board of Directors

redened the Audit Committee’s mission on December 17, 2009. The Committee is now charged with reviewing and commenting on company and consolidated financial statements before they are presented to the Board of Directors, and with coordinating the selection of statutory auditors. It verifies procedures for internal control and risk assessment and management; reviews the Chairman’s internal control report, and validates and monitors audit plans. In 2009, the Audit Committee

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Economic and social report

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93
met six times. Agenda items included the group's financial statements, proposed financial transactions such as the capital increase in June 2009, internal control systems, validation of audit plans, procedures for assessing and monitoring risks, approval of new internal regulations, and coordination and monitoring of the tendering procedure for auditors.

Social Responsibility Committee. Set up in late 2006, this Committee has a specific governance role. On December 17, 2009, the Board of Directors adopted new internal regulations for the Committee, providing for regular evaluations of its performance. In particular, the Committee is charged with considering the group's main environmental risks and opportunities and with reviewing its social policies. It also reviews non-financial information published by the group on environmental and social issues, and monitors reporting, assessment and control systems to ensure that non-financial information published by the group is reliable. The Committee conducts an annual review of non-financial ratings for the company and its business units from independent agencies, and monitors compliance with the group's code of ethics. Similarly, it assesses the impact of the group's social business investments and the group's other activities. The Committee met three times in 2009. Agenda items included the group's overall social policies as well as individual social projects; the creation and progress of the danone.communites fund, the Danone Fund for Nature and the Danone Ecosystem Fund—all founded by Danone; the amount of the group’s financial contribution to danone.communites; and Danone’s new food, Nutrition and Health Charter. At its meeting on June 29, 2009, the Committee made a preliminary assessment of its own activity, prompting members to considering its positioning, particularly as regards the Audit Committee. At its meeting in October 2009, the Committee decided to re-assess its activity and will report to the Board in 2010.

Nomination and Compensation Committee. This Committee counts three members, two of them independent. Its tasks include submitting proposals for appointments to the Board of Directors; preparing for the Board’s review of corporate governance issues; assessing the Board of Directors and the Audit Committee; proposing criteria for calculating the various components of corporate officers’ (mandataires sociaux) compensation and distributing directors’ fees; and making any other recommendations concerning the group’s compensation policies. On February 10, 2009, the Board of Directors amended the Committee’s internal regulations. It is now charged with preparing for the Board an annual review of corporate governance issues; presenting the group’s policy on Executive Committee compensation in the presence of one or more corporate officers, and regularly assessing its own performance. In 2009, the Committee met six times. In particular, it considered the appointment of Guylaine Saucier to the Board of Directors, as well as compensation and benefits for corporate officers and members of the Executive Committee. It also reviewed the Afpé-Medef Code of Corporate Governance and Danone’s compliance with it; the fixed and variable components of compensation for the four corporate officers (mandataires sociaux) and the other members of the Executive Committee; and changes to its own internal regulations. Corporate officer compensation. Policies on compensation for corporate officers are based on principles governing all of Danone's general managers and over 1,400 managers around the world. For Chairman and Chief Executive Officer Frédéric Ridouard, Vice Chairman of the Board and Co-Chief Operating Officer Jacques Vincent, and the two Co-Chief Operating Officers, Emmanuel Faber and Bernard Hours, the variable economic portion of compensation is calculated based on group targets for sales, operating margin, free cash flow and underlying earnings per share, as announced to financial markets. It also takes into account the group’s social business aims and assessment of strategy deployed over the year. Direct and indirect compensation paid to members of the Board of Directors and Executive Committee in respect of the 2009 financial year totaled €21.7 million. In respect of 2009, the four members of the Board of Directors who are also corporate officers received the following compensation: Frédéric Ridouard, Chairman and Chief Executive Officer, €7,783,970; Jacques Vincent, Vice Chairman of the Board of Directors and Co-Chief Operating Officer, €1,529,800; Emmanuel Faber, Co-Chief Operating Officer, €1,373,620, Bernard Hours, Co-Chief Operating Officer, €2,863,620.
A major presence in the world food industry, Danone reported sales totaling €14,982 million and trading operating income of €2,294 million in 2009.

Danone’s sales are from Fresh Dairy Products (57%), Waters (17%), Baby Nutrition (20%) and Medical Nutrition (6%).

This like-for-like sales growth was driven by a 5.2% rise in volume and a 2% decline in price/mix.

* like for like: at constant scope of consolidation and exchange rates

+3.2% *

€14.98 bn
Keeping an eye on the long term

Action taken in 2009—changes in pricing and product portfolios, a capital increase, and continued improvement in cash flow management and productivity—will pay off in 2010 and beyond.

