

DANONE

social and environmental
responsibility report

04

The DANONE
model for action



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→ 2004 SOCIAL AND ENVIRONMENTAL RESPONSIBILITY REPORT : TO OUR READERS

This is Groupe DANONE's seventh annual report on social and environmental responsibility. For 2004, we have opted for a shorter print edition, placing more detailed information on our website where it can be easily consulted by different reader groups. A summary of this print edition has also been produced especially for DANONE business units to enhance information flows within the Group.

For easier consultation, information is divided into three sections :

- Part one reviews the **main impact of initiatives on Groupe DANONE business**, setting out the principles, strategic priorities and policies adopted to ensure sustainable development.
- Part two describes **key challenges and programs in 2004**. Each chapter starts with comments by a stakeholder. The opinions they express are obviously their own, and we would like to take this opportunity to extend our sincere thanks for their willingness to share their point of view.
- Part three presents **key indicators of results achieved**, the opinions of external auditors and assessments by rating agencies. This report was prepared using the Global Reporting Initiative (GRI) headings and grid summarized on pages 50 to 52. An agreement has also been signed between Groupe DANONE and IUF (the International Union of Food Workers), establishing a set of social indicators that will be monitored and discussed at regular intervals.

An interview with Franck RIBOUD

Chairman and CEO, Groupe DANONE



You've talked about globalization and being "close to home around the world." Could you tell us more?

Franck Riboud → We are a world leader in each of our businesses. But DANONE is first and foremost a local leader, close to local markets and local communities. Which is a key part of what we mean by proximity. Winning that place demands constant dedication—to product quality, of course, but also to meeting the nutritional needs of local people. And giving them the tastes they enjoy. Proximity is one of our core values and plays a defining role in our way of doing things—for example, in the way our managers are close to the people they work with. It also shows in the attention we pay to working conditions, our readiness to talk with unions and employee representatives, and in our care for the environment. To my mind, commitment to proximity is about creating value for all DANONE stakeholders in every single country we work in. Which is why we leave management teams at our various business units a very free hand within the framework of Group principles and rules. In this, the important thing is to combine local ties and presence with the

capacities of DANONE as a major international business to innovate and develop broadly based networks. That is central to our model for business success and social progress.

How does DANONE fit sustainable development into its business strategy?

F.R. → Our approach is rooted in our history, and our longstanding belief in a dual commitment to business success and social progress. That commitment continues to have a profound influence on our reflexes and behavior as a business. And I am convinced that the culture it has helped to develop gives us an edge on the competition. To consolidate that advantage, we set up the DANONE Way program, in operation since 2001. DANONE Way gives our business units around the world a common framework to assess performance, and at the same time leaves them room to make the adjustments suited to their particular business environment and conditions in the country in which they operate. Not that it is always simple—it is a matter of finding solutions that enable

us to achieve the annual results promised to our shareholders and at the same time build a business that is truly sustainable. In any case, I am happy to see that sustainability is taking a growing place in our strategy, product design and the day-to-day operations of our staff.

What do you consider the most important achievements in 2004?

F.R. → A main priority for the year was to structure policies more effectively in areas that are of special importance for our corporate responsibility. A good example of this is the adoption of a Food, Nutrition and Health Charter spelling out our principles on product ingredients, health benefits and communications. Not that the ideas are really new for us, since they are drawn from our long experience in nutrition and related fields. But this is an important step in that it defines clear, simple rules that make full allowance for the progress of scientific knowledge and official public-health recommendations.

Another important initiative, concerning our staff this time, is the Evolution program to help all employees acquire new skills and qualifications. This has benefits of two kinds, since it will preserve the employability of participants and at the same time enable our organizations to adapt to change and stay competitive. I look forward to the results of the pilot projects launched in around fifteen countries in 2004, which look very promising indeed.

Finally, in an area upstream from our business operations properly speaking, in 2004 we adopted our Groundwater Resources Protection Policy. This provides a clear basis for long-term management of the springs supplying DANONE's water businesses.

Are there areas where you consider Group performance is clearly inadequate?

F.R. → Our results in the area of workplace safety show a worrying trend. We have always believed that safety and working conditions are the first responsibility of any business, and there must never be any letup in our attention to this. In 2004, our Biscuit division took an important first step to improve results with its WISE project. We will very soon be taking additional action to unite all our teams behind this necessary effort.

Today, 2.7 billion people around the world have to live on less than \$2 a day. How can DANONE help to achieve the UN's Millennium Goals in the fight against poverty?

F.R. → By helping as many children and adults around the world as possible to get the balanced nutrition they need to live a full life. That is our challenge for the years ahead—a challenge in economic terms and in terms of social responsibility. We have already gained some useful experience in Indonesia, India, South Africa and China. But we need to go further and find new responses, new ways to develop products that are affordable for consumers with very low incomes and provide them with genuine nutritional benefits. To do that, we will have to take a completely new approach to understand needs and lifestyles, and to cut production and distribution costs while at the same time ensuring that margins are sufficient to make the business model viable over time. This will naturally mean working alongside organizations that have a longstanding presence in developing countries. Which is why I have set up a dedicated group to work with me on the project. We have called this program "Dream". Why? Because there can't be any dream more worthwhile than doing everything we can to help meet one of the greatest challenges of our era.



"Achieve the annual results promised to our shareholders and at the same time build a business that is truly sustainable."

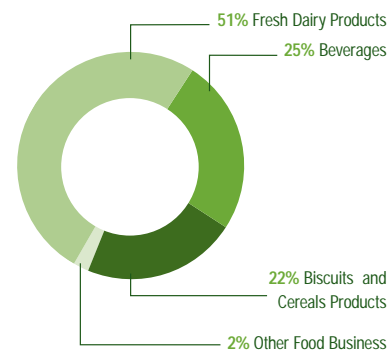
KEY FINANCIAL FIGURES FOR 2004*
(€ MILLIONS)

	2003	2004	Change
Sales	13,131	13,700	7.8%
Operating income	1,604	1,705	
Net income*	839	917	9.3%

* Excluding exceptional one-time items

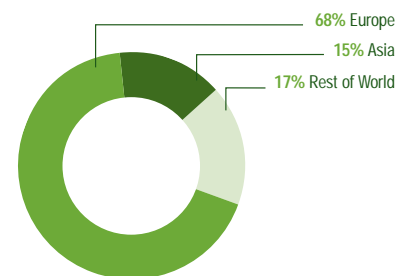
SALES BY BUSINESS LINE
(€ MILLIONS)

Fresh Dairy Products: 6,914 (+10.5%)
Beverages: 3,427 (+7%)
Biscuits and Cereal Products: 3,041 (+3.9%)
Other Food Business: 318 (+0.5%)



SALES BY REGION
(€ MILLIONS)

Europe: 9,354 (+4.6%)
Asia: 2,072 (+12.2%)
Rest of World: 2,274 (+18.6%)



* To facilitate comparisons with 2003, key financial figures for 2004 are shown in the French format that preceded IFRS. Starting January 1, 2005, all financial data will be under IFRS. 2004 financial statements under IFRS are available in the exhibits section of 20-F and at www.danone.com

Groupe DANONE results in 2004

Consolidated sales came to €13,700 million in 2004 for a rise of 7.8% at constant scope of consolidation and exchange rates, the strongest in ten years.

Fresh Dairy Products posted record growth, with volumes up 11% and sales revenues 10.5%, as a shift in geographical balance offset temporary difficulties on the French market. Sales were up 22% in Latin America, 17% in North America, 25% in Central Europe and 20% in North Africa and the Middle East. Results reflect not only the continuing success of champion brands Actimel, Activia, Danonino and Vitalinea, but also the business line's capacity to develop affordable products suited to local nutritional needs and tastes.

Organic growth in Beverage sales reached 7%, with support from Latin America and Asia confirming their place as new focuses of business momentum. Results were mixed in Europe, where double-digit growth in the UK and an upturn in Germany contrasted with slowing in France. DANONE maintained its number-one place worldwide for natural spring water for the tenth year running. At the same time, the business line continued its drive to underpin future growth with renewed investments in flavored waters and a move into functional waters offering clearly identified health benefits. In the Asia-Pacific area, growth was particularly vigorous in China, Indonesia and Australia despite the negative impact of higher prices for PET used for bottles and containers.

Following a poor year in 2003, Biscuits saw a 3.9% rise in sales, beating 2.5% growth in the world market. With production in Europe now restructured, the business line focused efforts on an overhaul of its offering to consolidate brand differentiation with quality and taste. LU France alone thus reviewed a good 52% of its recipes. A priority is to maximize the nutritional benefits associated with grain content. In new markets, particularly Asia, growth in demand is driven by large populations with low per capita purchasing power, making affordability a main concern.

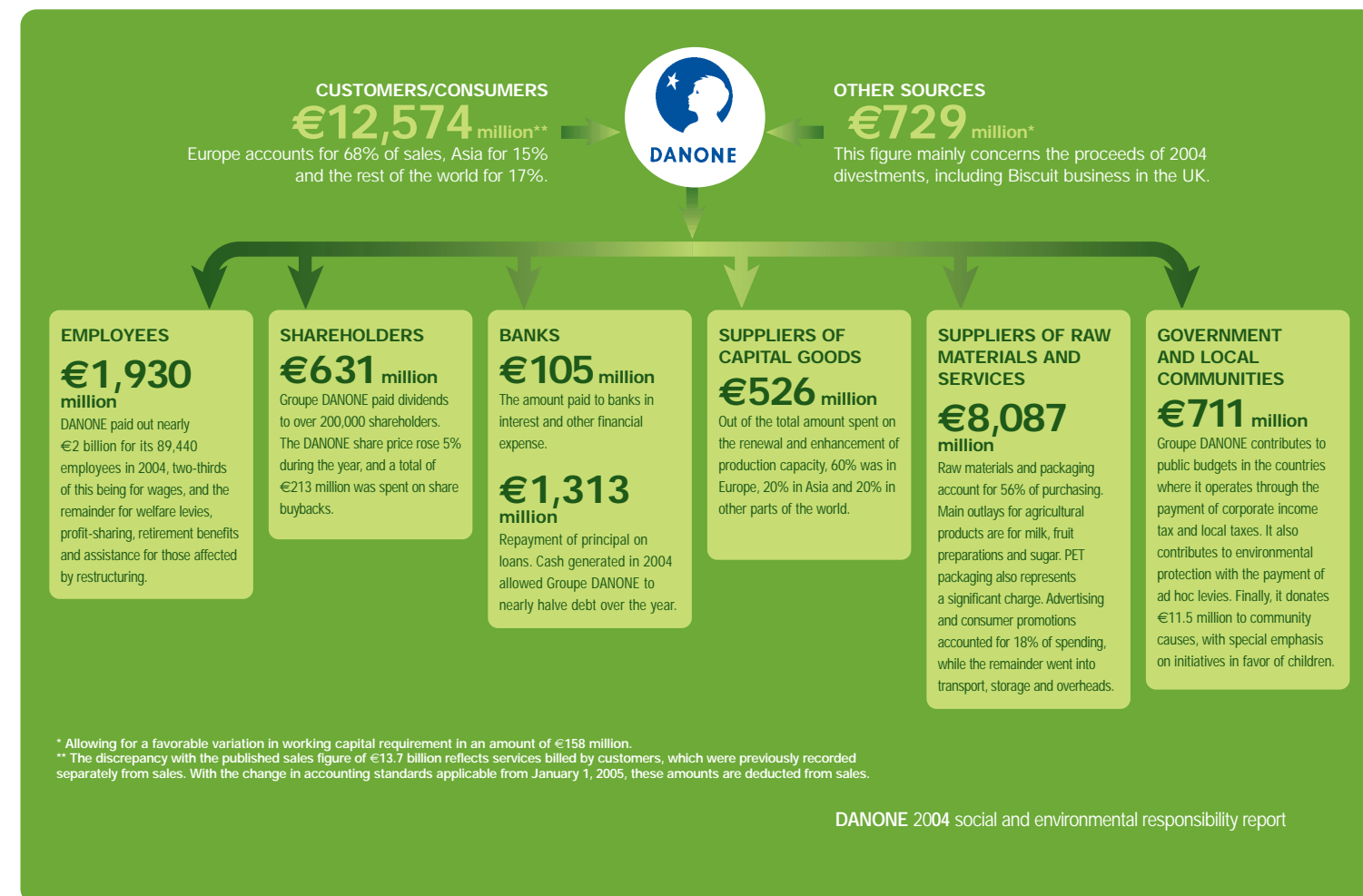
Redistributing value to stakeholders

The chart below summarizes main financial flows between Groupe DANONE and key stakeholder groups, showing the destination of sales revenues generated in relationships with suppliers and customers.

