BRINGING HEALTH THROUGH FOOD TO AS MANY PEOPLE AS POSSIBLE

Franck Riboud
EMERGING MARKETS ACCOUNT FOR 51% OF DANONE SALES

SIX PRIORITIES FOR DANONE
INNOVATE
EXPRESS
CONNECT
PROTECT
ADAPT
GROW

MORE INFORMATION & PHOTOS AT:
danone11.danone.com
1996-2011: 5,475 DAYS
that transformed Danone
from European manufacturer
to world-class food
company
14—18
01: INNOVATE
by thinking outside the box
and engaging directly with
markets
19—23
02: EXPRESS
a positive approach to food
as a source of health and
enjoyment
24—27
03: CONNECT
to our stakeholders
by turning contact into
conversation
28—32
04: PROTECT
access to high quality raw
materials for long-term
success
33—37
05: ADAPT
today’s models to build
the Danone of tomorrow
38—42
06: GROW
by embracing the social
and cultural diversity of
our 101,885 employees

FRANCK RIBOUD, Chairman
and CEO, reviews 2011
results and main lessons
learned. A key development
is the role of emerging
countries, which accounted
for over half of total sales
and 83% of Danone’s growth.

Looking back at 2011, how would
you describe the year?
[Franck Riboud] 2011 was a tough year,
but also a very positive one.
Tough because of the very unsettled macro-
economic environment in Europe—that’s
no surprise—and because skyrocketing
raw material prices put pressure on our
cost structures and our entire organization.
But 2011 was ultimately a very positive
year for Danone, since we successfully
overcame these fierce headwinds. And our
results confirm that it was another
successful year: we met all our targets—
ambitious targets that we stuck to despite
the crisis. Organic sales growth reached
7.8% for the full year, and we achieved our
target for growth in margin, while our free
cash flow continued to rise steeply, gaining
over 9%. One major explanation for this

1—XII
2011: Danone
at a glance
Fresh Dairy Products
Waters
Baby Nutrition
Medical Nutrition
Key indicators

EMERGING COUNTRIES ACCOUNT FOR 51% OF DANONE SALES
success was our conviction very early on—several years ago, in fact—that the business models underpinning Danone’s longstanding markets in mature economies were set for serious upheavals, probably for several years. So we adopted a battle plan emphasizing efficiency, quality of execution, and focus—that’s no mystery.

How do you explain your performance?

First, our operations in emerging economies—markets that we were among the first to bet on—continued to record spectacular growth rates. Next, in mature economies, we managed to reverse the slump in consumption in some of our traditional markets. This was the case in France: we had every reason to worry that our results would suffer there, but they rebounded sharply and ended the year up. On the whole, our business in Europe came through this testing period well, growing by 2.4%. And that didn’t happen by chance: it was a direct result of strategic choices made a few years back, when we set our geographical priorities and defined our business lines. Our positioning is perfect.

It appears that Fresh Dairy Products—your largest single division—hasn’t done as well as the others.

I know many consumer products companies that would love to see their largest, most mature division—a business with nearly a century of experience—generate like-for-like growth of 4.6% in the midst of an economic crisis. Concretely, our Fresh Dairy Products division, which accounts for 58% of our total sales, generated over €500 million in additional sales last year. That’s a massive contribution to our absolute growth in value. So yes, it’s true that in some countries we ran up against difficult market conditions. And it probably took us too long to notice that the Greek yogurt market in the US was about to take off, becoming the largest local market segment in just a few months. But at that point we responded—fast. In Spain we started to increase our presence. And we’re building new production capacity. Above all, we still have extraordinary scope for growth in dairy products. No doubt our acquisition of Unimilk in Russia illustrates this best. After 2011, when we worked hard to merge our teams and bring operations up to Danone’s standards, our Russian business is now positioned to generate massive growth in the years ahead.

Are you counting on your new Baby Nutrition and Medical Nutrition businesses to drive future growth?

We’re counting on all our businesses. The best example of growth potential is the Waters division, which posted weak growth for several quarters running, leading some observers to predict that it had reached the end of its natural life. At which point it bounced back to drive our overall performance all year long, with organic growth of nearly 16%. Sure, there were a few exceptional factors linked to the weather, but it shows that we know how to turn things around when we need to. It’s also true that our two nutrition businesses hold major medium- and long-term potential underpinned by demographic trends. Take Medical Nutrition (+9.4% in 2011), which has automatic growth potential as the world population ages and it becomes clear that specialized nutrition holds some answers to the problems linked to aging and the challenges of independent living. The same is true for Baby Nutrition (+10.7% in 2011). Every day, scientists are more and more convinced that children under the age of three have very different nutritional requirements from adults and thus benefit from a very specific diet. This is true everywhere, not just in the developed world, and we’re working hard to get people to recognize it.

In today’s complex economic environment, what are Danone’s strengths?

Our ability to find solutions quickly when times are tough. That, plus our competitive edge—without a doubt, Danone, even when the external environment is working against us. The European perspective is one thing, but I see countries around the globe where poverty is retreating and people aspire to healthier, safer products that really do taste better—countries whose economies are growing, and where we have a strong presence. It’s paradoxical for these markets to be outpacing the more developed ones, but we are prepared to respond to that situation; it’s part of our business culture to build on solidarity, to work with those growing countries and help the slower ones get up to speed. This is the benefit of having a geographically diverse group.

What do you see as the most important development in 2011? This shift in geographical focus. These days you hear a lot about the emergence of a new world order. At Danone, we’ve remained true to our traditions even as we’ve shifted into the world of the future. And 2011 was a true turning point. The first year that emerging economies accounted for over 50% of our sales. From now on, more than one euro of every two that we generate in sales will come from emerging countries. In 2011 they provided 80% of our total growth in operating profit. In fact, if you look at our top 10 national markets, you’ll see that five of them are emerging economies: Russia, which is nearly our number one market now, but also Mexico, Indonesia, China and Argentina.

How would you sum up what remains to be done? Everything—that’s the whole point! This isn’t the end of a great adventure—it’s the beginning of a new one. We have to continue growing our four business...
Danone met every one of its targets, even the most ambitious, despite some fierce headwinds.

**Rankings**
- No. 1 worldwide in fresh dairy products
- No. 2 worldwide in bottled waters by volume
- No. 2 worldwide in baby nutrition
- No. 1 in Europe in medical nutrition

**2011 Growth**
- Consolidated sales reached €19,318 million, a like-for-like increase of 7.8%.

**Top 10 markets**
- France (11%)
- Russia (11%)
- Spain (8%)
- United States (7%)
- Indonesia (6%)
- Mexico (6%)
- China (5%)
- Argentina (5%)
- Germany (5%)
- UK (5%)

**51% of sales in emerging countries**

Danone has reduced its carbon footprint by -27.5% since 2008.

In 2011 Danone met every one of its targets. We also looked beyond the numbers and continued to build tomorrow's Danone. Key support came from volume growth in each of our four business lines. And that growth is a direct result of constant efforts to develop product categories that meet consumer expectations. That's true in Europe, where Danone has its roots, but also—above all—in emerging economies, which accounted for more than 50% of total sales for the first time in 2011. Energy like this demonstrates our ability to adapt Danone's offering to a wide range of eating habits and food cultures. This energy is also the result of innovation—an essential tool for differentiating Danone products on all our markets—and a key factor in organizing our business; developing superior taste, texture and nutritional value in our products, both today's and tomorrow's; and ensuring quality, designing packaging and more. The same energy is shared by our 101,885 employees, from researchers to sales teams, marketing and production, with over 60% now living in emerging countries themselves.

After fifteen years at the head of Danone, what keeps you going?

F.R.: Danone. Danone goals. Danone people. Very often—not always, mind you: nobody can be perfect at everything—I admire what we succeed in doing. It’s as if there’s something in our genes; our teams have a capacity for commitment, enthusiasm and resilience that is incredibly stimulating. Stepping back and looking at developments in Northern Africa, for example, I’m struck by the sheer courage of Danone staff, both expatriates and local hires. The same applies in Japan: our teams there have shown incredible resilience. And in an environment as uncertain as the one we live in today, that energy and commitment give me confidence in Danone’s future.
THE NEW SHAPE OF DANONE’S PRESENCE WORLDWIDE

A major push into high-growth MICRUBs and emerging economies has led to a dramatic change in Danone’s scope of operation since 1996.