Pierre-André Térisse, Executive Vice President, Finance

How has Danone’s new pricing strategy affected your financial results?

Pierre-André Térisse: Our pricing strategy and adjustments to our product portfolio led to renewed growth of nearly 5% in the second half, enabling us to keep our promise and deliver a 10% like-for-like increase, and enhanced financial structure will come. And higher productivity has let us head into 2010 with much stronger cost structures.

Isn’t this trend likely to taper off?

P-A T: If we’d done nothing but cut prices, the benefits would have been short-lived. But we did much more, with sweeping changes to our product portfolios. That was important for our 2009 results, but it is equally critical in laying the groundwork for 2010 and beyond. Our results in 2009: our group’s higher market share, capital increase, and enhanced financial structure will contribute to this good showing and laid a solid foundation for the future. We’ve reduced our debt, giving us the flexibility to acquire small but like-for-like businesses and make new local investments.

Aren’t you concerned about rising volatility in currencies and raw materials?

P-A T: Currency risk is a long-term issue, and we’ve already planning steps to address it. Many of our costs are in euros, but our growth comes primarily from emerging countries with currencies tied to the dollar. So we’ll adapt our cost base to that reality—purchasing, fixed costs, interest expense, and so on. That will move us closer to that reality—purchasing, fixed costs, interest expense, and so on. That will move us closer to our markets and make us more and more competitive. The same applies where the environment is concerned. This issue is increasingly important to consumers. We’ve made a lot of progress this year, and we’re going to step up our programs in 2010. We’re showing once again that clear thinking can turn a risk into an opportunity.

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Have you strengthened financial management?

P-A T: In terms of improving cash flow, 2009 was one of our best performances ever. Which shows that our business is fundamentally healthy, and that there’s room to improve working capital requirements for Baby Nutrition and Medical Nutrition, our two new divisions. At corporate level, a sharper focus on generating cash contributed to this good showing and laid a solid foundation for the future. We’ve reduced our debt, giving us the flexibility to acquire small but like-for-like businesses and make new local investments.

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Stockmarket data

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares in capital stock at Dec. 31</td>
<td>513,802,144</td>
<td>646,990,850</td>
</tr>
<tr>
<td>Share price at Dec. 31 (€)</td>
<td>43.18</td>
<td>42.83</td>
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<tr>
<td>Market capitalization at Dec. 31 (in € millions)</td>
<td>22,200</td>
<td>27,710</td>
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Sales by business line

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Like-for-like change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresh Dairy Products</td>
<td>8,697</td>
<td>8,555</td>
<td>+1.6%</td>
</tr>
<tr>
<td>Waters</td>
<td>2,874</td>
<td>2,578</td>
<td>+1.0%</td>
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<tr>
<td>Baby Nutrition</td>
<td>2,795</td>
<td>2,924</td>
<td>+7.9%</td>
</tr>
<tr>
<td>Medical Nutrition</td>
<td>854</td>
<td>925</td>
<td>+11.4%</td>
</tr>
<tr>
<td>Group total</td>
<td>15,220</td>
<td>14,982</td>
<td>+3.2%</td>
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Sales by region

<table>
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<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Like-for-like change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>9,524</td>
<td>8,960</td>
<td>(0.3)%</td>
</tr>
<tr>
<td>Asia</td>
<td>1,854</td>
<td>1,877</td>
<td>+11.0%</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>3,842</td>
<td>4,145</td>
<td>+8.0%</td>
</tr>
<tr>
<td>Group total</td>
<td>15,220</td>
<td>14,982</td>
<td>+3.2%</td>
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Trading operating income by business line

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<thead>
<tr>
<th></th>
<th>2008</th>
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<tr>
<td>Fresh Dairy Products</td>
<td>1,224</td>
<td>1,244</td>
</tr>
<tr>
<td>Waters</td>
<td>368</td>
<td>324</td>
</tr>
<tr>
<td>Baby Nutrition</td>
<td>489</td>
<td>536</td>
</tr>
<tr>
<td>Medical Nutrition</td>
<td>189</td>
<td>190</td>
</tr>
<tr>
<td>Group total</td>
<td>2,270</td>
<td>2,294</td>
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Trading operating margin by business line