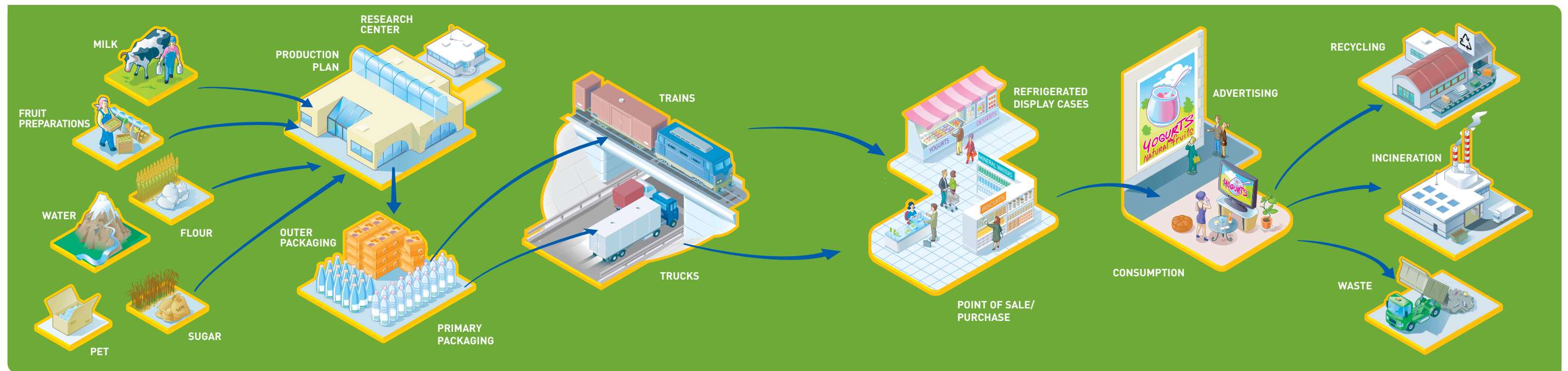
Suppliers of raw materials and services make up the largest single heading, receiving 68% of Group sales revenues. Policies in this important area are outlined on pages 16 to 19. Wages and other payroll expense are the second largest item. Staff numbers showed a modest rise from 88,607 in 2003 to 89,449 in 2004, with 37% in Europe, 47% in Asia and 16% in other parts of the world. Taxes and other levies paid to central and local government authorities, together with donations to associations, represented total outlays of €711 million.



Together these four brands generate 60% of consolidated sales.



From raw materials to end of product lifecycle: impacts and responsibilities



RAW MATERIALS

Impacts
 → Purchases of raw materials: €3.754 billion, 57% agricultural produce.
 → Largest single agricultural product: milk. DANONE works directly with 11,250 producers (plus 3,800 through cooperatives) in 19 countries.
 → Main environmental impact of farming: pollution from fertilizers and pesticides, gas emissions.
 → Mineral water from reserves over which Groupe DANONE has exclusive operating rights.

Responsibilities
 → Guarantee the safety, quality and traceability of raw materials.
 → Track and help improve working conditions and environmental impact of farming.
 → Ensure long-term protection and renewal of water reserves operated by the Group.

PRODUCTION AND PACKAGING

Impacts
 → Employment: 89,449 jobs. Total compensation paid in 2004: €1,930 million including salaries, social levies, compulsory and optional profit-sharing, pensions and costs linked to jobs lost through restructuring.
 → Main environmental impact of production plants: energy consumption and wastewater discharge.
 → Main impact of packaging (6% of product weight on average): consumption of non-renewable resources (oil for plastics) and renewable resources (wood, recycled paper in cardboard).

Responsibilities
 → Ensure fundamental social principles are respected and promote concrete measures for social progress at Group sites.
 → Control environmental impact of plants.
 → Reduce packaging without reducing functionality: food safety and preservation, transport, consumer information.
 → Contribute to local community development.

TRANSPORT

Impacts
 → Transportation is outsourced in almost all cases. In Europe, trucks are used to transport 95% of yogurts and biscuits, while water is carried by trucks (68%) and trains (25%). On average, DANONE yogurts and biscuits sold in Europe travel 600 km from production to point of consumption.
 → Main environmental impact: energy consumption, greenhouse gas emissions, local air pollution, noise.

Responsibilities
 → Minimize impact of transporting raw materials and products.
 → Ensure compliance with refrigeration requirements and product traceability.

SALES

Impacts
 → Sales totaled €13.7 billion in 2004. Two-thirds of sales are through supermarkets (large and medium-sized), and one-third through neighborhood stores.
 → Products are sold in 120 countries.
 → Main environmental impacts: energy consumption and greenhouse gas emissions from refrigerated cases in stores, plus vehicle emissions as consumers travel to stores.
 → New distribution options: DANONE is the world's no. 1 supplier of water in jugs.

Responsibilities
 → Ensure appropriate refrigeration, from production to distribution and full traceability of products.
 → Ensure products are affordable and accessible, especially in emerging markets.

CONSUMPTION

Impacts
 → Three main product categories made by DANONE: Fresh Dairy Products, 51% of sales; Beverages, 25%; and Biscuits & Cereal Products, 22%.
 → Main environmental impact: energy consumption and greenhouse gas emissions linked to refrigeration of fresh products.
 → Social issues: product quality/safety, nutrition.

Responsibilities
 → Ensure food quality and safety.
 → Provide clear information and promote dialog with consumers.
 → Promote healthy diet and help meet local needs.

END OF LIFECYCLE

Impacts
 → Consumption generates packaging waste, which is recycled, disposed of in discharges or incinerated, depending on local options.
 → Main environmental impact: soil, air and water pollution, depending on waste processing options available.

Responsibilities
 → Reduce end-of-lifecycle impact of packaging by designing environmentally sound disposal options into products and supporting public waste collection.

1972-2005 MILESTONES

- 2005 • Food, Nutrition and Health Charter.
• Groupe DANONE Groundwater Resources Protection Policy.
- 2003 • DANONE joins UN GlobalCompact.
• DANONE is a founding member of the Sustainable Agriculture Initiative.
- 2001 • DANONE Way launched.
• Restructuring of Biscuits business in Europe.
- 2000 • Over 70% of Group employees work outside Western Europe.
- 1999 • Launch of Management Barometer, a survey gauging commitment to Group strategy and values.
• DANONE becomes component of Dow Jones Sustainability Index.
- 1998 • Publication of DANONE's first annual social and environmental responsibility report.
• Support for the Ramsar Convention for the protection of wetlands.
- 1997 • DANONE retrenches to 3 core businesses focusing on healthy eating: Fresh Dairy Products, Biscuits and Beverages.
• DANONE shares are listed in New York.
• DANONE becomes no. 1 water brand in China.
- 1996 • Franck Riboud becomes Chairman and CEO.
• Charter for the Environment.
• Business Conduct Principles.
• DANONE Conseils consumer relations service is set up.
- 1992 • Creation of Eco-emballages, France's first network for collecting and recycling packaging.
- 1991 • Creation of Danone Institute.
- 1985 • First agreement signed with IUF ushers in dialog with international labor representatives within the Group.
- 1977 • Creation of job search teams to accompany restructuring.
- 1972 • Antoine Riboud's speech in Marseilles cites dual commitment to business success and social progress.

The DANONE business model

A distinctive model rooted in Group history

"Corporate responsibility does not end at the factory gate or at the office door. The jobs a business creates are central to the lives of employees, and the energy and raw materials we consume change the shape of our planet. Public opinion is there to remind us of our responsibilities in the industrial world of today." These remarks, made by DANONE founder Antoine Riboud in 1972, express the vision behind the dual commitment to business performance and social progress that is the foundation of our Group's business model. And our conviction that there can be no lasting business success without attention to people.

Over the years, DANONE has developed a highly distinctive culture emphasizing responsiveness, adaptability and the capacity to accelerate innovation through effective networking within largely decentralized operational responsibilities. Core values that include humanism, enthusiasm, openness and proximity are the focus of a steady flow of in-house communications, shaping individual and collective action.

This culture has proven its worth, underpinning rapid expansion on new markets in Asia, Latin America, Eastern Europe, Africa and the Middle East. As Peng Qin, President of DANONE China explains: "A culture based on dialog and readiness to listen has made all the difference, because DANONE has taken the time to really understand Chinese consumers." Clearly, cultural differences play a bigger role in food than in almost any other sector, and DANONE marketing teams thus make continuing research into varied nutritional needs, tastes and patterns of consumption a major priority.

DANONE management believes that its business model is an important competitive advantage, contributing to motivation and collective efficiency as well as to the Group's appeal as an employer—an area where a combination of competitiveness and social responsibility is increasingly appreciated. And it is clearly critical to stakeholder relationships built on mutual trust.

Formalizing procedures by stages

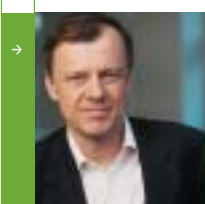
In working to ensure that all of its businesses fully integrate this culture, the Group relies first of all on the DANONE Way program described on the following page. This calls for staff at each business unit to participate directly in the pursuit of social progress along with business success.

Over the years, DANONE has defined its principles and policies in texts including its Fundamental Social Principles, Business Conduct Policies, Charter for the Environment, and Food, Nutrition and Health Charter to guide management around the world.

Dialog with stakeholders has also taken more clearly defined shape. The food industry is today a main focus of public debate, and in response DANONE has moved to build ongoing relationships with unions, public authorities, businesses, industry groups, scientific institutes, consumer associations, environmental groups and other concerned organizations. In addition to regular contacts, these relationships are the basis for joint publications and cooperation on projects of common interest.

In 2004, DANONE took the first step towards the development of a network of public affairs correspondents to build lasting relationships with authorities in each country where it operates—thus doing away with situations where contacts are all too often only made in response to emergencies. At the same time, the Scientific and Regulatory Affairs section of the General Secretariat was reorganized to better meet the challenges of a rapidly changing regulatory environment and anticipate emerging issues in food safety and nutrition. The section provides critical support for business lines and units in the interpretation and implementation of new regulations.

Finally, the quality function was overhauled and reinforced to make quality an integral part of every stage in the business process, from sourcing of agricultural products to delivery to the consumer. The managers responsible are charged not only with ensuring regulatory compliance but also with analyzing consumer perceptions of quality.