SALES

MATURE ECONOMIES

EMERGING ECONOMIES

1996
€12.8 billion

2011
€19.3 billion

DANONE RANKINGS IN 2011

FRESH DAIRY PRODUCTS

No. 1 worldwide
No. 1 in North America
No. 1 in Latin America
No. 1 in Western Europe
No. 1 in Central Europe
No. 1 in Africa and the Middle East

WATERS

No. 2 worldwide
No. 2 in Latin America
No. 2 in Western Europe
No. 2 in Asia-Pacific
No. 1 in Asia-Pacific (by volume)

BABY NUTRITION

No. 2 worldwide
No. 1 in Asia-Pacific
No. 1 in Central Europe
No. 1 in Africa and the Middle East

MEDICAL NUTRITION

No. 1 in Europe
No. 1 in Western Europe
No. 1 in Central Europe
No. 1 in Latin America (excl. Central America)

DANONE’S TOP SIX MARKETS

1996
1. France
2. Italy
3. Spain
4. Germany
5. Rest of W. Europe
6. North America

2011
1. France
2. Russia
3. Spain
4. United States
5. Indonesia
6. Mexico

EXECUTIVE COMMITTEE

1996

17 MEMBERS
3 NATIONALITIES

France
Spain
New Zealand

2011

10 MEMBERS
5 NATIONALITIES

France
Spain
Switzerland
Mexico
Great Britain

REBALANCING OUR WORKFORCE

Europe
Asia-Pacific
Rest of World

1996

62%

23%

23%

2008

38%

28%

34%

2011

44%

24%

32%

1996

81,579

2008

80,143

2011

101,885
NUTRITION: A NEW STRATEGIC FOCUS

Danone has repositioned itself in four business lines to reflect changing consumer needs and trends around the globe.

Sales by business line

HOW OUR BUSINESS HAS CHANGED

Sales by business line

PROTECTING THE ENVIRONMENT

Danone kept environmental impacts under control as growth rose steeply from 1996 to 2011:

+55% sales growth

Carbon intensity*

-27.5% 2008-2011

-41% decline in water consumption per metric ton of product (2000-2011)

-45% decline in energy consumption per metric ton of product (2000-2011)

*Direct responsibility excluding upstream farm operations (includes plant, transport, packaging production and end-of-life processing).

DIVIDEND (ADJUSTED) (in euros)

1996 1.39
1997 1.3
1998 1.2
1999 1.2
2000 1.2
2001 1.2
2002 1.1
2003 1.1
2004 1
2005 0.85
2006 0.919
2007 0.863
2008 0.773
2009 0.713
2010 0.563
2011 0.529
2012 0.486
At Danone, we’re fulfilling our mission of bringing health through food to as many people as possible by REFOCUSING on four complementary business lines and EXPANDING into fast-growing new regions.

01 / INNOVATE
02 / EXPRESS
03 / CONNECT
04 / PROTECT
05 / ADAPT
06 / GROW

6 PRIORITIES THAT INSPIRE DANONE
At Danone, daily interaction with our markets sparks innovation and helps make all four of our business lines leaders in their field. We continually reinvent our group by leveraging three key drivers: promoting local initiatives, keeping pace with changing lifestyles, and addressing public health problems.

With competition increasingly fierce, innovation is critical in maintaining and strengthening Danone’s leading positions. From production to packaging, from products and distribution to outreach and awareness campaigns, we are constantly at work reinventing our processes and offering to meet the needs of all our consumers, both in mature markets and in the emerging countries that generated 83% of our growth in 2011.

**THINKING LOCALLY**

Danone keeps pace with widely diverse national markets by favoring a decentralized structure. Our goal is to give teams enough flexibility to use their direct contact with local markets to develop initiatives in sync with local habits and expectations—in short, to make every team a think tank.

**Take Danone France: to give fresh**

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**Rethinking store displays**

In France and Spain, Danone is experimenting with new shelving to highlight fresh dairy product displays, which had not changed in 40 years. Working from consumer perceptions, we redesigned everything from product placement to lighting. The new shelves were tested in France in 2011 and are already having a positive impact on sales and the buying experience.

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**Innovate: thinking outside the box**

Innovating means having the courage to question yourself—being willing to go back to square one so that you can recreate something completely unexpected. Innovation comes from being out in the field, in direct contact with consumers, partners and competitors. You rub elbows with other people—and suddenly that “friction” sparks a new idea. Often innovation comes from basic concepts that suddenly snap into focus. That’s why having a decentralized structure and giving our subsidiaries plenty of freedom are real strengths for Danone. What sets us and our teams apart is the way we put innovation into practice—our attention to detail, our quest for perfection.

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**Point of view**

Bernard Hours, Co-Chief Operating Officer

“Innovating means having the courage to question yourself—being willing to go back to square one so that you can recreate something completely unexpected. Innovation comes from being out in the field, in direct contact with consumers, partners and competitors. You rub elbows with other people—and suddenly that “friction” sparks a new idea. Often innovation comes from basic concepts that suddenly snap into focus. That’s why having a decentralized structure and giving our subsidiaries plenty of freedom are real strengths for Danone. What sets us and our teams apart is the way we put innovation into practice—our attention to detail, our quest for perfection.”
Anticipating Consumer Needs

Another priority is developing new product categories to meet and even anticipate consumer expectations. For example, dairy and ultra-fresh sales boost, the company studied in-store behaviors—how consumers approached displays and how long it took them to fill their carts. Using this data, Danone France re-designed its cold chain management, the structure and arrangement of displays, and even lighting. Outcome no. 1: existing ultra-fresh displays, virtually unchanged for 40 years, were replaced with black shelves designed specifically to enhance the buying experience. In only one month, sales in a pilot store jumped 5.77%, up from previous monthly increases averaging 1.93%. Danone France proceeded to install the new shelves in some 100 stores, and Danone Spain has followed suit.

Innovation has even more value as a path to international growth, as the most successful local experiments are replicated in other countries. Outcomes are communicated quickly through Danone’s “networking culture” and through group “marketplace” events where teams from different subsidiaries regularly trade notes. The Kiss (Keep It Simple and Safe) yogurt cup is a perfect example. In 2011 it was launched successfully in Spain, and in 2012 will be used in all of our yogurt ranges—and even more importantly, in multiple European countries. With its spoon-friendly rounded bottom, glossy exterior and distinctive design, the new packaging has re-innovated Activia sales on the Iberian peninsula, despite the sluggish local economy.

Addressing Public Health Issues

Advances in scientific research also drive innovation in all four business lines, while creating a need for information among health professionals and the general public. In medical nutrition, we use increased understanding of the aging process to develop products that complement medical treatments or slow the effects of aging. One example is FortiFit, launched by Nutricia in Austria in 2011. A product using nutrition to help rebuild muscle mass and counter the effects of sarcopenia*. FortiFit is also enabling Danone to experiment with a new distribution model. Sold exclusively in pharmacies without a prescription, it is recommended by health professionals and available to all.

Remaking an industrial model

Mexico’s leading bottled water brand, Bonafont faces rising logistics costs in this sprawling country—nearly 2 million square kilometers in all. To increase production capacity without shrinking margins or expanding its carbon footprint, Bonafont reinvented its industrial model. By investing in micro-plants made of prefabricated modules, the company can install production lines in remote areas at very little cost. Two units opened in 2011, and Bonafont expects to open another six by 2015, aiming to cut average pallet travel distance by two-thirds.
To cut 30% of Danone’s carbon footprint by 2012, we asked SAP to invent an IT solution that could measure the footprint of every entity in the group along with 35,000 products—a necessary baseline for reducing CO2 emissions. The calculation included upstream agricultural production, supplier location, type of transport, packaging life cycle and many other variables. By quantifying the impact of the various links in the chain, the SAP solution lets us make the right decisions at local level.

Eco-innovation: how a bottle changed its skin

Eco-design is one of the best paths to sustainable innovation. After Volvic introduced a plant-based bottle incorporating 20% PET made from sugarcane waste, Lanjarón—the leading Danone Waters brand in Spain—followed suit, modifying the composition of its 6.25-liter bottle. The original family-size container, which is unique on the Spanish market, was replaced with a bottle that also contains 20% plant-based plastic and is 100% recyclable, making Lanjarón the first brand in Spain to develop a plant-based bottle.
Delicious and healthy sum up the two-pronged refocusing process launched in 1996 by Franck Riboud and the group’s Board of Directors. This has gradually transformed Danone from an agrifood manufacturer into a food company wholly dedicated to health and nutrition, with the 2007 Numico acquisition as the finishing touch. The group is now structured around four complementary business lines: Waters, Baby Nutrition, Medical Nutrition and Fresh Dairy Products.

**RIGOROUS GOVERNANCE FOR HEALTH AND NUTRITION**

Danone was born of the conviction that food is essential in building and maintaining health resources throughout life. Our four business lines are committed to offering tasty products that meet everyone’s nutritional needs and respond to every country’s public health issues.