<table>
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<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Like-for-like change</th>
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<tbody>
<tr>
<td>Fresh Dairy Products</td>
<td>14.1%</td>
<td>14.5%</td>
<td>+24 bps</td>
</tr>
<tr>
<td>Waters</td>
<td>12.8%</td>
<td>12.6%</td>
<td>+35 bps</td>
</tr>
<tr>
<td>Baby Nutrition</td>
<td>17.5%</td>
<td>18.3%</td>
<td>+201 bps</td>
</tr>
<tr>
<td>Medical Nutrition</td>
<td>22.2%</td>
<td>20.5%</td>
<td>(61) bps</td>
</tr>
<tr>
<td>Group total</td>
<td>14.9%</td>
<td>15.3%</td>
<td>+61 bps</td>
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Trading operating income by region

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1,496</td>
<td>1,437</td>
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<tr>
<td>Asia</td>
<td>313</td>
<td>333</td>
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<tr>
<td>Rest of the World</td>
<td>461</td>
<td>524</td>
</tr>
<tr>
<td>Group total</td>
<td>2,270</td>
<td>2,294</td>
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Trading operating margin by region

<table>
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<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Like-for-like change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>15.7%</td>
<td>16.0%</td>
<td>+68 bps</td>
</tr>
<tr>
<td>Asia</td>
<td>16.9%</td>
<td>17.7%</td>
<td>+82 bps</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>12.0%</td>
<td>12.6%</td>
<td>+46 bps</td>
</tr>
<tr>
<td>Group total</td>
<td>14.9%</td>
<td>15.3%</td>
<td>+61 bps</td>
</tr>
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</table>
The 2009 financial year was a period of persistent turbulence in general, and on financial markets in particular. The macro-economic environment remained challenging and unpredictable, with negative consequences for business performances and consumer sentiment. Caution was the watchword against a backdrop of high market volatility and poor visibility, with no consensus emerging on when a structural recovery might finally take shape.

In response to these uncertainties, Danone decided to strengthen its financial structure with a capital increase through a rights issue in the second quarter of 2009. Resulting dilution brought an automatic decline in the share price at the close of the first half of the year, but it rebounded in following months, reflecting the benefits of balance-sheet consolidation and the continued faith of financial markets in the strong fundamentals of Danone's business model, as well as the resilience and potential of the sectors it operates in. Added impetus came from the continued quarter-on-quarter acceleration of organic growth in sales volume and revenue, combined with healthy operating-margin and cash-flow performances. Danone shares thus gained 20% in the last six months of the year. Over 2009 as a whole, the rise in Danone's share price was 5%, compared with gains of 22% for France’s CAC 40 index, 18% for the Dow Jones Euro Stoxx 50 and 33% for the broadly diversified, defensive Dow Jones Food & Beverages Index.
Danone will ask shareholders at their General Meeting on April 22, 2010 to approve distribution of a dividend of €1.20 per share in respect of the 2009 financial year. If this proposal is approved, the ex-dividend date is May 4 and the dividend will be payable from May 7, 2010.
Capital expenditure totaled €699 million in 2009 compared with €706 million in 2008, representing 4.7% and 4.6% of consolidated sales, respectively. Investment outlays to back continued geographical expansion and growth in emerging markets remained high, while capital expenditures were optimized at lower cost than in 2008.

In 2009, 38% of the total investments targeted markets with high growth potential, in particular Argentina, Brazil, the United States, China, Indonesia and Russia, while 8% of the total was in markets where the group has established a presence recently, in particular South Korea and Thailand, or in Africa and the Middle East, including Saudi Arabia and Egypt.

Investments made in 2008 were mainly in countries with high growth potential, in particular Argentina, Brazil, Canada, the United States, China and Indonesia, and in markets into which the group has moved recently, in particular South Korea.

SOCIAL AND ENVIRONMENTAL INDICATORS

<table>
<thead>
<tr>
<th>Social indicators</th>
<th>2008(1)</th>
<th>2009</th>
<th>2009 cover(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employees at Dec. 31</td>
<td>79,436</td>
<td>80,976</td>
<td>100%</td>
</tr>
<tr>
<td>Net rise in employment</td>
<td>+1,540</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Europe</td>
<td>(825)</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Asia</td>
<td>+1,372</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>+993</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Employees by region

<table>
<thead>
<tr>
<th>Europe</th>
<th>Asia</th>
<th>Rest of the world</th>
</tr>
</thead>
<tbody>
<tr>
<td>39%</td>
<td>27%</td>
<td>34%</td>
</tr>
<tr>
<td>37%</td>
<td>28%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Average employees for the year

<table>
<thead>
<tr>
<th>Permanent</th>
<th>Non-permanent</th>
</tr>
</thead>
<tbody>
<tr>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>84%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Sales by region and business line in 2009 in € millions