BERNARD HOURS,
Executive Vice
President, Fresh Dairy
Products
"Growth in sales of Fresh Dairy Products largely reflects health benefits such

as improved digestion, and adaptation to local needs and patterns of consumption. To take an example, Danonino, which started out in Western Europe, has been successfully adapted to emerging markets with additional ingredients to combat childhood nutritional deficiencies. It is now on sale in 35 countries, generating annual sales of €800 million. Another example of successful adaptation to local markets is Moufid yogurt sold in Morocco for just one dirham—the equivalent of €0.10—to put it within everyone's reach. Nutritional and health benefits, adaptation to local conditions and affordability will clearly remain the main drivers for DANONE's growth."



PHILIPPE-LOÏC JACOB,
General Secretary
"Food safety and nutritional quality are fundamentally important for any business

in our industry. In this, DANONE draws strength from a long tradition and qualities that are practically built into its genetic code. But we certainly cannot afford to be complacent—we have to keep a very close watch at every stage, from product design to consumption. To meet the challenge, in 2004 we beefed up quality teams and procedures, backing this up with a new Food, Nutrition and Health Charter defining the rules to be applied by all our businesses. A main priority in this area is to be attentive to new expectations and concerns, which makes it essential to develop fruitful dialog with consumer associations, public authorities, NGOs and other stakeholders."



KEY FIGURES

90% of business units had deployed DANONE Way by the end of 2004.

99 practices defined in the 2004 DANONE Way handbook.

570 plans for progress under way at the end of 2004.

20 DANONE Way audits conducted by PricewaterhouseCoopers and Mazars & Guérard.

49 business units whose consolidated results are published in this report.

DANONE Way: translating principles into practice

DANONE Way is a program aimed at progress in all areas of responsibility to employees, customers and consumers, suppliers, shareholders, local communities and the environment.

Making sustainability everyone's concern

DANONE Way calls on management and employees at all business units in all parts of the world to take a close look at sustainability issues in areas ranging from equal opportunity, attention to consumers and training to suppliers' compliance with Fundamental Social Principles, packaging and initiatives in favor of local communities. By the end of 2004, DANONE Way had been deployed at 90% of Group business units.

Each business unit involved in the program undertakes a process of continuing progress, assessing its own performance every two to three years on the basis of the policies DANONE has defined for responsibility to stakeholders.

These self-assessments are conducted under the responsibility of the General Manager and Management Committee of the Business Unit, drawing on the support of cross-functional working groups representing a broad sample of the workforce at all levels and all areas of operation. DANONE Way is thus also an opportunity to move beyond conventional barriers, enabling staff members to come together and discuss issues other than daily concerns at the workplace.

Self-assessments provide a snapshot of the situation in the business at a particular moment, revealing strengths and weaknesses to enable the Management Committee to draw up action plans for progress where needed. These plans are defined with due regard for the broader business environment the business unit operates in.

Proven effectiveness

Broad, cross-functional employee participation is the key strength of DANONE Way, along with the active commitment of the General Manager and Management Committee, also responsible for overseeing implementation of the resulting action plans. Deployment is not subject to rigid, uniform procedures; instead it allows for

adaptation to circumstances in accordance with Group guidelines. However it does require the participation of at least 10% of the workforce.

Within this general framework, local teams take over to define the most effective methods. In doing so, they draw on input from other business units involved to adopt best practices, in keeping with the networking attitude that is a DANONE hallmark. This form of exchange has proven its worth in enhancing processes at business units that have already carried out their second self-assessments. In particular, these units have raised participation to 30%—or even 100% in the case of some small entities—and taken new initiatives including the participation of union representatives, special off-site DANONE Way Days, employee conventions and more.

Self-assessments conducted by business units at local level clearly call for outside confirmation, and DANONE has thus charged consultancies PricewaterhouseCoopers and Mazars & Guérard with auditing results. Since 2001, 20 such DANONE Way audits have been carried out to verify compliance with Group recommendations and the accuracy of findings concerning the 35 practices for which results have been published since 2002. These audits confirmed self-assessment findings for 94% of the practices covered. They were the subject of a special statement, reproduced on page 48 of this report.

Integrating social and environmental responsibility into business processes

The business units that have deployed DANONE Way since its launch have adopted over 570 initiatives to further progress in the areas concerned. The resulting impact on all business functions has helped to reduce barriers between them and, by the same token, favor dialog within the business. The issues commonly addressed were in human resources (compensation policies and training), quality (staff involvement in policy implementation and attention to consumer expectations), purchasing (management of relationships with suppliers) and the environment (staff involvement and greater attention to the impact of packaging). Others were more cross-functional, concerning, for example, confidentiality, ethics and contributions to local community life.

At Group level, DANONE Way findings are consolidated to provide a broader picture of areas where progress is needed and adapt policies with the adoption of new targets and new initiatives better attuned to stakeholder expectations. This has involved the launch of several cross-functional projects addressing issues that include suppliers' compliance with Fundamental Social Principles, diversity as a lever for enhanced performance, and promoting awareness of the Group's Business Conduct Policies.



FRANCK MOUGIN,
Executive Vice
President, Human
Resources

"At the beginning, DANONE Way was essentially a tool to evaluate performance in

areas relating to corporate responsibility. Now, after three years of worldwide deployment, it has become much more than that. It is a vehicle for participatory, cross-functional management, drawing on contributions from teams with varied expertise and at different levels in the corporate hierarchy. Most of our business units have now made the project their own, adopting concrete objectives to improve their overall performance. And we have integrated DANONE Way into the annual targets we set with managers and their teams, at the same time working on ways to link business strategy and sustainability more effectively. We are now moving ahead with special emphasis on management training to ensure that DANONE Way is increasingly integrated into every aspect of our operations."

Audit and deployment methodology, action plans.
To learn more, visit www.danone.com and click on "Sustainable development"

KEY GROUPE DANONE
REFERENCES

→ **Antoine Riboud's 1972 speech** to the French employers' association in Marseilles became the core of Groupe DANONE's business values.

These were enshrined in a 1974 document defining our dual commitment to business success and social progress.

→ **Fundamental Social Principles** based on standards defined by the International Labour Organisation. These are the basis of guidelines for all Group companies, affiliates, partners and suppliers.

→ **Statements issued jointly** with the International Union of Food Workers' Associations since 1985, testifying to our commitment to dialog with international trade unions.

→ **The Charter for the Environment** (1996) commits Groupe DANONE to more environment-friendly management at all stages, from product design to recycling of packaging materials.

→ **Business Conduct Policies** (1997) are guidelines for managers on issues such as corruption and conflict of interest.

→ **Groupe DANONE Values** written up in 1997 include openness, enthusiasm, humanism and proximity.

→ **Groupe DANONE Groundwater Resources Protection Policy** (2004) commits the Group to sustainable management of its springs.

→ **The Food, Nutrition and Health Charter** (2005) lists five core convictions including the need for balance and variety in eating, pleasure in eating and drinking, socializing at meal-times, and consumer information.

Corporate governance and organization

Corporate governance

DANONE's Board of Directors met five times in 2004, with director attendance averaging 85%. Board members receive comprehensive information on issues facing the Group, rounded out by direct contacts with operational management at an annual meeting with the Executive Committee. This year, the board analyzed acquisitions and sales that included disposals of biscuits operations in the UK and Ireland, and bottled water business in Italy. It looked into raising production capacity at the Chekhov dairy plant in Russia and reviewed operations at Japan's Yakult Honsha, world leader in probiotics, with which DANONE has signed a strategic agreement.

The Audit Committee ensures that DANONE financial statements are prepared in compliance with Group accounting principles, and that the procedures used for internal data collection and verification guarantee reliable information. In 2004 it reviewed the impact on Group operations of new International Financial Reporting Standards (IFRS) along with procedures for tracking and assessing risk. The Compensation Committee analyzes guidelines for executive compensation, which includes fixed and variable portions as well as stock options. The variable portion reflects success in meeting targets for business performance and a review of strategy developed during the year.

Shareholders

DANONE has over 200,000 shareholders, with 14% of shares owned by individuals and 71% by institutional investors. A further 6.47% are held as treasury stock and 6% are owned by members of the board of directors. Group employees are shareholders through the Fonds DANONE fund, which owns 1.43% of total shares. Shareholders can vote by correspondence, over the internet or at the annual general meeting, where they can also ask questions of management directly. In 2004, the Group took part in 240 meetings with institutional investors, and regularly met with representatives of associations of minority shareholders. A Letter to Shareholders is published twice a year.

Organization

Support from the top, with relays throughout the Group

At corporate level, the CEO plays a key role in rallying all staff members to DANONE Way, starting with the Executive Committee, which in turn sets strategic guidelines and assesses policies. The General Secretary coordinates Legal, External Relations, Quality and Risk Management teams, which brings him into touch with a range of stakeholders—political and regulatory authorities, consumer associations, researchers, nutritional institutions and more. The head of Human Resources, who also serves on the Executive Committee, supervises initiatives undertaken by departments responsible for sustainable development and social responsibility. This unit brings together teams responsible for deployment of the DANONE Way program and environmental policy, providing back-up for restructuring and local programs, and coordinating reporting and relations with rating agencies. It, in turn, is backed by two committees:

→ The DANONE Way Steering Committee, with members drawn from different corporate functions: internal audit, purchasing, sales, marketing, quality, human resources and external relations. This group meets once every three months to track deployment in business units and analyze feedback.

→ The DANONE Way Strategy Committee, bringing together some fifteen heads of business units who meet once a year with Franck Riboud to analyze a given theme.

Business units are responsible for deployment of Group strategy within their local environment. Each enjoys considerable autonomy and reports directly to its own management committees. Heads of business units and regional managers provide impetus and track feedback, evaluating DANONE Way assessments and action plans, and setting personal targets for the heads of business units.

Internal control

In keeping with the provisions on internal control in section 104 of the Sarbanes-Oxley Act, Groupe DANONE documents all relevant procedures with a view to an audit by the end of 2005. One goal in 2004 was integration of existing IT tools and procedures, including the THEMIS management system, DANONE Operating Models for each business area, in-house reporting systems, DANONE Way and the Vestalis risk management system.

Social and environmental reporting

Step by step, DANONE has developed indicators based on guidelines underpinning the Global Reporting Initiative (GRI) and French NRE legislation (new economic regulations). In 2004, Groupe DANONE and the International Union of Food Workers (IUF) together defined 20 social indicators that both parties agreed to track. The hard data these generate—summarized on page 44 of this report—is an invaluable basis for discussions with the Group. DANONE Way assessments included at the end of the report have been independently audited by PricewaterhouseCoopers and Mazars & Guérard.

THE BOARD OF DIRECTORS
INCLUDES:

Franck Riboud, Michel David-Weill ¹⁾, Jacques Vincent ²⁾, Hirokatsu Hirano ³⁾, Bruno Bonnell ⁴⁾, Emmanuel Faber, Jean Laurent ⁵⁾, Richard Goblet d'Alviella*, Christian Laubie*, Hakan Mogren*, Jacques Nahmias ⁶⁾, Benoit Potier*, Bernard Hours ⁷⁾.

Three additional honorary members play an advisory role: Daniel Carasso, Honorary Chairman, and Yves Boël and Jean-Claude Haas. At the close of the General Meeting of Shareholders on April 22, 2005, Board members will include 13 directors, seven of them independent. Members of the Board sit on three committees: the Audit Committee, the Compensation Committee and the Appointments Committee. The last two will merge to create the Compensation and Appointments Committee with effect from the next General Meeting.