That’s why Danone’s product portfolio is unlike any other in the food industry: 66%* of our products are designed for everyone and fall into food categories—dairy products and water—that public health authorities recommend be consumed daily. Another 25%*—baby and medical nutrition—are designed for groups with very specific nutritional and/or health needs and are generally governed by strict regulations. Among the products in categories recommended by health authorities, 63%* can be enjoyed every day thanks to their very high nutritional value.

Under the leadership of Danone’s Nutrition & Health Committee, the group is addressing major health and nutrition issues under principles of governance that are formally expressed through the commitments in our Food, Nutrition and Health Charter. This governance rests on three pillars shared by all of our subsidiaries: a rigorous scientific approach; ongoing consultation with national, regional and international pediatric nutrition experts to address major health and nutrition issues; and adherence to principles of self-regulation in all of our subsidiaries. At Danone, we take a scientific approach to understand health and nutrition issues, but also to define the nutritional value of our products—and to demonstrate their health benefits through preclinical and clinical studies. Results are usually presented at scientific conferences or published in well-known science journals. This rigorous scientific approach gives Danone teams a better grasp of food-related public health issues no matter where they work, and helps them partner with local authorities and health professionals.

**AN IN-DEPTH APPROACH TO LOCAL NEEDS**

More and more often, Danone is addressing these issues in partnership with local governments by launching awareness campaigns and education programs that promote a balanced diet. In Belgium, for example, Danone has partnered with pediatric nutrition experts to create an educational program—“Bon appétit, bouge ta santé!”—that is now deployed in 2,000 schools or nearly a third of the national target group. Designed for children aged 8-10, the program covers basic principles of healthy eating and the importance of treating certain pathologies.

In 2011, Danone sold over 15 billion servings of fresh dairy products. Their nutritional composition met the very highest standards, from strict limits on fats and sugars to minimum calcium requirements.

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**Point of view**

Jean-Philippe Paré, Executive Vice President, R&D

“In today’s health fields, we must all work together to meet two major challenges: fighting chronic illnesses such as diabetes and obesity, and meeting the needs of an aging population. Nutrition plays a key role in both, and the social and economic stakes are enormous. Education and information on nutrition, combined with a balanced diet and regular physical activity, can improve many people’s lives. Because Danone is a leading food company with products for every age group, our mission is essential.”

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**An Evian poster from the 1960s.** In 1965 Evian bottled around 500 million liters of water a year; today that figure is over 13 billion.

**EVIAN**

“Eau purifiée / 100% naturelle”

**NUTRITION: QUALITY COUNTS**

*Taking science seriously*

At Danone, we conduct research on our own or in partnership with a select group of institutions and universities known for their excellence in science, including the Pasteur Institute, Harvard University, Washington University and the Universities of Auckland, Singapore and Utrecht, as well as the Massachusetts Institute of Technology. These partners help fine-tune the design and nutritional quality of our products, while advancing food science in key fields: the genome of the microbiota (the community of bacteria residing naturally in the human intestine); the role of microbiota in the body; the links between hydration, health and well-being; the impact of nutrition on child development; and the use of nutrition in treating certain pathologies.

**In 1965 Evian bottled around 500 million liters of water a year; today that figure is over 13 billion.”**

**Elodie Pronovost**

**President, R&D**
of regular physical activity, as well as hygiene and environmental awareness.

In Indonesia, after months of discussion and dialouge with the teams at our Aqua subsidiary, health authorities have decided to include water consumption in the national food pyramid, recognizing that drinking water is a primary need for everyone. Today, Danone employees are running nearly 200 outreach and awareness programs, providing information on healthy living to some 700 million people worldwide.

**Better Nutrition and Better Information**

At Danone, we practice self-regulation across the board, from product formulation to communications and marketing. To help our subsidiaries enhance the nutritional value of their products, the group has created a tool that enables them to objectively assess their portfolio’s nutrition profile. In 2010, 98%* of the group’s products were assessed, and from 2009 to 2011, nearly 20%* were reformulated to reduce their fat, salt and sugar content. Over the same period, we added nutrients to 40%* of our dairy products and 47%* of our baby nutrition products to provide the best possible solutions for local public health concerns. The group has also pledged to provide consumers with clear, transparent nutrition information for each product, even if local regulations do not require it. Today, more than 90%* of Danone products are labeled in this way.

**Analyzing Local Needs and Characteristics**

To analyze the unique health and nutrition issues of each country, Danone has developed a comprehensive tool: Nutriplanet. By analyzing the latest bibliographic data and expert opinion, the Nutriplanet program incorporates a very broad spectrum of data, from nutrition and epidemiology to socio-economic and cultural factors. The goal is to understand the target population (or age group) and either design the ideal product or adapt existing ones. The Nutriplanet study has already analyzed 35 countries, prompting Danone teams to adapt their formulas to local realities and even create new products from scratch. In Indonesia, India and Algeria, for example, Danone’s Baby Nutrition teams have added nutrients to 40%* of their growing-up milks and solid foods. As a result, Bédina and Cow & Gate regularly modify their recipes for jarred foods and ready-to-eat meals, focusing on high-quality raw materials and adapting their formulas to meet public health needs, most notably by adjusting salt and sugar content. We also use our in-depth knowledge of consumers to improve the texture and taste appeal of our more specialized products, including the Nutricia range, which is designed for children with allergies or faltering growth.

Nutricia now offers nutritional supplements formulated as fruit smoothies, cooked vegetable purées, flavored desserts and waters, so that eating is always a pleasure. Brands include Nutrisidrink, a range of nutrient-rich beverages, and Nutilis for problems with swallowing.

Finally, our Waters division is developing flavored waters to help consumers cut back on sweetened beverages and choose healthier alternatives. It offers a delicious range of products with natural fruit extracts.

**Souvenaid: Study shows nutrition plays an active role in the brain**

In November 2011, researchers presented two clinical studies on Souvenaid at CTAD*, an international conference on Alzheimer’s disease held in San Diego. Their Souvenir II study confirms that the product has a positive effect on memory in patients with early symptoms of Alzheimer’s. Nutricia’s Danone’s Medical Nutrition division, looks forward to introducing Souvenaid to doctors and patients in the near future.

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* Clinical Trials on Alzheimer’s Disease.
Since its launch two years ago, Evian’s Live Young roller baby video has been viewed more than 180 million times on YouTube, making it one of the most-watched films in advertising history.

Because we make both everyday foods and specialized nutritional products, Danone maintains a constant dialog with many different groups—consumers, of course, but also scientific experts, health professionals, government officials and our partners—using every available communication tool. These include the Internet and social media for responsiveness and personnel links, plus traditional campaigns to reach other groups that are less accessible, less available—or simply less wired.

For Danone, this dialog has three goals:

• provide transparent information on our products—how they are made, their quality and their benefits;

• raise awareness of major public health issues among the general public, health professionals and government officials;

• cultivate the insider status we need to offer new experiences with our brands and bond with consumers, who are increasingly divided into communities of interest.

CHINA: 100 CENTERS FOR HEALTHIER EATING

Working with state-of-the-art hospitals, Dumex and the international organization Developmental Origins of Health and Disease (DOHaD) have set up more than 100 nutritional counseling centers in 70 of China’s largest cities. Their mission: inform pregnant women and make them aware of proper nutrition for themselves and their baby. Dietary imbalances are a source of major metabolic disorders in China, which has one of the sharpest increases in the number of obese infants, especially in Beijing and Shanghai. The Survey on epidemiology 2006 reported that the rate of obesity in Chinese children under seven had tripled in 10 years.

Two years after the success of Evian’s Roller Babies video, the brand has launched a new viral campaign aimed at the young at heart: Live Young Spirit. Geared around a Facebook page and a dedicated YouTube channel, the campaign offers Internet users a broad range of supplemental content with a strong emphasis on social media. Evian’s Let’s Baby Dance website invites visitors to join history’s longest music video—eight hours, twenty minutes and over 39,000 participants as of February 2012—by using a webcam and augmented reality technology to film themselves dancing in the brand’s famous tee.

On the Live Young Training site, visitors can calculate their “youth quotient”—a metric that includes intellectual agility, mindset and physical abilities, and Live Young Community allows users to join a worldwide Facebook community by posting photos of themselves in the baby tee. Evian enthusiasts can also buy any of the three different tee-shirt styles on each of the sites, or they can visit the myevian page to design a personalized Evian or Badoit bottle. This cutting-edge advertising invites consumers to be part of a completely new brand affinity experience—and sales are up as a result. In 2011 Evian reported worldwide growth of 4%.