<table>
<thead>
<tr>
<th>Region</th>
<th>Fresh Dairy Products</th>
<th>Waters</th>
<th>Baby Nutrition</th>
<th>Medical Nutrition</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>3,045</td>
<td>1,102</td>
<td>1,330</td>
<td>67</td>
<td>7,048</td>
</tr>
<tr>
<td>Central Europe</td>
<td>1,277</td>
<td>169</td>
<td>399</td>
<td>67</td>
<td>1,912</td>
</tr>
<tr>
<td>North America</td>
<td>1,303</td>
<td>60</td>
<td>54</td>
<td>64</td>
<td>1,971</td>
</tr>
<tr>
<td>Latin America</td>
<td>1,208</td>
<td>522</td>
<td>54</td>
<td>64</td>
<td>1,978</td>
</tr>
<tr>
<td>Africa/Middle East</td>
<td>507</td>
<td>233</td>
<td>925</td>
<td>13</td>
<td>14,982</td>
</tr>
<tr>
<td>Total</td>
<td>8,555</td>
<td>2,570</td>
<td>2,924</td>
<td>925</td>
<td>14,982</td>
</tr>
</tbody>
</table>

(1) 2008 data is like for like.
(2) To reflect disparities in the scope of consolidation and their impact on reporting, an adjustment rate is calculated for each social indicator. This is based on the total number of Danone employees at year end 2009 (80,976).
### Social Indicators (continued)

#### Number of employees receiving training during the year

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2009 cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>10,365</td>
<td>11,884</td>
<td>100%</td>
</tr>
<tr>
<td>Other employees</td>
<td>59,378</td>
<td>63,116</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>69,743</td>
<td>75,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

#### Average number of training hours in the year

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2009 cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>36</td>
<td>41</td>
<td>100%</td>
</tr>
<tr>
<td>Other employees</td>
<td>22</td>
<td>25</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>66</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Environmental Indicators

#### Production (1,000 metric tons)

<table>
<thead>
<tr>
<th></th>
<th>Total groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>22,587</td>
</tr>
</tbody>
</table>

#### Production sites (1)

<table>
<thead>
<tr>
<th></th>
<th>Total number</th>
<th>2009</th>
<th>2009 cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number</td>
<td>159</td>
<td>159</td>
<td>100%</td>
</tr>
<tr>
<td>Cover rate</td>
<td>85%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of sites certified compliant with ISO 14001</td>
<td>85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thermal energy consumption (1,000 MWh)</td>
<td>2,116</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity consumption (1,000 MWh)</td>
<td>1,573</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total energy consumption (1,000 MWh)</td>
<td>3,690</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amount of waste generate (1,000 metric tons)</td>
<td>238</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of waste eliminated through specific waste management path (1,000 metric tons)</td>
<td>86%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total water consumption (1,000 cubic meters)</td>
<td>33,334</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste-water COD (chemical oxygen demand) in 1,000 metric tons</td>
<td>5,139</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant emission incidents (chemical and hydrocarbons)</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emissions of greenhouse gases (CO2, CH4, N2O, CFC, etc.)</td>
<td>499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO2 (sulfur oxide emissions) in metric tons SO2 equivalent</td>
<td>3,359</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NOx (nitrogen oxide emissions) in metric tons NOx equivalent</td>
<td>1,331</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gases depleting the ozone layer (in kilograms CFC equivalent)</td>
<td>801</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*All indicators, the limited-scope review by KPMG Audit, and 2009 and 2008 figures at comparable structure are available in the Sustainability Report downloadable from www.danone.com (“Sustainable development”/“Experts’ Corner”).

(1) For some business units, these figures may also include logistics, notably when distribution is adjacent to a production plant.

(2) To reflect disparities in the scope of consolidation and their impact reporting, analyses are conducted for each social indicator. The 2009 data includes all Danone employees at year-end 2009 (80,976).

(3) Includes all business units with at least 100 employees at December 31, 2009.

(4) Within the scope of the group’s safety maintenance system.

(5) Elected or designated by a trade union.

(6) 2008 data is like for like.

(7) To reflect disparities in the scope of consolidation and their impact reporting, analyses are conducted for each social indicator. The 2009 data includes all Danone employees at year-end 2009 (80,976).

(8) Includes all business units with at least 100 employees at December 31, 2009.

(9) Within the scope of the group’s safety maintenance system.

(10) Elected or designated by a trade union.

(11) In kilograms CFC equivalent.
POUR SES 90 ANS, DANONE CRÉE

DANONE

~Origines~

À DÉGUSTER D'ABORD. À COLLECTIONNER ENSUITE.

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