¹⁾ After renewal of mandate proposed to the General Meeting of Shareholders on April 22, 2005
²⁾ Subject to the approval of the General Meeting on April 22, 2005
³⁾ Independent directors.

EXECUTIVE COMMITTEE

Members are Franck Riboud, Chairman and CEO; Jacques Vincent, Vice Chairman and Chief Operating Officer; George Casala, Executive Vice-President, Biscuits and Cereal Products; Emmanuel Faber, Executive Vice-President, Finance, Strategy and Information Systems; Bernard Hours, Executive Vice-President, Fresh Dairy Products; Simon Israel, Executive Vice-President, Asia-Pacific; Thomas Kunz, Executive Vice-President, Beverages; Franck Mougin, Executive Vice-President, Human Resources.

Business, society and the environment: DANONE's triple performance

Key challenges

Groupe DANONE responses in 2004

Objectives

Business	<p>DANONE's model for sustainable, profitable performance.</p> <ul style="list-style-type: none"> → Focus on three core businesses with high added value. → Geographical balance between the developed world and emerging economies. → World leadership based on no. 1 local positions. → Steady rise in profitability and redistribution of value to shareholders and other stakeholders. → Tracking stakeholder expectations at all times. 	<ul style="list-style-type: none"> → Sales up 7.8% at constant scope of consolidation and exchanges rates—the strongest rise in 10 years. → Operating margin up 12.4%, 22 basis points above 2003. → Net earnings per share excluding non-recurring exceptional items up 11.2% → 5% rise in DANONE share price over the year. DANONE was selected for inclusion in the Dow Jones Sustainability Index for the sixth year running. 	<ul style="list-style-type: none"> → Organic growth in sales of between 5% and 7%. → Growth in operating margin of around 20 to 40 basis points. → Growth in net income per share of around 10%.*
<p>Employees</p> 	<p>Swift growth on international markets over the past 15 years—expansion in Eastern Europe and Asia, plus growing presence in emerging markets. Nearly 90% of Group employees now work outside France.</p> <ul style="list-style-type: none"> → Rise to the challenge by deploying an ambitious human resource policy reflecting Group values. Ensure strict application of fundamental social principles and contribute to social progress while respecting diverse environments. → Take changes in the job market in stride, making best use of options that help employees to deal with changing professional demands. 	<ul style="list-style-type: none"> → Share a strong corporate culture, reinforced by deployment of DANONE Way at 90% of business units. → Safety at the workplace: 10 accidents/million hours worked. Existence of health/safety committee at 80% of all sites. → Employee representatives at 95% of business units. International dialog between labor and management based on agreements signed with the International Union of Food Workers (IUF), revised in 2004 to better reflect changes in DANONE's working environment. → 83% of employees received training in 2004. → 94% of employees affected by restructuring of Biscuit operations in Europe have found alternative employment/activity. 	<ul style="list-style-type: none"> → Workplace safety: halve accidents between now and 2007. → Track joint DANONE/IUF indicators on training and employment. → Develop employability (Evolution program).
<p>Consumers</p> 	<p>Guarantee product safety and quality.</p> <ul style="list-style-type: none"> → Meet consumer expectations for nutrition, taste, accessibility (price and availability) and practical issues (conservation, preparation). → Meet public health requirements and help promote a varied, balanced diet. Anticipate and adapt to more stringent regulations for communications linked to nutrition and health issues. → Offer products that meet the specific needs of people in emerging economies, and which are accessible to consumers with low purchasing power. 	<ul style="list-style-type: none"> → Food, Nutrition and Health Charter. → Develop products catering to a variety of tastes and nutritional needs, including vitamin-and mineral-enriched fresh dairy products, biscuits and beverages; low-fat products; sugar-free products, notably for infants' ranges. → Research through DANONE's Vitapole Daniel Carasso Center to identify healthy ingredients. → Develop products accessible in Indonesia, India, South Africa, Morocco, and Argentina. → Adopt procedure for validating health/nutrition claims in communications. → Education programs on nutrition and promoting physical activity (Danone Institute). 	<ul style="list-style-type: none"> → Reduce sugar content and sweet taste of selected products. → Gradually expand use of nutritional labeling. → Develop more quality products available at accessible prices. → "Brand Nutritional Platforms" for positioning brands by nutritional value.
<p>Local communities</p> 	<p>Build strong relationships with regional players—a key to global success.</p> <ul style="list-style-type: none"> → Business factors: salaries paid to local workers, purchasing, local taxes. → Employment factors: jobs, know-how for the community, training. → Society at large: commitments to developing the community. 	<ul style="list-style-type: none"> → Training at production plants to raise awareness of local environment. → Support for local initiatives in countries where the Group does business (€11.5 million in 2004). Initiatives may take different forms: employee projects, marketing for humanitarian or environmental causes or emergency aid. → Focus on projects serving children: DANONE Children's Day, Danone Nations Cup. 	<ul style="list-style-type: none"> → Implement international DANONE Way Local Communities program: training in local outreach, networking within the Group and distributing tools.
<p>Suppliers</p> 	<p>Extend responsibility upstream from production.</p> <ul style="list-style-type: none"> → Buy in quality raw materials at competitive prices that ensure sufficient payback for producers. → Ensure that suppliers respect fundamental social principles. → Promote farming practices that help protect the environment. 	<ul style="list-style-type: none"> → Danone Quality Safety Environment approach to secure milk while encouraging best practices in farming, high quality and lasting links to farmers. → International support for sustainable farming through the Sustainable Agriculture Initiative (SAI). → RESPECT program with suppliers: confirm compliance with Fundamental Social Principles. Conduct several audits. 	<ul style="list-style-type: none"> → Launch pilot programs for sustainable agriculture in main countries producing milk for Danone. → Create and deploy a financial auditing tool for piloting aid to dairy farms in France. → Expand the scope of the Respect program to all suppliers between now and 2008.
<p>The environment</p> 	<p>Meet the needs of an increasing number of consumers while limiting the impact of operations on the environment.</p> <ul style="list-style-type: none"> → Produce in safe, clean plants that make efficient use of natural resources. → Preserve water resources on a long-term basis. → Reduce waste linked to packaging by environment-friendly design and support for recycling. 	<ul style="list-style-type: none"> → Green Plant program to reduce consumption of water, energy and electricity resources. → Invest in the environment: €16 million, up 14.3% on 2003. → 75 plants out of 199 are ISO-14001 certified, up 17% from 2003. → Recycle industrial waste: non-recycled waste divided by four between 2001 and 2004. → Groupe DANONE Groundwater Resources Protection Policy. → DANONE is a partner of the Ramsar Convention for the protection of wetlands. 	<ul style="list-style-type: none"> → Targets set by the Executive Committee for 2000-2010: reduce water and thermal energy consumption by 30%, electrical energy by 20% and weight of packaging by 10%, and raise recycling of waste by 80%. → Waste volumes: target for reduction to be set in 2005.

Interview:
Johann ENGELHARD

Johann Engelhard, a dairy farmer who has worked with Danone since 1993, delivers his milk to the Ochsenfurt plant in Germany. A member of his cooperative's board, he runs a herd of 40 cows on 50 hectares (125 acres) of farmland, with an annual quota of 300,000 kg (300 metric tons).



What are conditions like for the dairy farms in your region?

Johann Engelhard → The land is good, but current conditions in the dairy industry are driving farmers out of business. In our cooperative, there are too few farms investing to make up for the lost production of farms shutting down. Farmers need to cooperate more, pool equipment and share work with each other. Young people want to enjoy their weekends. Today I don't know whether I would advise my 15-year-old son to follow in my footsteps. The long-term survival of a dairy farm also depends on being able to get bank loans and run side businesses, which in our region could include fruit production. But a farmer with no savings or inheritance will have a hard time getting financing, since the banker's first question is "Where is your collateral?"

How does cooperating with Danone benefit you, and what needs to be improved?

J. E. → The quality of the milk we deliver is excellent. It's clear that Danone has been a pioneer in setting requirements for dairy production. For example, Danone asks that a sample of everything fed to the cows be kept for one year. That's good practice. When the new dairy production requirements took effect in Germany, Danone producers were not caught off guard. As for improvements, the first thing on the list is financial assistance. It takes a lot of work to ensure traceability, collect data, work out fertilization plans, and do all the paperwork. If you need another software program, that costs money. Danone's current level of assistance is too low. Another point is public relations. Danone should do more to make consumers aware of the quality standards set under the Danone Quality, Safety and Environment program for the dairy industry. For example, we should hold more visitors' days on our farms, when we could give away free product samples.

Consumers are increasingly sensitive to environmental issues. How do you plan to respond?

J. E. → We have made a lot of progress already. We use no pesticides on hay or pasture crops, but we still need them to kill weeds on arable land. With precision farming* we can regulate the use of fertilizers and pesticides on each parcel very precisely—a technique that will sooner or later become the norm. With the reform of the EU's Common Agricultural Policy** and Danone's environmental criteria, consumers will clearly see that we are committed to continuous improvement.

* A sustainable agriculture technique, precision farming uses technologies such as GPS to calculate the requirements of each parcel of farmland on a meter-by-meter basis, allowing farmers to use less fertilizer and pesticide.

** To qualify for EU subsidies, farmers must adopt environment- and animal-friendly farming practices.

Cultivating sustainable supplier relationships

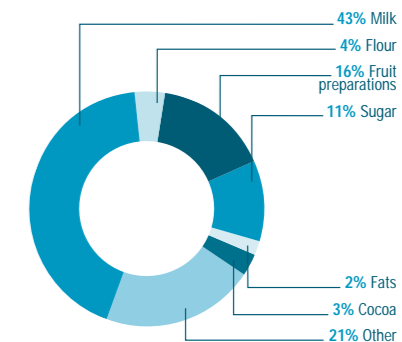
DANONE buys raw materials, packaging, supplies and services from thousands of suppliers worldwide. With corporate responsibility increasingly extended upstream from direct operations, this entails a range of challenges in terms of food safety, the economic viability of suppliers and farming methods. While DANONE has only indirect influence in these areas, the Group is working to build lasting relationships with farmers and other suppliers, and to manage water resources sustainably. In addition, our RESPECT program ensures that suppliers meet minimum labor standards.

Milk: Groupe DANONE's No. 1 raw material

DANONE buys 4 billion liters—more than 1 billion gallons—of milk in 21 different countries, accounting for some 1% of total world output. While milk is purchased locally from farmers near our plants, the size and number of farms vary widely from country to country. The Group buys 70% of its milk directly from producers, a practice that improves traceability and allows greater control over both quantity and quality.

Yet these direct purchases limit our ability to negotiate milk prices for two reasons. Firstly, prices are generally set under framework agreements based on national or European agricultural policies. Secondly, in our fiercely competitive industry we must remain in running: our primary criterion for milk purchases is quality. Groupe DANONE generally buys milk at near-market prices, with a bonus system to promote quality and reliable delivery. We also provide training and advice to farmers, encouraging them to adopt more advanced farming methods that raise their incomes. This is especially the case in Turkey and other countries where dairy production is still based on rudimentary techniques (see sidebar next page).