LEARN MORE AT www.evian.com www.myevian.com
BELGIUM AND FRANCE: CONNECTING WITH FARMERS

An outgrowth of Danone’s 2010 partnership with milk producers, the “Danone au lait de nos éleveurs” program cultivates ties with producers to provide them with a steady income, make them more competitive, and ensure optimum milk quality for consumers. Now under way in France and Belgium, the program features a quality charter signed with producers and a 360° campaign that uses the web, social networks, blogs, television commercials and billboards to promote these commitments and answer questions from the public. On the Danone France and Danone Belgium websites, consumers can track their yogurt, using barcodes on the packaging to identify the dairy plant and milk collection area that produced it. In Belgium, farmers have even invited consumers to visit one of the 235 farms that supply the Rotselaar plant, Danone’s biggest. And in France the program has generated over 430 million contacts with consumers after only one year. Of those, over 50% were generated by new media buzz.

LEARN MORE AT:
www.danone.be (Belgium)
www.danoneetvous.com (France)
www.youtube > danone france

GERMANY: HALLO ACTIMEL

Got a question about Actimel? Danone Germany will answer it. Managers at our German subsidiary have pledged to provide responsive, fact-based answers within 48 hours when consumers post questions to the Hallo-actimel.de website. This puts the public in direct contact with the people who know the product best, opening up a dialog that transcends conventional advertising and corporate communications.

UNITED KINGDOM: ADVICE FOR NEW MOTHERS

Cow & Gate, the Baby Nutrition division’s leading brand in the UK, is using a telephone hotline, a website and a Facebook page to provide free, personalized advice to pregnant women and new mothers. The Cow & Gate community discusses a wide range of issues, including good nutrition during pregnancy, information and advice on successful breastfeeding, and major dietary phases in children up to 36 months old. Pediatricians, general practitioners and other health professionals can access a similar service on a dedicated Cow & Gate site: www.in-practice.co.uk.

UN United Kingdom: NEOCATE REACHES OUT TO DOCTORS

In 2011, our Medical Nutrition division in the UK created a website for general practitioners, providing information and answering questions on the problem of cow’s milk protein intolerance in newborns. Developed in partnership with doctors.net.uk, the country’s largest network of practitioners, the new platform has reached nearly 8,500 physicians and won the Pharmaceutical Marketing Society’s 2011 prize for the best informational website for health professionals. Building on this success, Neocate has partnered with the British Allergy Foundation to launch a site geared to laypeople and designed for parents of children with cow’s milk allergies.

www.cowsmilkallergy.co.uk.
Extremely volatile raw materials prices made 2011 a perfect illustration of the supply pressures on the food industry. Unpredictable weather and environmental damage are shrinking resources and pushing up prices. Bad weather in New Zealand, the world’s primary milk producer, added 40% to the price of a metric ton of powdered milk in the first half of 2011. Water access is also a concern: nearly half of the world’s wetlands have disappeared since the beginning of the twentieth century, and pollution threatens increasingly fragile fresh water reserves, which fell by 60% between 1950 and 1995.

Because Danone collects 8 billion liters of fresh milk and bottles some 20 billion liters of water annually, ensuring sustainable, high-quality supplies at stable prices is critical to our business. That’s why we’re working to create structures that protect and optimize production of and access to these critical raw materials.

**STRATEGIC DAIRY DEVELOPMENT**

The bottom line: it is essential for us to protect the milk collection networks that supply nearly 75% of the group’s business worldwide and 90% of our Fresh Dairy operations.

To achieve this strategic goal, Danone has opted for a local supply policy that keeps logistics costs under control and ensures optimum milk quality; we work hard, often in partnership with the Danone Ecosystem Fund, to support milk producers and protect access to raw materials.

Every day, 200,000-300,000 liters of fresh milk are collected and processed by the group’s fresh dairy plants. This Belgian couple take part in the “Acteurs pour un lait durable” program in France and Belgium.

Ensuring access to the raw materials we need is one challenge facing Danone in coming decades. Meeting it means coming to grips with environmental issues and helping our producers overcome challenging economic conditions.
become a part of the socio-economic fabric around our plants. This is a challenge in emerging countries, where production is scattered among many small producers who lack the collection structures essential to efficient production. In India, for example, one cow produces 1,145 liters of milk a year—one-eighth of the US average of 9,343 liters. To correct this disparity, a number of Danone projects are creating collection structures and cooperatives for small producers in six countries: Egypt, India, Indonesia, Mexico, Turkey and Ukraine.

When they pool resources and professionalize practices through these cooperatives, farmers are better positioned to run their farms, optimize purchasing, provide better feed for their herds and get veterinary care. And by raising income for producers, the cooperatives ensure that Danone will get the quality and quantity it needs.

**STRONG TIES WITH FARMERS**

But this strategy isn’t limited to emerging countries. We also take a local approach in France and Belgium, home to Danone’s “Acteurs pour un lait durable” program. Its purpose is to forge strong ties with our partner farmers around four shared commitments: improving the quality and nutritional balance of milk; helping farms expand; protecting the environment; and promoting farming as a business. Once a trust-based relationship is in place, both sides can take the long view.

To promote this program, several ranges of Danone products—Yoghourt Nature and Recette Crémeuse—now bear a new label: “Made with milk from our farmers”. When they see this label, consumers can be confident that the product is made with fresh milk collected from sustainably managed local farms that meet the quality requirements of the Danone charter.

**SAFEGUARDING SPRINGS**

In 1992 Danone helped create Apieme*, an innovative association of local stakeholders dedicated to protecting the Evian spring by encouraging the growth of non-polluting businesses around the catchment area. But Aapieme is not merely an environmental project; it also gets local associations and governments involved in preserving the Evian ecosystem. This model has now been extended to other springs that supply the group, including Volvic in France, Villavicencio in Argentina, Aqua in Indonesia, Bonafont in Mexico and Salus in Uruguay.

* The Evian impluvium is the part of the Grand plateau where falling rain and snow accumulate.

**NATURE**

**Action on four fronts**

In 2008 we defined our eco-strategy and announced plans to reduce Danone’s carbon footprint by 30%.

Our strategy sets priorities in four key areas where Danone has a significant impact on the environment:

1. Climate: fight climate change and reduce dependence on fossil fuels.
2. Water: protect water resources, especially where they are scarce, and use them in harmony with local communities and ecosystems.
3. Packaging: transform waste products into resources and increase use of renewable materials.
4. Agriculture and biodiversity: promote competitive farming practices that create social, environmental and nutritional value.

**UKRAINE**

**a cooperative approach to milk collection**

In Ukraine, 80% of milk comes from tiny individual farms that generate barely enough for farmers to live on—averaging less than €100 a month. The Ukraine Milk Communities project, the first to be approved by the Danone Ecosystem Fund after its creation in April 2009, is designed to consolidate and energize the country’s dairy industry. By late 2011 the project, backed by Danone Ukraine and the NGO Heifer, had already succeeded in organizing 2,300 of these small producers into 24 farm cooperatives. The cooperatives provide farmers with structure and technical support for milking and milk collection, cattle feed and veterinary care.

And by training farmers to professionalize their practices, the project enables them to increase their productivity and income, ensuring their long-term success and supplying Danone Ukraine with safe, high-quality milk. In 2011 participating farmers delivered 6,200 metric tons of milk, accounting for 8% of the subsidiary’s resources.

*Buoyed by this success, Ukraine Milk Communities plans to take the program to another level in 2012. With more advanced training for co-op managers and more hands-on approach to management and division of labor, it hopes to root the cooperative model firmly in the local dairy community, which has long been centralized around large nationalized farms.**
In Poland, where leading brand Żywiec Zdrój collects its water high in the mountains, a Danone campaign is raising awareness of the need to protect trees—essential to maintaining the region’s environment balance—and Poland’s government and NGOs have rallied to the cause. Thanks to their involvement, some 390,000 parents and teachers and nearly 30,000 schoolchildren have helped plant a million trees.

All over the world, winning support from civil society has proved to be the best way of preserving local resources. In Indonesia, Aqua’s springs are protected by a broad range of environmental initiatives, including recycling and managing the rural ecosystem to maintain economic activity and preserve jobs, and the Danone Ecosystem Fund has launched a program to improve living conditions for the local population and limit rural flight. Our project in Klaten, where one of Aqua’s springs is located, managed water, promotes sustainable farming practices and supports local farm cooperatives. By the end of its first phase in November 2011, the project had helped 500 farmers gain access to micro-credit and created 30 new jobs.

More broadly, by becoming involved with local populations, Danone has won the trust of the Indonesian people. Today Aqua holds a 60% share of the bottled water market and is still growing—sustainably.