PURCHASES OF RAW MATERIALS



as % of total purchases in value

DANONE's worldwide purchases of agricultural products totaled €2.15 billion in 2004. Milk is bought in from 15,000 producers, either directly or through cooperatives. Fruit preparations—primarily made from strawberries and peaches—represent around 30% of total world output and are purchased by DANONE from industrial processors that secure their own supplies from farm cooperatives or private companies. Our Fresh Dairy Products line accounts for 90% of the fruit preparations purchased by the Group, with the remainder used in cookie fillings. DANONE buys approximately 500,000 metric tons of sugar annually, or 0.35% of total world output. Sugar used by our European plants, half of which comes from sugarbeets, is produced in major European refineries. For production plants outside Europe, most supplies are made from sugar cane and bought from major companies at world prices. The primary grain used by Groupe DANONE is wheat, supplied in the form of flour. The Biscuits line purchases 600,000 metric tons annually, representing 0.1% of the world market.

IMPROVING MILK QUALITY

The Danone Quality, Safety and Environment program applies to all of our business units worldwide, setting standards for farming practices that are updated annually. Through audits and continuing cooperation with farmers, the Group:

- verifies that milk supplies come from healthy, well-fed cows closely monitored for signs of disease
- guarantees consistent milk quality, with immediate correction of any failings
- ensures that farming practices respect animal welfare and the environment.

FOSTERING PROGRESS IN TURKEY

	2002	2003	2004
Quantity of milk purchased in millions of liters	60	78	180
Number of farmers supplying DANONE	6,000	7,000	15,000
Germs (x 1,000/ml)	7,000	4,000	<1,000
Cold chain observance (%)	85	94	98
Protein rate (%)	3.12	3.14	3.2

Note - Danone Turkey increased output significantly in 2004 with the acquisition of a second plant in Gonen.

Turkey has a strong tradition in dairy foods, with annual yogurt consumption of 16 kg (35 pounds) per capita. As a result, output needs to grow rapidly, but in many cases collection systems are underdeveloped. Herds are small, and protein-deficient feed means that output per cow is only half the average for the European Union. Danone's milk program seeks to improve dairy farm productivity and social conditions, bringing milk volumes and quality closer to EU levels. To this end, the Group is training farmers and providing financial aid to help them buy refrigeration equipment. We have also established a new pricing system with greater rewards for quality initiatives.



DANONE is committed to sustainable dairy production, and the key to achieving this is improved farming practices—which also enhance efficiency and farmers' incomes. Above all, sustainable production techniques allow farmers to reduce consumption of fertilizer, water and non-renewable energy. The Group also provides financial advice to interested farmers, helping them identify areas where productivity could be increased. In France, for example, the technicians who audit and monitor dairy farms have been trained to use a new financial auditing tool. If this initiative is successful, it may be expanded to other countries in 2005.

None of this would be possible without our close partnership with local farmers. In each country, a milk purchasing division buys milk and organizes milk collection, advising farmers and monitoring production conditions. Every farmer is regularly audited under the Danone Quality, Safety and Environment (DQSE) standard, a continuous improvement program based on analysis of food risks. In 2004, the environmental component of the standard was expanded to include waste management, water and energy consumption, biodiversity, and the use and management of animal waste, fertilizers and pesticides.

A charter to protect groundwater resources

While water resources are renewable, they are unevenly distributed and vulnerable to both mismanagement and pollution. The water table, one of the main sources for human water consumption, is replenished by a natural cycle of precipitation, evaporation and runoff, but as human activity has increased, pure groundwater has become scarce. Because water flows are measured in decades, groundwater protection is a critical component of sustainable development, requiring significant investment to safeguard catchment areas.

As the operator of some 80 springs worldwide, Groupe DANONE has made catchment area protection and integrated spring management top priorities. In keeping with these responsibilities, we never use more water than each spring naturally produces. In addition to cooperating with farmers and other local economic players, the Group complies with national legislation and contractual agreements, which can include restrictions such as bans on drilling and regulation of activities that can cause pollution. Tapping facilities are designed to strict hygienic standards, and water composition and quality are tested daily at bottling plants.

To communicate the Group's strategy clearly to all its business units around the world, in October 2004 Franck Riboud signed a charter for the protection of underground water resources. The charter defines our obligation, as a user of natural resources that are a common heritage, to manage groundwater sustainably. It also reaffirms our main goals for protection of natural resources, providing specific operating guidelines for all of our business units around the world. The management of each business unit is responsible for developing an action plan in accordance with these guidelines, and each spring operation is regularly assessed for compliance.

Working with suppliers to improve social conditions with RESPECT

Groupe DANONE has an increasing number of plants and suppliers in emerging countries with widely varied cultural and socio-economic conditions. Given these complex circumstances, and in response to the urging of social-responsibility stakeholders, the Group is working with suppliers to ensure their compliance with fundamental social principles, as defined by DANONE on the basis of International Labour Organization standards. We began by including related provisions in our General Terms & Conditions but have now gone beyond this purely contractual approach. In 2003 representatives of the Sustainable Development, Social Responsibility, Quality and Purchasing departments formed the RESPECT working group, which then developed and tested procedures to assess local situations through an initial series of five outside social audits.

In 2004, a second series of audits assessed 19 suppliers in China, Thailand, Pakistan and other countries identified as "sensitive" with respect to human rights in the workplace. These audits are the first step towards a master strategy for responsible purchasing that provides adequate safeguards for fundamental social principles. To help DANONE managers address this issue, we have provided them with a number of practical tools, including guidelines for evaluating suppliers at risk, an instructional booklet on fundamental social principles, a self-assessment questionnaire for suppliers, and an observation questionnaire. In addition to continuing the outside social audits, in 2005 our business units will be encouraged to adopt the RESPECT strategy through information campaigns, training sessions for the managers concerned—largely in the Quality and Purchasing departments—and broad distribution of practical tools. Our goal is to expand the program to all our suppliers by 2008.



PROTECTING KUBANG'S WATER

The Kubang spring at the foot of Mount Salak in Western Java is one of Aqua's largest bottled-water production sites. With annual output of 870 million liters (some 230 million gallons), the Mekarsari plant has nearly 1300 employees on its payroll. The Kubang catchment area is estimated to extend over terrain with altitudes ranging from 450 to 2210 meters (1475-7250 feet). To protect the spring from possible pollution resulting from urbanization and farming, in 1994 Aqua acquired 13 hectares (32 acres) of land around the spring and established the Kubang conservation area. Access is strictly controlled, and collection points are fenced off to prevent contamination. Trees were planted to favor soil infiltration and ensure good water quality. Finally, Aqua contributes to local development through job creation and taxes on its spring operation. Convinced of the importance of protecting this natural resource, Aqua plans to help with reforestation an even larger area around Mount Salak.

Sustainable farming, water resources, RESPECT
 To learn more, visit www.danone.com and click on "sustainable development"

Interview:
Catherine
GESLAIN-LANÉELLE

Catherine Geslain-Lanéelle is Vice-Chair of the European Food Safety Authority (EFSA), the agency responsible for assessing food-related risks "from farm to table." She worked on risk assessment and management for the European Commission for several years.



What are the latest developments in the field of food-related risks?

Catherine Geslain-Lanéelle → Systems for assessing and managing food-related health risks in the European Union have changed dramatically over the past ten years. Although the systems vary widely from one country to the next, they all share the goal of strengthening existing structures. In addition, food scares have prompted the public sector to begin making a clear distinction between risk assessment, which means identifying risks, and risk management, which means taking steps to control them. As a result, businesses and others have a better understanding of the public sector's decision-making process, making for greater transparency. The challenge confronting us now is to make the national systems and the European system work together effectively, so that we can continue to improve food safety and build consumer confidence.

How can we broaden the effort to include other areas such as the environment?

C. G.-L. → Environment-based food safety concerns are a more recent development, but they were not forgotten when EFSA was set up. The Authority will call in the expertise it needs to incorporate environmental protection into our assessment of the risks related to genetically modified organisms. The main difficulties are finding ways to organize environmental expertise effectively and factor it into the decision-making process. We have made less progress on this at European level. I might say that the business community has more advanced tools and methods. Food companies are particularly sensitive to this issue because the quality of their raw materials depends in large measure on the environments they are produced in.

How should the public and private sectors work together?

C. G.-L. → That is a very important question, and one that EFSA has been addressing from the beginning. Businesses still have the primary responsibility for the safety of the products they sell. Risk managers and assessors need to work with them and draw on their familiarity with production processes and the operation of the food chain, as well as the know-how developed for their inspection systems. My experience with both businesses and consumers shows that the key to success is cultivating dialog at all times—and not just when we have a food scare. The two sides don't always have the same interests at the same time, but each needs to understand the constraints affecting the other. That is the only way to build trust.

* EFSA : European Food Safety Authority.

Making plants safe and environment-friendly

→ **KEY FACTS AND FIGURES**

→ ISO 14001 Certification

37.6% of DANONE plants at business units included in consolidated accounts are certified.

→ Food safety at DANONE plants

150 tests for organoleptic characteristics and for chemical and microbiological content are performed each hour on every dairy production line.

250 laboratory tests for microbiological and chemical contaminants are performed on the 5 million liters (over 1.3 million gallons) of water produced each day at Evian.

250 in-plant tests are required to make enough DANONE biscuits to fill the average supermarket display.

DANONE has 199 production plants around the world. Keeping them safe, clean and environment-friendly presents challenges for the Group on several fronts: controlling environmental and food-safety risks, conserving natural resources, and managing environmental policy. To meet these challenges, we have developed a Group-wide quality program and are moving to anticipate new risks, at the same time extending the scope of policies beyond our own operations to cover supply and distribution.

Food safety: our first responsibility

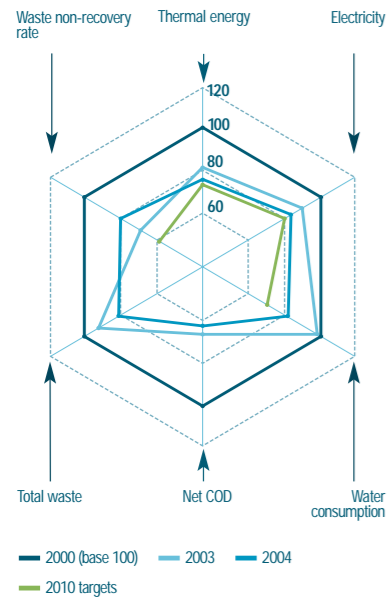
A common risk management system serves all three of the Group's business lines, ensuring effective control of risks at every stage of production from reception of raw materials to sale of the finished product. Our food-safety teams count more than 2500 managers specializing in quality, development, purchasing, production and logistics. In addition to the Corporate Quality Department and the Food Safety Center, there are dedicated Quality Departments for each business line and production site. In 2004 DANONE updated its food-safety policy, issuing new directives that address traceability, risk analysis, allergens, biomonitoring and other fundamental food-safety issues.

Supply-related risks are managed by the Food Safety Center, which characterizes existing risks and identifies emerging dangers. The Center actively monitors scientific developments, integrating new expertise into its knowledge base. Working with the business lines, the Center ranks risks by severity and frequency, enabling each line to identify the risks specific to its own ingredients and production process. Risks are then grouped into four categories: chemical, physical, microbiological and allergy-related. Distribution-related risks are tracked by our Quality teams. Risk-control methods include supplier specifications, food-safety certification, audits and analysis (both at supplier sites and at DANONE's own production facilities), compliance with good production and hygiene practices, and, finally, traceability—from our suppliers through our own plants to our distributors.