The Danone Ecosystem Fund supports 34 projects: 15 focus on supplies of raw materials—milk and fruit—and four are related to recycling and professionalization of the water sector in emerging countries. LEARN MORE: ecosysteme.danone.com

The purpose of the Livelihoods Fund, created in 2011 under Danone’s leadership, is to restore ecosystems through carbon offset projects. Backed by Crédit Agricole, Schneider Electric, Caisse des Dépôts subsidiary CDC Climat and La Poste, the Fund supports projects linked to local initiatives that restore mangrove and other forests, rehabilitate impoverished soil and more. Livelihoods complements the Danone Fund for Nature*, providing funds that help villages develop by leveraging local resources. The program was inspired by Danone’s joint project with the Oceanium association in Senegal’s Casamance region: in three years, over 100 million mangrove saplings were planted in cooperation with 80,000 villagers. With support from Danone under the group’s CO₂ reduction policy, Livelihoods has launched a project in India’s Sundarbans region, where mangroves will be planted on some 6,000 hectares.

LEARN MORE www.livelihoods.eu

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LEARN MORE www.livelihoods.eu

* Since its founding in 2008, the Danone Fund for Nature has launched five projects that will ultimately plant 70 million trees in Asia and Africa.

ADAPT

today’s models to build the Danone of tomorrow

Danone is expanding into new territory by ADAPTING OUR MODELS AND PRODUCTS TO LOCAL REALITIES. In 2011 this strategy paid off, with emerging countries accounting for 51% of group business and 83% of growth.
In India, Danone has built its presence, and is now developing a network of suppliers and local farmers in a pilot based on the danone.comunities model (see p. 37).

In Mexico, which stretches over two million square kilometers, covering the entire country would involve ever-larger logistics costs. Bonafont’s teams have solved this problem by reinventing their industrial model and investing in micro-plants that operate in containers, enabling them to install production lines in remote areas at very low cost. Two units were built in 2011, and Bonafont expects to set up 6 more by 2015.

In the “continent countries” of China and Russia, our subsidiaries began by establishing a presence in and around large cities. In China, all four divisions are now gradually expanding, step by step and region by region, from Shanghai to Canton, Beijing and other cities.

Danone Russia followed the same strategy, moving outward from Moscow and Saint Petersbourg until our tie-up with Unimilk in late 2010 extended our presence throughout Russia and the Community of Independent States (CIS).

ADAPT TO GROW
Once we have established a presence, we still need to find the best ways to grow in countries where urbanization, business structures, production systems, distribution networks are radically different from their counterparts in Western nations. To succeed, Danone relies on the expertise of local teams, best practices that have been only one-fifth the number of inhabitants per square kilometer. Conditions like these make it difficult to set up infrastructures that can serve the entire country, so Danone has expanded gradually, concentrating first on São Paulo, the wealthiest area, and then moving into the rest of Brazil (see page 35).

In Brazil, for example, but has Brazil is 16 times larger than France, for example, but has countries are enormous, with densely populated, the MICRUB countries are fairly small and plenty of room for growth. The success of Bonafont waters continues. After its 2008 launch in the São Paulo region, the brand vaulted into the lead in less than two years and in 2011 held 40% of the market, twice the market share of its closest competitor. Bonafont has also moved into the home and office delivery (HOD) market and continues to raise awareness of the benefits of water and hydration—a key selling point for body-conscious Brazilians.

With a population of 210 million and a GDP of $610 billion, Brazil is the world’s sixth largest economy. Now the world’s sixth largest economy, ahead of China and Russia, Danone is attracting foreign investors to its domestic market, which boasts a population of nearly 200 million with growing purchasing power.

Brazil is Danone’s fifth-largest fresh dairy products market. FDP’s three flagship brands—Activia, Danonino and Actimel—and Paulista, a very popular brand in the São Paulo region, all three areas.

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Brazil is Danone’s fifth-largest fresh dairy products market. FDP’s three flagship brands—Activia, Danonino and Actimel—and Paulista, a very popular brand in the São Paulo region, together hold 37% of the market, up 6% over the past ten years. Well ahead of competitors and the undisputed market leader since 2000, Danone now sets its sights on Brazil’s poorest region: Nordeste. In 2010 the group opened a second plant in Ceará state, and though its output is still modest compared with the 400,000 metric tons produced by the Minas Genis plant near São Paulo, it will grow along with the Brazilian market. With average yogurt consumption at only one-fifth the average in France, Brazil holds enormous potential for growth.

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Experience gained through danone.communities and our Ecosystem Fund help Danone better understand the diversity of local cultures.

Successful in other emerging markets, and the experience gained by danone.communities and the Danone Ecosystem Fund.

In Brazil, for example, we drew on our experience with the Gramene ladies in Bangladesh—danone.communities’s founding project—to set up an innovative distribution system in Nordeste, the country’s poorest region. Under the Kiteiras project, we recruited a sales force of jobless women and trained them for door-to-door distribution of products from our fresh dairy products plant in Maracanaú.

The absence of organized industries is another challenge, especially for milk. To ensure reliable supplies of this critical raw ingredient, Danone has invested in creating networks of small producers (see page 29). In Senegal, for example, nearly four million people raise livestock for a living—yet as recently as 2005, imported powdered milk still accounted for 80% of the country’s milk consumption. Working with local stakeholders, danone.communities launched La Laiterie du berger, a project designed to help milk producers produce a viable enterprise and raise the profitability of local herders. Once the right milk collection site, sales channels and promotion were in place, herders saw sales increase 60%. The project, now being finalized, could make it easier for Danone to establish a presence in Senegal, which had GDP growth of 4.5% in 2011.

Designing products for local needs.

Finally, to succeed in new regions, we must offer products for every income level. In Indonesia, where income disparities are very large, our Baby Nutrition division sells a variety of brands. Nutricia and Sari Husada, with 33% market share, target the middle and upper end, while Gizikita, a third brand launched two years ago, is designed for the 100 million Indonesians who live on €1.50 to €3.00 a day. Available in formula for infants and porridge for children up to 36 months, Gizikita delivers 50% of the daily requirement for vital nutrients at prices of only five to fifteen eurocents.

... and healthier children.

Meanwhile, the Fresh Dairy Products division offers Milkuat, a range of dairy products designed for Indonesian children aged five to twelve, half of whom suffer from dietary deficiencies. Fortified with vitamins and proteins, Milkuat products can be stored at room temperature, and at only €0.08 per bottle or snack bar, even the most disadvantaged consumers can afford them. Finally, the products are easily accessible through a network of 500,000 points of sale, often small shops and vendors. Using this sales strategy and a diverse range of formulas—snack bars, ice cream products and drinks—Danone’s Indonesian subsidiary has reached 84% of children in the target age group.

Danone continues to expand in India, and in 2011 launched three brands—Qua, Yakult and Fundooz—that appeal to consumers from the top of the pyramid to the bottom.

With more than 1.2 billion inhabitants—75% of the world’s population—and economic growth of 7% in 2011, India is a critical market today, and it promises solid growth for tomorrow. Thanks to an annual birth rate of 25 million and a middle class that has tripled since 2005, as Danone gradually expands in this burgeoning market, understanding India—with its enormous diversity of food, culture and sociology—is one of our greatest challenges.

The group has expanded through strategic partnerships, especially in the fresh dairy and water markets. This is why Danone has teamed up with Japan’s Yakult Honsha Co., forming the joint venture Yakult Danone India Ltd. to launch probiotic yogurt in major urban markets like Delhi, Jaipur, Mumbai, Pune and Bangalore. In the water market, the group has taken a majority stake in Narang Beverages, which sells Qua, a high-end water from the Himalayas.

Danone has also set up a plant for the sole purpose of developing low-cost products with high nutritional value, targeting children in the disadvantaged groups that make up nearly 50% of India’s population. Drawing directly on pilot projects in Bangladesh and Indonesia, the plant developed and produced the Fundooz range, which launched in 2011 after researchers spent several years analyzing the eating habits and dietary deficiencies of Indian children. The result? Two products made with milk and grains: Yum Creamy, sold in a single-serve cup for €0.35, and Yum Chuski, sold in a pouch for €0.08. Packaged with vitamin A, iron, zinc and iodine, both products are sold primarily in small neighborhood shops called kiranas and can be stored at room temperature.

Finally, for the past two years, danone.communities has supported a Naandi Foundation project that seeks to provide water for nearly 500 villages in half a dozen Indian states. Working with NGOs and civil society in this way gives Danone deeper insights into the country and its people.

With 17.5% of the world’s population* and growth of around 7%, India is Asia’s third-largest economic power.

*Provisional results from India’s March 2011 census.
How can a profitable business have a social conscience? By taking radical, innovative action—both within Danone and in our relationships with our ecosystem—we have created a philosophy that has inspired our human resources policy and nurtured employee commitment for several decades. Deeply rooted in our dual commitment to business success and social progress and in our vision for strategic growth, this philosophy guides the action plans of some 150 Danone subsidiaries worldwide, which adapt it to their circumstances.

**EMPOWERED FOR SAFETY**

Danone is an industrial business with 160 plants and more than 400 sites worldwide. The safety of our employees in our plants and on the road is a priority, and as a result the group has deployed an interactive safety program since 2004. The Wise program gives employees a role in meeting a goal that is vital for them: reducing the number of workplace accidents requiring...
Since 2011, we have introduced Dan’Cares in a selection of subsidiaries, tailoring it to the local context. In Poland, where the main barrier to healthcare is hospital access, Danone signed agreements with existing healthcare infrastructures near our plants. In Indonesia, where we first tested the Dan’Cares program, 14,000 employees and immediate family members—50,000 people in all—now enjoy healthcare coverage. While this has raised labor costs significantly, the economic return is still positive: access to better care has reduced absenteeism, along with the length and cost of sick leave. Employee turnover has also declined—all of which makes for higher productivity.

Dan’Cares makes Danone a more attractive employer in countries where we are expanding operations. In China, where all four of our business lines are now present, recruiting the right people to spearhead growth is critical. Dan’Cares has been available through our Chinese subsidiaries since 2011, and by the end of the year the program provided health-care coverage to 6,000 employees, including those on temporary contracts. In Mexico, Bonafont—which introduced the program in summer 2011—is the only international business offering benefits of this type to its employees.

In 2013, this program will ensure that all employees have access to affordable, high-quality care for fundamental needs including hospitalization, surgery, childbirth, medical consultations and prescription medicines.

In 2010, Danone analyzed healthcare access at 56 subsidiaries in 15 countries, representing 85% of all employees. We used three criteria: quality of care and medical equipment; accessibility, including appointments, waiting times and geographical distance; and the employee’s share of total costs. Using these data, we mapped out the healthcare available to our workforce.

Danone plans to provide minimum healthcare coverage for all group employees by 2013.

In 2011, the program was rolled out in 27 subsidiaries in 15 countries, representing 85% of all employees. We used three criteria: quality of care and medical equipment; accessibility, including appointments, waiting times and geographical distance; and the employee’s share of total costs. Using these data, we mapped out the healthcare available to our workforce.

Today 60% of Danone’s 101,885 employees live in the emerging world, in countries with little or no health insurance. To meet their need for basic care—something they sought when they joined Danone—we developed Dan’Cares. Starting in 2011, Danone analyzed healthcare access at 56 subsidiaries in 15 countries, representing 85% of all employees. We used three criteria: quality of care and medical equipment; accessibility, including appointments, waiting times and geographical distance; and the employee’s share of total costs. Using these data, we mapped out the healthcare available to our workforce.

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Danone plans to provide minimum healthcare coverage for all group employees by 2013.

Nearly 30,000 employees were covered by Dan’Cares in 2011, and the program will cover 12,000 more in 2012.

Altogether, 2011 saw Dan’Cares deployed in eight countries—Brazil, China, Indonesia, Mexico, Poland, Russia, Saudi Arabia and Spain—with a total of 30,000 employees. Another 12,000 will be added in 2012. And during the year we willaudit local health-care delivery in eight new countries: Algeria, Belgium, Canada, the Czech Republic, Egypt, Italy, Romania, and South Africa.
Nine campuses trained 10,600 employees, up from 6,880 in 2010. In 2011, each Danoner received an average of 31 hours of training.

ECOSYSTEMS: CREATING VALUE
In the 2011 Danone People Survey**, employee commitment was rated an exceptionally high 85%—the same as in the 2009 Survey—due to three key drivers: leadership; employee autonomy and empowerment; and our corporate culture and values. Because the employees in Danone’s 150 subsidiaries are involved in the group’s growth and outreach projects, they are an integral part of our social responsibility policy, both internally through our safety, training, management and other programs, and through the social innovation projects that our subsidiaries undertake in their communities with the Danone Ecosystem Fund. Danone CEO Franck Riboud is convinced that no corporation can grow in a desert: wherever it does business, it needs suppliers, distributors—a whole environment that must be healthy and thriving. That’s why Danone created the Danone Ecosystem Fund in 2009. Three years later, the program has approved and funded 34 projects, all proposed by our subsidiaries. The goal: to create both economic and social value, especially through direct or indirect job creation.

To achieve this, the Fund works with local NGOs in five major areas: raw materials sourcing; recycling; distribution; care services; and creating value in local communities.

The projects give employees a concrete focus for their commitment and local involvement even as they test new models for growth.

On September 29, 2011, Danone and the International Union of Food Workers signed a worldwide agreement on health, safety, working conditions and stress. The accord spells out concrete measures to prevent risk and address employee needs, including medical surveillance; mandatory reassignment of employees who are injured in workplace accidents or suffer occupational diseases; compensation for the impact of organizational changes on staff wellbeing; work-life balance, and more. The agreement already applies to Danone’s 101,885 direct employees. Some provisions will be extended to cover temporary workers and employees of Danone subcontractors as well.

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85%
The 2011 Danone People Survey sets employee engagement at 85%, above the 84% rating of top-performing companies using the same scale.
In 2011, Danone reported €19,318 million in sales and €2,843 million in trading operating income.

Fresh Dairy Products contributed 58% of group sales; Waters 17%; Baby Nutrition 19%; and Medical Nutrition 6%.

**Growth in 2011 (in €)**

- Fresh Dairy Products: €11,200 million (+3.7%)
- Waters: €3,240 million (+9.4%)
- Baby Nutrition: €1,240 million (+15.7%)
- Medical Nutrition: €3,240 million (+10.7%)

**KEY INDICATORS**

- **€19,318 m**
  - In 2011, Danone reported €19,318 million in sales and €2,843 million in trading operating income.
- **3.7 bn**
  - In 2011 Baby Nutrition sales grew 10.7% by value and 5.6% by volume, buoyed by markets in Asia and the Africa/Middle East region.
- **€1.2 bn**
  - Medical Nutrition sales grew 9.4% by value and 9.9% by volume, thanks to above-average growth for the Neocate and Nutrini brands, which make up the division’s Pediatrics category.
- **€11.2 bn**
  - Fresh Dairy Products posted growth of 4.6%, with sales reaching €11.2 billion.
- **€3.2 bn**
  - Waters reported 15.7% growth by value and 8.8% growth by volume. Sales reach €3.2 billion.

**No. 1**

- In 2011, Russia became the Fresh Dairy division’s top market, with €2 billion in sales, high-volume sales from its leading Prostokvashino brand, and over 10% annual growth in dairy consumption for several years.
- In 2011 Baby Nutrition sales grew 10.7% by value and 5.6% by volume, buoyed by markets in Asia and the Africa/Middle East region.
- In 2011, Waters division’s outstanding performance, with sales up 15.7% over the year.
- In 2011, Danone met its targets and confirmed its expansion into high-growth markets.

**+ 20 bps**

- Danone’s trading operating margin (EBIT) was up 20 basis points (+20 bps) for Baby Nutrition in 2011.
- This growth in consolidated sales reflected 3% volume growth and a 4.8% increase due to price mix.
- See page X for more indicators.

**+ 13.6%**

- Average annual growth group-wide, including changes in basis for comparison such as exchange rates.
- Contributing factors included vigorous sales growth, constant cost-cutting efforts and selective price rises in many countries.

**+7.8%**

- Sales growth in 2011, fueled by all four business lines.
- In 2011, Danone was once again right on target for growth in sales, operating margin and free cash flow.

**51%**

- Danone sales came from emerging countries in 2011, up from 49% in 2010.
- We raised EBIT margin by 20 basis points, like for like—a strong showing that is all the more impressive in a challenging environment that saw raw material prices rise by around 10%.
- Contributions included vigorous sales growth, constant cost-cutting efforts and selective price rises in many countries.

**FREE CASH FLOW CONTINUED TO HEAD UP,** rising a steep 8.4% from 2010 to total €1,874 billion and putting us well on the way to our 2012 target of €2 billion.

**58%**

- Sales growth and three-quarters of the increase in operating profit came in countries Danone calls the MCrUBs—six economies that are priority targets.

**FINALLY, FOR THE FIRST TIME IN DANONE’S HISTORY,** emerging countries accounted for over half of our total business, generating the lion’s share of growth in sales and operating profit. In so doing, they laid the foundations for an increasingly sound group positioned to seize growth opportunities in 2012 and the years beyond.