ENVIRONMENTAL INDICATORS: TARGETS AND RESULTS

Between 2000 and 2004, environmental impacts were reduced as follows for all DANONE production sites combined:

- Thermal energy: - **25%**
(2010 target: - 30%)
- Electricity: - **15%**
(2010 target: - 20%)
- Water consumption: - **8%**
(2010 target: - 30%)
- Net COD: - **45%**
(target to be set in 2005)
- Total waste: - **19%**
(target to be set in 2005)
- Waste recovery rate: **76%**
(2010 target : 80%).



Reducing the environmental impact of production drives policy

Since its launch in 1995, DANONE's Green Plants initiative has reduced water and energy consumption, limited waste and optimized waste recovery. Indicators quantifying the results of the program appear at the end of this report. The environmental impact of Group operations was significantly reduced in 2004 (see sidebar), when investments totaling €16 million—14.3% more than in 2003—targeted two priorities: treating wastewater at our plants and reducing the use of fossil fuels. On this point, only a few DANONE plants are subject to the EU quotas implementing the Kyoto Protocol, but the Group has moved beyond its legal obligations, in particular through initiatives to reduce greenhouse emissions caused by refrigeration.

Under the Group's recycling program, we separate materials in our plants to improve waste recovery and work with suppliers to increase recycling of their packaging and raw materials. These initiatives have cut unrecovered industrial waste by 76% over the past three years. To reduce the impact of our operations even further, the Group's environmental program goes beyond regulatory requirements to identify ways of reducing risks. For example, understanding outdoor-fire prevention is helpful in assessing the risk of pollution from wastewater used in firefighting. Our environmental program also covers supply chain and subcontractors' activities in addition to our own operations. Our certified plants now evaluate suppliers annually for environmental compliance. DANONE shipping and storage facilities have obtained the first ISO 14001 certification in Europe and South America.

The Group has identified three priorities for reducing environmental impacts in 2005. Firstly, the Green Plants program has set new targets, calling for annual reductions of 4% in greenhouse emissions and fossil fuel consumption. Secondly, managers will have access to new tools backing eco-design, which builds environmental concerns into products before they leave the drawing board. And, finally, DANONE will be moving to reduce transport-related impacts.

Broad participation in environmental program

All the Group's business units report regularly on the progress of our environmental program. Risk analysis and regulatory compliance are assessed annually, and in 2004 our production sites began monitoring environmental indicators on a monthly basis. A targeted internal communications campaign helps each site analyze results and set goals that are appropriate for local conditions. Environmental concerns are integrated into equipment storage, waste treatment and other aspects of workstation design, and annual training for production line operators covers issues such as local environmental requirements, the plant's contribution to the Group's performance, and the environmental impact of day-to-day work habits.

A worldwide network of 75 environmental managers promotes our policies and communicates them to plant employees. When new industrial facilities are built, DANONE representatives work with local communities to address energy consumption, water treatment and other issues affecting the local environment.

Streamlining environmental management

DANONE's policy is based on ISO 14001, the international environmental standard for the evaluation of production processes. Of the plants within the Group's scope of consolidation, 75 were ISO-14001 certified in 2004, 17% more than in 2003. We also conducted audits to validate our results and track progress in the areas of food safety, environmental impact, customer satisfaction and safety at the workplace.

To make plant management more efficient, Groupe DANONE is moving towards a unified system that will integrate business units and production sites currently under different certifications. This unified system will allow cross-functional verification of management reviews, corrective and preventive action plans, disposition of nonconformity, training, documentation and risk analysis.

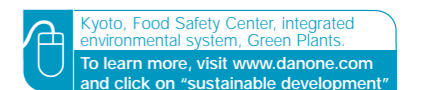
ENVIRONMENT-FRIENDLY DAIRY PLANTS

Our dairy plants account for 54% of the Group's total water consumption and generate 89% of the waste treated. Pollution caused by dairy plants stems from the water used to wash equipment and spillage during production. DANONE is acting to reduce these environmental impacts on three fronts:

→ Reducing water consumption
The Group plans to reduce water consumption by 30% between 2000 and 2010. The Fresh Dairy Products line has already reduced consumption by 3.6%. At plant level, each unit monitors consumption and regular poster campaigns promote good workplace practices.

→ Reducing waste at source
Our primary goal is to reduce spillage during the production process. In addition to protecting the environment, this improves the Group's bottom line by cutting costs for both raw materials and wastewater treatment.

→ Making wastewater treatment more effective
By raising standards for final waste quality and establishing wastewater treatment plants for production sites with no existing treatment capability, we have reached a purification rate of 95%.



Interview:
Prof. Philip JAMES

Prof. James is Chairman of the International Obesity Task Force, which was responsible for drafting the first World Health Organization (WHO) report on obesity. He also chaired and wrote the United Nations Commission's Report on global issues in nutrition (2000).



What are the biggest challenges in nutrition today? Is obesity the only issue?

Philip James → I have been working in nutrition for forty years and it is clear that we should not look only at the topic of obesity. We must say also that people have more settled ways of life. Analyses from WHO revealed that, besides malnutrition, the biggest issues in the world are heart disease and strokes. These are linked to nutrition, and obesity is only part of the problem. New analyses show that a lack of fruit and vegetables has an effect on blood pressure and cancers. Rising heart disease trends are partly related to the fact that the good Omega-3 fatty acids that come from fish and vegetables are deficient. And drinks rich in sugars are increasingly considered to be linked to the development of obesity.

Are people well informed about nutrition?

P. J. → Not well enough, but I don't think that education is the only solution. I know that many of my colleagues would not be able to explain the latest developments in understanding nutrition. If that is the case, how can the public be expected to cope with even relatively simple concepts in this field: saturated fat, Omega-3 fatty acids, different sorts of sugars and so on? Labelling products to take account of this is one of the challenges that we face. And other factors than knowledge lead people in their food choices: the price of food and its instant availability are what influence them first. There has also been economic pressure, which has made meat, fat and sugar cheap.

What roles can a food company in nutrition and health play?

P. J. → A food company should have a substantial range of high-quality products—not only in terms of consumer taste acceptability but also in terms of nutrition and health. I believe that there will be a swing towards healthy products. The other issue is whether people

intrinsically like salty, sweet and fatty foods. This is in part true: our origins were in Africa, where there was not much fat, salt, and sugar. A child who has been brought up on a beautiful diet will know the delights of fruit and vegetables. People go for sugar, fat and salt but it is partly because they have been exposed to this type of food from childhood and faced with advertising. A vicious cycle has developed. It will take time to change that. The food industry is being blamed, but that is a crude analysis. I do not have any instant answers, but I believe that we—experts, governments and food companies—need to develop a proper interaction to change the quality of products, so that the formulations are slowly and steadily shifted in the right direction. In my view, people will then begin to appreciate the flavours which come from traditional food. I believe that DANONE, as a very responsible company, is trying hard to maintain its positioning as a high quality, environmentally and nutritionally sensitive food company.

Safety and quality to match consumer expectations

As a food company, our first responsibility is to provide the safe, nutritious products consumers expect. Diet and nutrition are increasingly critical public-health issues—complex questions in areas including lifestyles and their interaction with genetics. DANONE can play a valuable role by working with authorities, schools, consumers, the media and healthcare professionals to encourage healthy eating habits.

Packaging is another challenge for the Group. While consumers expect it to fulfill its primary function of protecting the product, they are also conscious of its environmental impact. DANONE is thus working to reduce packaging volumes and, by the same token, waste.

Focus on quality stepped up in 2004

DANONE quality policies, implemented with the support of dedicated teams, are currently managed within the framework of ISO 9000 standard but will soon shift to ISO 22000, which has broader scope, covering the entire production process from raw material to finished product.

The Group Quality Department sets policy at the corporate level, defining standards, setting up systems and establishing a consistent set of performance indicators for our three business lines—Fresh Dairy Products, Biscuits and Beverages. The business lines then translate this policy into guidelines tailored to their operations as regards production processes, ingredients, suppliers and other specific concerns. Each individual business unit is responsible for adapting Group policy to applicable national law and for developing products that meet the specific needs of local consumers.

Following review, quality management has been reorganized and its scope extended, with areas of responsibility now including raw materials and packaging, food safety, regulatory compliance, crisis management and quality systems.

KEY FACTS AND FIGURES

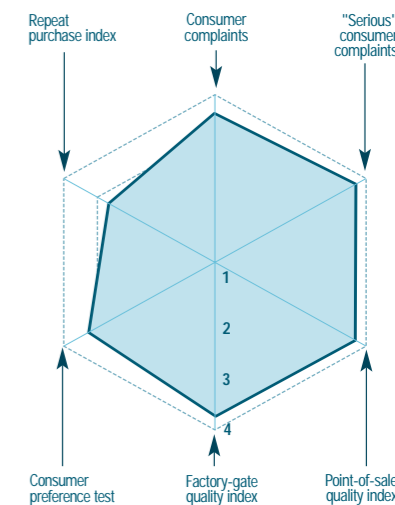
1991 Year the first Danone Institute was established. Since then, Danone Institutes have supported more than 600 research programs.

15 Number of Danone Institutes worldwide. For more information, visit www.danoneinstitute.org.

70 Number of nutrition programs developed by Danone Institutes for the general public.

CONSUMER SATISFACTION RADAR: A DANONE QUALITY INDICATOR

This indicator, incorporating varied criteria, is currently used to rate DANONE's ten leading dairy and biscuit brands for compliance with Group specifications and consumer expectations.

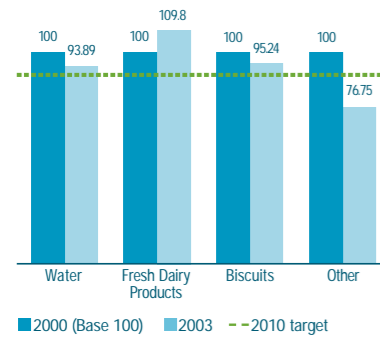


A rating on a scale of 1 to 4 is assigned for each criterion, with 1 corresponding to the lowest level of satisfaction and 4 to the highest. A serious consumer complaint is one that affects the consumer's health and/or may result in pathology or disease. The factory-gate index measures the product's compliance with key specifications at the end of the production process. The point-of-sale quality index assesses the impact of shipping and handling on the product. The consumer preference test compares the DANONE product with its leading competitors. Finally, the repeat purchase index measures consumer loyalty.

FOOD, NUTRITION AND HEALTH CHARTER: NINE COMMITMENTS

- 1 **Product ranges:** develop products for varied tastes and nutritional needs.
- 2 **Dialogue with scientists:** maintain an on-going relationship with the scientific community.
- 3 **Research:** support research into nutrition and health.
- 4 **Sharing of knowledge:** share information with scientists, health professionals and the public.
- 5 **Public organizations:** cultivate dialog and partnership with public institutions and consumer associations.
- 6 **Consumer information:** provide consumers with clear, transparent information.
- 7 **Health and nutrition claims:** make health and nutrition claims only when they are backed by scientific evidence.
- 8 **Advertising:** ensure responsible advertising on nutrition and health.
- 9 **Physical activity:** encourage consumers and employees to get regular exercise.

PACKAGING/PRODUCT WEIGHT RATIO



This indicator reflects change in each business line's leading European products since 2000



The Group recommends that the quality manager for each business unit report directly to its General Manager. In addition, each business unit forms a quality committee to handle consumer complaints and decide on corrective action.

Although their first priority is ensuring that our products meet regulatory requirements, DANONE quality managers must also be capable of analyzing and anticipating consumer needs. To cultivate these skills, the Group has set up training programs to deepen managers' understanding of the link between consumer perceptions and product quality.