“In 2011 Danone met its targets and confirmed its expansion into high-growth markets”

Pierre-André Térisse, Executive Vice President, Finance

Sales showed robust growth over the year, rising 7.8% at constant scope of consolidation and exchange rates. This was partly due to the Waters division’s outstanding performance, with sales up 15.7% over the year. For Fresh Dairy Products, emerging economies in Latin America, Asia and the Middle East continued to drive growth, and the year saw critical progress in two countries: Russia, where Danone and Unimilk combined their operations, and the United States, where we rolled out the Oikos Greek yogurt line. Finally, Baby Nutrition and Medical Nutrition continued to deliver strong, steady growth.

We raised EBIT margin by 20 basis points, like for like—a strong showing that is all the more impressive in a challenging environment that saw raw material prices rise by around 10%. Contributing factors included vigorous sales growth, constant cost-cutting efforts and selective price rises in many countries.

Free cash flow continued to head up, rising a steep 8.4% from 2010 to total €1,874 billion and putting us well on the way to our 2012 target of €2 billion.

Finally, for the first time in Danone’s history, emerging countries accounted for over half of our total business, generating the lion’s share of growth in sales and operating profit. In so doing, they laid the foundations for an increasingly sound group positioned to seize growth opportunities in 2012 and the years beyond.
Fresh Dairy Products accounts for 58% of the group’s business, making it Danone’s leading division. In 2011 FDP reported growth of 4.6% by value, with volumes holding steady overall. Though raw material prices continued to climb, up 10% on average over two years, the costs were absorbed by gains in productivity.

**SOLID POSITIONS IN PROMISING MARKETS**

FDP continued its strategy of investing in priority markets such as Russia, the United States, Brazil and Argentina, where dairy consumption is still low.

Russia is now the division’s largest single market, just ahead of France, and reported steady sales. Throughout 2011 the focus was on two priorities: restoring Unimilk’s margins after the crisis and stepping up the Danone-Unimilk integration to create a single platform with strong brands. Sales of Prostokvashino, Unimilk’s leading brand, grew 10% in 2011.

In the United States, consumers are flocking to the flavor and texture of Greek yogurt, and Danone is riding the boom. In late 2011, Greek yogurt accounted for 25% of the dairy market, up from only 5% two years ago, and the group’s Oikos range made the most of the trend, with 88% growth in the first and second halves of 2011. Meanwhile, our Dannon and Stonyfield subsidiaries made us the fresh dairy market leader (by value) in the United States. With per capita dairy consumption in the US only one-sixth the average for France, this market continues to hold enormous growth potential.

In Brazil, where Danone has led the market for ten years, the division held 57% market share by value in 2011 and continued to invest in response to increasing consumer demand. In Maracanã in the Nordeste region, Danone opened a second plant to supplement production at our original facility, one of the group’s five largest, which is located further south in the state of Minas Gerais.

In Argentina, Danone has led the fresh dairy products market ever since the group’s 1996 tie-up with La Serenísima, a family-owned dairy company. Since then, Danone-La Serenísima has grown to become one of the country’s most powerful local brands, including Yogurisimo, an unflavored yogurt, Sereño, a cheese for children; and Ser, a low-fat range. Danone has also built on the success of its international brands by adapting them to local preferences: Danette comes in a dulce de leche flavor; Activia packaging is purple because its signature green signals low-fat products in Argentina; and Ser, a low-fat range. Danone has also built on the success of its international brands by adapting them to local preferences: Danette comes in a dulce de leche flavor; Activia packaging is purple because its signature green signals low-fat products in Argentina; and Ser, a low-fat range. Danone has also built on the success of its international brands by adapting them to local preferences: Danette comes in a dulce de leche flavor; Activia packaging is purple because its signature green signals low-fat products in Argentina; and Ser, a low-fat range.

**BALANCED PRODUCT OFFERING**

The Fresh Dairy Products division relies on three main growth drivers: nutritional ranges, functional ranges and indulgence ranges.

In the functional category, the Activia brand—now present in 72 countries—remained a major source of growth in 2011, and Densia made its first significant contribution to the division. Following its success in Europe, Densia made its debut in both Brazil and Japan in 2011, driving sales up 79.9%. Oikos, Danette, Fantasia and other indulgence brands also added to the division’s growth. Greek yogurts generated particularly spectacular growth of 117%, as Oikos made a strong showing in the United States; traditionally high consumption continued in Spain, and eight new countries saw product launches in 2011.

But the division’s strategy relies primarily on expanding the fresh dairy category as a whole. In Italy, for example, Danone has partnered with the National Research Institute for Food and Nutrition to roll out an information campaign reminding consumers that a daily serving of yogurt is recommended for good health. FDP also stresses the nutritional value of its products and the differences between its brands and their competitors. In France and Belgium, the division has stressed high-quality milk as a source of Danone yogurt’s superior taste and nutritional value, and after the 2010 launch of the “Made with milk from our farmers” campaign in France, sales of Danone yogurt increased 9%.

**EUROPE: INNOVATION THAT DELIVERS**

Innovation is another key component of the division’s strategy. In 2011 more than half of its growth came from products less than two years old. In Europe, where per capita yogurt consumption is already high—34 kg per year in the Netherlands and 30 kg in Germany—the ability to expand our existing ranges and offer products with new flavors, ingredients or packaging is critical to maintaining Danone’s leadership. In 2011, Portugal introduced a brand new smoothie version of Activia; France revived the dairy desserts segment by launching a new Danette recipe in 20 flavors; and Spain re-energized sales of Activia by packaging it in the new Kiss cup. With a design that makes Danone products stand out on store shelves, the Kiss cup has now expanded to growth in 2011.

**THE MAJORITY OF DANONE’S 2011 INNOVATIONS WERE PRODUCED IN COUNTRIES RECOMMENDED BY HEALTH AUTHORITIES.**

- **Top 2011 innovations:**
  - Activia Breakfast, a high-fiber product featuring fermented milk and cereal in separate compartments, was launched in Italy.
  - Activia Smoothie, a fermented milk drink containing 50% of the recommended daily allowance of fruit in each 290-gram bottle, was launched in Russia and Portugal.
  - Milkuat School, which combines milk and grains, is designed for Indonesian schoolchildren and costs only €0.25 per serving.
  - MissCray Start, a high-fiber grain-and-dairy bar packed with vitamins and minerals, sells for €0.16, expanding Danone’s range of affordable dairy products in Poland.
  - Pondoos offers two products fortified with vitamin A, iron, zinc and iodine—Yum Creamy, which sells for €0.05, and Yum Chicks, priced at €0.08.

**BREAKING NEW GROUND:**

Danacol debuted in Canada; Japan and Brazil were introduced to Dansia; Densia’s Ser Calci+ pouch, launched in Argentina; Activia pouring yogurt added flavors in France; and Danone launched the Oikos Greek yogurt range in eight countries.
Waters

OUTSTANDING GROWTH

The Waters division reported growth of 15.7% in 2011, with outstanding performances across all markets—a strong showing powered by buoyant emerging countries, the popularity of naturally flavored and vitamin-fortified aquadrinks, and consolidation of the division’s positions in Western Europe.

With the highest growth rate of Danone’s four business lines and increased market share on its main markets, Waters clearly demonstrated its long-term growth potential. In addition, the division held its 13.1% operating margin steady, despite an increase of around 20% in raw materials and packaging costs.

EMERGING COUNTRIES SET THE PACE

Emerging countries turned in strong performances in sales, volume, and operating margin, underscoring their role as powerful growth drivers for Waters. Though they account for 51% of sales for the group as a whole, emerging countries generated 60% of sales for Waters, with four star performers—Indonesia, Mexico, China, and Argentina.

Indonesia is Danone’s top market by value, thanks to the Aqua brand. In Mexico, Danone held 25% of the market in 2011 with its “Bonafont model,” selling a variety of product sizes directly to consumers under a single brand, either via home and office delivery (HOD) or through registration with purchasers in a large number of traditional distribution networks.

Two years ago the division began applying this model in Brazil, where Bonafont has taken the lead in the São Paulo region and is now moving successfully into other Asian countries. The same was true in Argentina, where Willa del Sur Levité water, flavored with natural fruit extracts, holds 70% of this market segment and has become the nation’s second-most frequently consumed non-alcoholic beverage. Building on this success, Danone brands are adding dedicated aquadrink ranges—Bonafont Levité in Brazil, Bonafont con Jugo in Mexico, Volvic Touch of Fruit in Europe and Żywiec Zdrój in Poland. For Danone, this category presents a double advantage, boosting margins through better price positioning and winning over consumers who see flavored waters as a light, natural alternative to sweetened beverages, especially at meals.

CONTINUED RECOVERY IN MATURE COUNTRIES

Waters also shored up its positions in mature countries, as the 2010 recovery gained ground. These markets accounted for 27% of the division’s sales growth, with strong performances from a variety of ranges including Salvetat, which reported 25% sales growth in France.