New Food, Nutrition and Health Charter

In March 2005 the Group set out its convictions and commitments in a Food, Nutrition and Health Charter. The nine commitments contained in the Charter identify action that the Group can take to improve consumer health and nutrition (see sidebar), serving as a touchstone for DANONE employees worldwide and shaping product formulation. The Charter also urges cooperation with stakeholders and reiterates the ethical principles underlying the Group's information and communication initiatives.

Tasty, nutritious products

The nutritional value of a product must be balanced against consumer expectations in terms of flavor and pleasure. Because flavor is one of the primary criteria in beverage and food purchases, sugar and fat content cannot be reduced overnight. Sugars, for example, play a significant role in the flavor and texture. To make our products both nutritious and tasty, the Group is taking a progressive approach, reducing sweetness and sugar content gradually.

Drawing on the expertise of the Vitapole Daniel Carasso International Research Center, the Group develops products for a wide variety of tastes and nutritional needs, improving quality as new scientific knowledge becomes available. To take some examples, Danonino (also known as Petit Gervais)—one of the four leading brands in our Fresh Dairy Products line—is now enriched with vitamins and minerals to fight child nutrition deficiencies in twelve countries, while canola oil, high in omega-3 fatty acids, has replaced less beneficial fats in several biscuit lines.

We also offer consumers a range of low-sugar and sugar-free products, including baby food. DANONE researchers are also working to identify healthful active ingredients and establish scientific evidence of their benefits. Examples include probiotics such as the live cultures present in Bio-Activia and Actimel.

Communicating with consumers

Because diet is so important for health, our messages to consumers must be clear and rigorously accurate. In 2002 the Group established procedures for validating nutrition- and health-related advertising (see box). Clear, informative product labeling is also a priority, and DANONE is in the process of adding nutrition labeling to all its products. In 2004, nutrition labeling appeared on the packaging of 100% of beverages, 65% of biscuits and 95% of fresh dairy products sold in Europe. In addition, the Group promotes exercise as part of a healthy lifestyle. In 2004 the children's brands in our Biscuits line participated in several programs encouraging physical activity. Finally, the Danone Institutes support our consumer communications effort by developing educational programs, including a recent campaign designed to help French parents prevent child obesity.

Reducing packaging waste

The Group is currently on track to achieve its target of reducing packaging weight by 10% between 2000 and 2010, but product development trends mean we will have to step up our efforts.

While source-reduction efforts have reduced the weight of household waste in France and other countries, the total number of package units is rising in response to demographic and lifestyle changes—with more people living alone, and less time available for preparing meals, individual packaging is increasingly popular. As part of our commitment to reducing packaging waste, we factor the environment into our packaging from drawing board to recycling bin, taking action on three fronts.

→ Innovation. Environmental concerns have become an integral part of our product and packaging design process. For example, our Biscuits business line validates new packaging on the basis of a nine-point checklist that includes separability of packaging components for recycling and the availability of recycling systems. The Vitapole Daniel Carasso International Research Center also monitors technological developments, assessing new materials for compatibility with existing recycling systems and consumer appeal.

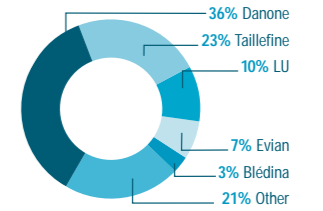
→ Reduction at source. DANONE looks for ways to reduce the weight of packaging without compromising its essential function of protecting the product or making it too fragile to withstand the packaging process. For example, the Actimel bottle has dropped from 7.6 to 7 grams (or roughly .27 to .25 ounces) over the past two years, cutting plastic consumption by 12,000 metric tons.

→ Recycling. In 2004, 35 of the Group's business units contributed a total of €80.7 million, or 1.2% of their net sales, to packaging collection and recovery programs. In addition, DANONE participates in communication and training programs in eleven countries and provides funding for the Green Dot system, a private-sector initiative that helps local communities collect and recover household waste.

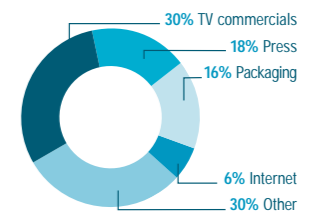


VALIDATING HEALTH AND NUTRITION CLAIMS: 2004 IN REVIEW

→ By brand:



→ By medium:



% of messages validated by the General Secretary in 2004

The validation procedure applies to all advertising media, from radio and television commercials to packaging and brochures. The accuracy of consumer advertising is ensured by a three-level review process that involves the business unit, the business line's quality manager and, in some cases, the Group's General Secretary. In 2004, nearly 2800 advertising texts were validated by the business lines. Of the 250 validated by the General Secretary last year, 12% were changed. In most cases, modifications were to ensure that health and nutrition claims were in keeping with scientific evidence.

Labeling, respecting consumers' personal lives, Danone Institute
 To learn more, visit www.danone.com and click on "sustainable development"

Interview: Jayaseelan NAIDOO

Jay Naidoo is Chairman of the Global Alliance to Improve Nutrition (GAIN), an NGO created to scale up a global response to vitamin and mineral deficiencies through fortification of basic foods. A former Minister in the Mandela government, he is now Chairman of the Development Bank of Southern Africa.



What are the big challenges for food today?

Jay Naidoo → Not enough attention is given to malnutrition. GAIN has been created to scale up a global response to vitamin and mineral deficiencies. The challenge is massive since two billion people around the world suffer from these deficiencies. If not significantly reduced, it is estimated to cost the global economy about US\$180 billion over the next 10 year in terms of impairment of growing minds, damage to immune systems, maternal and child death, loss of productivity and growth. The worst affected regions are sub-Saharan Africa and South Asia. One of the most important challenges is the lack of awareness. It is urgent to mobilize head of states and business leaders as well as civil society in order to make the issue much more prominent on the global agenda. In that perspective, the food industry and consumers groups have a critical role to play to create a strong constituency able to mobilize enough resources and innovation to free the world of mineral and vitamins deficiencies.

Deficiencies affect children's health, hence their capacity to receive an education. How can we tackle this problem effectively?

J. N. → Vitamin and mineral deficiency has largely been brought under control in the industrialised nations, through proven low-cost strategies such as food fortification which is an efficient way to give children a chance to grow and learn in the best conditions. GAIN's goal is to contribute, by 2007, to the improved nutritional status in up to 40 developing countries, primarily through fortification of commonly consumed local foods. An efficient action is not only based on technology and science, but also on the capacity of the main players to work together. At the end of the day, the consumer will make the decision to purchase fortified products—but only if these are safe, accessible and affordable, and taste and look the same as the unfortified food.

In your opinion, what could be the role of a company like DANONE?

J. N. → I have witnessed the engagement of the food industry in recent years. Companies are developing innovative approaches through partnerships with development agencies, civil society and governments. Partnerships must make business sense for a firm and for an NGO as well. Partners have to accept that it may take longer than a traditional project. Often it is better to test working together with a pilot project on a small scale that will produce short-term success in order to keep the partners motivated. DANONE's role can be to develop quality products for the poor that are affordable and accessible. I know you already have successful experiences in developing countries, but more can be done by developing an innovative business model. Fortification is cheap but still it adds to the production cost of products with already limited margins. Use your brand name to mobilize decision makers and public opinions around vitamin and mineral deficiencies. Be a champion for the cause!

Affordable products for low-income consumers

Over the past 15 years, Groupe DANONE has moved into a number of emerging markets, including China, Indonesia, India, North Africa, and South Africa. In all of these countries, the sale of high quality food products is held back by the low purchasing power of consumers. Today Asia, Latin America and the Africa/Middle East region account for no less than 24% of Group sales. To put our products within reach of low-income consumers, we launched DANONE's Affordability initiative, developing products with significantly enhanced nutritional value that meet local needs at an affordable price—without compromising our high standards for quality and food safety.

Because DANONE's roots are in Europe, where purchasing power is relatively high, this is a complex task, requiring the identification and analysis of best practices throughout the Group. Adjusting prices to the purchasing power of consumers in emerging countries means trimming production costs across the board. In addition, products must be adapted to the habits of local consumers, who tend to buy only what they need each day and choose the cheapest products as a matter of course. The Group thus keeps prices at levels not exceeding psychologically important limits—one renminbi in China, one dirham in Morocco, and 1,000 rupiah in Indonesia. Distribution channels are also a factor, since the primary outlets in emerging countries are small neighborhood stores. Because they are numerous and widely scattered, they are difficult to supply, yet their limited storage capacity and cash flow require suppliers to make frequent deliveries.

In meeting the challenge of affordability, the Group is working to build authentic brands that stand for high nutritional value, not second-rate products. Our Biskuat product is already a success in Asia, and several pilot programs are underway in other parts of the world. These include a one-rand yogurt in South Africa and Moufid yogurt, which sells in Morocco for one dirham. DANONE's new model for emerging countries will build on the success of these initiatives.



BISKUAT: AN AFFORDABLE PRODUCT FOR INDONESIA

DANONE is Indonesia's number-one water company, with 40% of the market, and also ranks as its number-two biscuit company. Indonesia leads the world in daily volume of DANONE products consumed, including a line of products designed specifically for this market, where most people live on less than €2.30 a day. In 1999 the Group launched its Biskuat brand calcium- and vitamin-enriched biscuits. Sold in two sizes priced at 500 and 1200 rupiah (€0.05 and €0.12), Biskuat is a nutritious product that everyone can afford. In 2004, DANONE followed this up with Milkkuat, a dairy drink that is also enriched with calcium and vitamins. One 100-ml (3.5-oz.) bottle sells for 1000 rupiah. Three months after launch, more than 10 million bottles of Milkkuat had been sold, giving DANONE an 11% market share.

Affordability and nutrition.
To learn more, visit www.danone.com and click on "sustainable development"

Interview: Ron OSWALD

Ron Oswald is Secretary General of the International Union of Food Workers' Associations (IUF), an international labor federation representing food industry workers in 120 countries. Since their first agreement in 1988, IUF and Groupe DANONE have signed six conventions, providing a framework for dialog on international labor issues.



The IUF has criticized the concept of "corporate social responsibility." Why?

Ron Oswald → In our view, the essential thing is not for employers to develop a unilateral definition of their "social responsibility," but to respect existing rights. I don't think it's a good idea for employers to redefine what they should or should not be doing in the absence of any dialog. I am oversimplifying a bit, but the point is not so much that employers have responsibilities as that employees have rights. These fundamental rights are defined in both the International Labour Organization (ILO) Convention and the OECD Guidelines for Multinational Enterprises—and, in some instances, in international agreements such as the ones signed by DANONE and IUF.

What were the most significant developments in IUF's relationship with DANONE in 2004?

R. O. → We made a good deal of progress, especially in applying the DANONE-IUF agreements to all of the Group's activities. We had a difference of opinion over the geographic scope of our agreements, which were drawn up at a time when the company operated primarily in Europe. We have now found a solution that allows us to apply the agreements worldwide without taking a one-size-fits-all approach. All of the Group's employees have rights, and all of them, no matter where they work, should benefit from the progress that IUF and DANONE have made. The second positive development involves suppliers. In addition to respecting the fundamental rights established under the ILO Convention within the Group, DANONE has asked its partners to do the same. Suppliers who fail to comply risk jeopardizing their relationship with the company. Thirdly, DANONE signed a charter on outsourcing designed to ensure that the employees of sub-contractors receive the same treatment as the Group's own employees. IUF would like to go even further and examine why and how work is outsourced.