Although mild temperatures in Western Europe and the March 2011 tsunami in Japan accounted for some of the gains, Waters owes its strong showing primarily to Danone awareness campaigns underscoring the benefits of hydration for the body, as researchers begin to study the links between hydration, well-being and health.

SURGING AQUADRINKS

In 2011, some 25% of volumes sold and more than 90% of the division’s growth came from flavored or vitamin-fortified waters called aquadrinks. In China the division benefited from a strong showing by fortified beverages under the Mizone brand, which is now moving successfully into other Asian countries. The same was true in Argentina, where Willa del Sur Levité water, flavored with natural fruit extracts, holds 70% of this market segment and has become the nation’s second-most frequently consumed non-alcoholic beverage. Building on this success, Danone brands are adding dedicated aquadrink ranges—Bonafont Levité in Brazil, Bonafont con Jugo in Mexico, Volvic Touch of Fruit in Europe and Żywiec Zdrój in Poland. For Danone, this category presents a double advantage, boosting margins through better price positioning and winning over new groups of consumers, who see flavored waters as a light, natural alternative to sweetened beverages, especially at meals.

MIZONE

In China, natural vitamin-fortified Mizone aquadrinks posted over 40% growth in Shanghai. Packaged in 50-cl bottles, Mizone is widely sold in the small neighborhood shops that remain the country’s dominant distribution network. With its sights now set on China’s 50 largest cities, the brand is also selling successfully in Indonesia, where sales are up 40%. Next stop: India in 2012.

BUYED BY GROWING-UP MILKS AND A BALANCED INTERNATIONAL PRESENCE, THE BABY NUTRITION DIVISION IS GAINING MARKET SHARE.

Baby Nutrition

BUSINESS UP ON ALL ITS MARKETS

Buoyed by growing-up milks and a balanced international presence, the Baby Nutrition division is gaining market share.

The four countries that contributed most to the division’s growth were: China, Mexico, Indonesia and Argentina.

Top 4 markets* (like for like)

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<th>Country</th>
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<th>Growth</th>
<th>By Value</th>
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* Top contributors to growth in 2011

Top 3 brands* (like for like)

<table>
<thead>
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NEW TERRITORIES FOR GROWTH

Division sales grew more than 50% between 2007 and 2011, spurred by rapid internationalization after Danone’s acquisition of Numico four years ago. Baby Nutrition has now moved into 17 new countries, and in 2011 its products were sold in a total of 137 countries.

The division’s strongest positions are in the Asia-Pacific region, which accounts for around 40% of its business. Its largest market is China, with Dumex leading the growing-up milk segment, and Bebelac present in the premium formula market. Indonesia and new-comers Hong Kong, Malaysia and Thailand also reported growth of over 20%.

At the same time, countries in the Africa/Middle East region and Latin America are contributing ever more to division growth, with sales rising by up to 80%.
**INNOVATION**

Gallia’s new Eazy pack, launched in select countries in Europe and the Middle East in 2011, is an innovative packaging solution that eliminates all contact with powdered formulas. The spoon attaches to the inside of the lid, so users can remove and replace it without putting their fingers into the product—and it never gets lost.

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**Medical Nutrition**

**THE INNOVATION IMPERATIVE**

With like-for-like growth of 9.4%, Medical Nutrition is expanding its geographical footprint and expanding into new market segments. Since it joined Danone in 2007, the division’s sales have increased 50%.

The smallest of Danone’s four divisions, Medical Nutrition—better known as Nutricia—has reported solid profitability and annual growth of around 10% over the past four years. In 2011, sales reached €1.2 billion, a 9.4% increase by value, and consolidated operating margin was close to 20%.

**GROWING AND INNOVATING**

All of Medical Nutrition’s product categories are on the rise. Pediatrics reported above-average growth thanks to Necocate, a range of replacement formulas for infants allergic to cow’s milk, and Nutrinidrink, a line of energy supplements for children with faltering growth. In particular, sales have benefited from the new Nutrinidrink smoothie, introduced in several Western European countries since 2010. These and other Nutricia products are generally prescribed or recommended by doctors and distributed by hospitals and pharmacies.

In more and more countries, growth in nutrition products for the elderly is driven by “compact” 125-ml versions, which deliver the same nutrients as their 200-ml counterparts but are easier to drink. Launched in 2009, Fortimel Compact has been highly successful, and the division has released compact versions of many products in this range. These include Compact Fibre—a high-calorie, high-protein supplement that made its debut in 2011 and has now been rolled out in six European countries.

**EXPANDING AND ADAPTING**

Key to the division’s bottom line are increasingly specialized nutrition for children with faltering growth. All of Medical Nutrition’s product categories—better known as Nutricia—have increased 50%.

**PROMISING ADVANCES**

One of Medical Nutrition’s top challenges is helping the elderly stay independent longer. The goal is to improve quality of life for this growing population—and to help reduce the healthcare costs associated with dependent living. Specialized nutrition for seniors already accounts for 60% of the division’s business. In 2011, Nutricia successfully tested Fortitin—an innovative product designed to counter the effects of sarcopenia (age-related loss of muscle mass)—in Austria. Fortitin is already slated for launch in other European countries, further strengthening Nutricia’s number-one position in Europe.

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**Medical Nutrition Top 3 brands**

1. Necocate/LCP
2. Fortimel/Nutrijel
3. Nutritin/Fortitin Multi Fibre

* Top contributors to growth in 2011.

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**Baby Nutrition**

**A STRONG EUROPEAN BASE**

In Europe, which accounts for just over half of sales, growth was particularly strong in regions where operations are newly established, including the CIS countries, reporting sales up 20%. In Ukraine, infant formulas in the Nutrilon range rose 30.5%, double the 13.5% rate for the overall market—and the Nutrilon range rose 30.5%—double the 13.5% rate for the overall market—and consolidated operating margin was close to 20%.

Sales in Western Europe continued to grow, backed by strong showings in the UK and the Netherlands. Europe’s lower birthrates and the home than in emerging economies make it a higher percentage of women working outside the labour market. Danone brands are well established, with the main growth area for solid food, which accounts for around 20% of the division’s business. Danone brands are well established, and they account for nearly 60% of our Baby Nutrition business. In this segment, the division’s priority is expanding growing-up milks, designed for children aged 12 to 36 months.

**TARGETED NUTRITION FOR CHILDREN THROUGH AGE THREE**

The division keeps its brands growing by working closely with health professionals to emphasize the importance of foods that meet the special needs of children in the first three years of life. In Turkey, Danone worked with local authorities to launch an outreach campaign reminding mothers that babies need 500 ml of milk a day as they stop breast-feeding and transition to a more varied diet.

In China, Danex provides information and services for mothers as part of an awareness campaign stressing the special nutritional needs of the first 1,000 days of a child’s life, from birth to age three. In France, Blédina offers personalized advice, with information on the key stages in a child’s development, from breastfeeding to a diversified diet. In the UK, Cow & Gate offers a similar service.

**Medical Nutrition**

**EXPANDING AND ADAPTING**

Key to the division’s bottom line are increasingly solid positions in emerging countries like Brazil, China and Turkey; these three countries and the United States are Medical Nutrition’s top four growth drivers outside Europe. To fuel this expansion, Nutricia has recently begun developing innovative new products for local markets. Powdered versions, which are not only more economical but have a longer shelf life than their liquid counterparts, have been tested in Brazil and are proving well suited for emerging countries.

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Prostokvashino in Russia, Oikos in the United States, and Mizone in Asia are on their way to becoming core Danone brands.

Underlying net income, Group share, came to €1,749 million in 2011, a 6.7% increase.

At the General Meeting on April 26, 2012, Danone will ask shareholders to approve distribution of a dividend of €1.19 per share in respect of the 2011 financial year. If this proposal is approved, the ex-dividend date will be May 8, 2012, and the dividend will be payable from May 11, 2012. This represents a 6.9% increase over the dividend per share paid in respect of 2010.

The group’s workforce grew from 100,995 to 101,885 employees (at comparable scope of consolidation; includes Unimilk personnel).

For full information on Danone’s social and environmental performance, consult our Sustainability Report at www.danone.com.

LEARN MORE AT
www.danone.com
ECONOMIC AND SOCIAL REPORT

DANONE
BRINGING HEALTH THROUGH FOOD TO AS MANY PEOPLE AS POSSIBLE

EMERGING MARKETS ACCOUNT FOR 51% OF DANONE SALES

SIX PRIORITIES FOR DANONE

INNOVATE
EXPRESS
CONNECT
PROTECT
ADAPT
GROW

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