How can we ensure that labor agreements and workers' rights apply in practice?

R. O. → This is a very important issue. Committing these principles to paper is not enough—we need ways of confirming that they are actually being put into practice. We question the value of calling in outside auditors, who are by definition strangers to the corporate culture, and often to the social setting as well. Last year we suggested that the Group monitor social indicators, and these have now been defined. While the numbers have little value in themselves, they do show trends. As the union continues its dialog with Groupe DANONE through the Information and Consultation Committee, these indicators will provide both sides with a clearer view of the Group's operations and performance.

Respecting social principles around the world

A source of unity in the workplace and competitive edge in the market, DANONE's human resource policies are the cornerstone of our reputation and success.

As we expand our business lines and geographical reach, we face the challenge of staying true to the spirit and aspirations of these policies across a broad range of cultures and business environments.

Fundamental social principles: moving forward together

Human resource policy at DANONE reflects the degree of control exercised by the Group in a range of situations, with targets varying in proportion to our influence. Subsidiaries controlled and managed by the Group must implement our six-point human resource policy, which is also an integral part of the DANONE Way program (see page 10).

At affiliates linked to our Group by shareholders' agreements but not managed by DANONE itself, we negotiate agreements setting goals in fields such as occupational safety and health, training and benefits that go beyond fundamental social principles. Subcontractors must comply with standards set out in a special charter. Fundamental social principles are the minimum standard for Groupe DANONE business units, and we strongly encourage all affiliates, subcontractors and suppliers to meet them as well (see sidebar).

Respecting fundamental social principles is the first practice listed under the Employees theme of the DANONE Way program. 2004 results show that 94% of our business units comply, but there is still room for improvement, especially in the area of employee representation, which in some countries is nonexistent or where national law has contrary provisions.

DANONE'S SIX-POINT HUMAN RESOURCE POLICY

The Group's policy addresses the challenges of globalization, training and social responsibility.

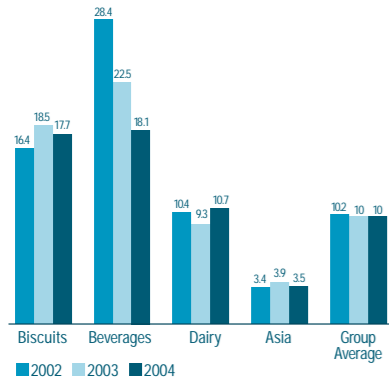
- 1 **Promote high professional standards** for all employees to stay in step with the changing business environment and enhance employability.
- 2 **Improve management performance** through the Odyssey program.
- 3 **Encourage new forms of organization,** training and networking attitudes.
- 4 **Base management on contact and dialog** with employees and their representatives.
- 5 **Formulate attractive policies** recognizing individual and collective contributions.
- 6 **Run a socially responsible company** built on the DANONE Way program.

FUNDAMENTAL SOCIAL PRINCIPLES

These principles, based on International Labour Organisation conventions, define minimum standards for DANONE business units, business partners and suppliers:

- prohibition of child labor
- prohibition of forced labor
- prohibition of all forms of discrimination
- freedom of association and the right to collective bargaining
- protection of the physical integrity of employees in the workplace
- application of national law on working hours
- application of national law on minimum wages.

WORKPLACE SAFETY



* The graph shows the number of workplace accidents resulting in at least one day's absence per million working hours.

The relatively high accident rate for Beverages reflects growth in water deliveries, raising the risk of traffic accidents. Over the past three years, the division has nonetheless improved its results, due in part to marked progress in Mexico, where deliveries previously handled by external suppliers have moved in-house. The accident rate for our Biscuits line is also relatively high, since production involves substantial manual input. Aware that these results fall short of the mark, the entire Biscuits management team is actively implementing the WISE program to improve workplace safety. While the overall rate for Fresh Dairy Products is better, individual results are uneven—of the 20 business units in this line, ten saw safety conditions deteriorate, particularly in Europe, while six showed improvement. In Asia the accident rate remains low, but data should be viewed with caution, since differences in culture and perception of risk can result in underreporting. Conscious of the importance of safety, DANONE is taking action to reduce accidents by half over the next three years.

Improving safety in the workplace—a critical responsibility

A core component of our human resource policies, workplace safety is a priority and addressed concretely through:

- safety and health committees that ensure equipment runs properly and complies with applicable standards. Worldwide, 80% of our production sites have a safety and health committee, and of those, 90% hold regular meetings on workplace safety;
- audits to identify hazards and plan accordingly;
- safety management that includes hands-on involvement of management teams, training, and dialog between operators and managers.

Results for 2004 were inadequate. There were five fatalities, four resulting from traffic accidents during working hours, and over the past three years statistics on workplace accidents—the No. 2 safety indicator—has shown little improvement (see sidebar). In response, we are stepping up our efforts and plan to halve workplace accidents over the next three years. Several new initiatives were also launched in 2004. The Group's executive committee now analyzes results for all production sites each quarter, and a safety index allows employees to track progress. Safety management audits, already deployed at Biscuit production sites under the WISE program, are now beginning in the other two lines. Finally, a targeted in-house communications campaign uses staff seminars, "Best Practices" networking events, and other venues to raise awareness of safety among our employees.

Compensation: motivating employees and staying competitive

Wherever we operate, Groupe DANONE aims to apply best practices for compensation, based on comparable work and comparable companies. A new reporting system contains data for some 50 business units, representing around 16,500 entry-level operator positions. These partial results are a good indication of trends in the rest of the Group (see box).

As reflected in responses to our 2003 manager survey, the Group has taken significant steps toward a transparent compensation policy, promoting effective communication and clearly linking pay levels to performance and professional development in annual reviews. Our managers are now thoroughly familiar with our ranking system, and new information management tools enable department heads to provide better information to employees. Among these tools are a company-by-company analysis of compensation policy, information on each employee's ranking, and objective targets and incentives for pay raises. As the graph opposite shows, DANONE is working steadily towards achieving its goal of staying competitive with leading international players, by keeping total payments above the median in each country where it operates. The graph includes data on 7,600 managers, or 77% of the total population.

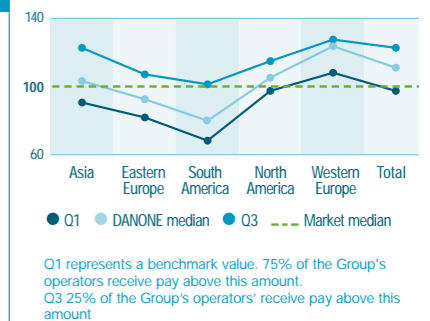
Social dialog amid diversity

Social dialog includes give-and-take with employees and their representatives or trade unions by Groupe DANONE and by business units. A Group-wide survey in 2004 showed that there is some form of employee representation in nearly all DANONE business units, with unions present in over 80% and/or representatives elected at 45%. All hold meetings to inform and consult employees or their representatives, and 70% negotiate collective labor agreements with union or employee representatives. Issues most frequently addressed are compensation, working hours and conditions, and workplace safety. The definition of skills required for management functions in manufacturing, including plant managers and heads of operations, includes industrial relations, more specifically the ability to develop constructive social dialog.

At international level, since 1988 DANONE has signed six agreements with the International Union of Food Workers' Associations (IUF). These reflect our partnership with IUF to promote issues such as gender equality, the exercise of union rights, training, and changes in business affecting employment or working conditions. In 2004, DANONE and IUF reached final decisions affecting:

- the geographic scope of our agreements. With expansion, DANONE has moved into new countries where labor negotiations are not common practice. Thus original agreements signed when DANONE was essentially a European company have now been revised to include all countries where the Group is present. For example, the required three months' advance notice of restructuring has been adapted for countries where this practice does not exist, with the revised formulation providing that in such cases "any exception to the general rule shall be discussed by the parties in advance."
- the use of social indicators. As part of our ongoing dialog with IUF through the Information and Consultation Committee, the Group will provide the Committee with annual data on 20 jointly defined societal indicators (see pages 44 and 45). This information will be a useful tool for the IUF and its affiliates, providing a tangible basis for talks with DANONE.

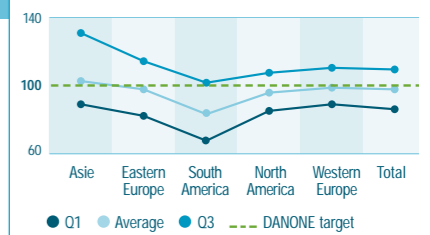
OPERATOR WAGES



Q1 represents a benchmark value. 75% of the Group's operators receive pay above this amount. Q3 25% of the Group's operators receive pay above this amount

With a base of 100 representing the median for the food industry, median wages for the Group are at 114. In the Asia-Pacific region, where many subsidiaries of our competitors are small, we rank slightly above the market. Latin America is slightly below market due to the difficult economic environment facing our Brazilian units, while Europe is average. Yet these results should be interpreted with caution, since detailed surveys are not available for all countries, with a breakdown by qualification not always available, and in large countries like China and Russia, wage levels vary from region to region.

MANAGEMENT COMPENSATION



DANONE has a Group compensation policy for managers that is implemented on a company by company basis. The graph above shows that DANONE is close to its target, and that deviation from the median is within reasonable limits.

Workplace safety: WISE program, IUF.
To learn more, visit www.danone.com and click on "sustainable development"

Interview:
Odile QUINTIN

Odile Quintin specializes in European labor issues. She has served as Director General of Employment and Social Affairs with the European Commission since 2000.



What do you see as the main issues in developing skills and employability today?

Odile Quintin → Human capital is critical to business competitiveness. Recognizing its strategic importance means investing in employees throughout their working lives, including them in the process of change management and creating new sources of job security, and making it easier for low-skilled workers to find jobs. In a rapidly changing economy, companies can only retain a motivated, adaptable workforce by meeting two conditions: employees must receive adequate notice of coming changes, and employers must take a proactive approach to improve employee training and mobility.

How can a company in a competitive market improve its performance and still focus on employee development?

O. Q. → I believe the obstacles are structural. For example, the retirement debate in France has focused on age, with very little attention paid to lifelong career management. We need to take a completely different approach. If we focused instead on the stages of life, and made training the central concern, companies would enjoy higher employee productivity and lower restructuring costs. It is undeniable that a company's primary responsibility is to make money, but if reaching social goals is seen as a strategic investment, the two can go hand in hand. This can lead to new initiatives in the areas of continuing education, equal opportunity, and change management. It is impossible to invest in the efficiency of a business without investing in employee skills. This kind of thinking requires a dramatic shift in attitude on the part of both employers and employees. Change can be seen as positive as long as employees have a good chance of finding new work easily after restructuring. That said, being able to find new work raises the issue of mobility, and in countries with low tolerance for mobility, restructuring is much more difficult to manage.

Europe is facing stiff competition, especially from Asia. Do you believe that the European social model is viable and competitive?

O. Q. → Looking back over the last 40 years, you will see that the European model has combined good economic performance, high levels of training, a strong social safety net, and dialog between labor and management. It is not in competition with low-wage models and the two can coexist if they are intelligently managed and willing to cooperate. The EU's recent enlargement showed just how broadly relevant the European model is. The economic transformation of the Central and Eastern European countries demonstrates its value in addressing the impact of change on workers and anticipating its consequences more effectively.

Training and career development

Expansion in developing countries including growth in Eastern Europe and Asia have raised DANONE's international profile over the past 15 years. Today human resource policies must accommodate a wide range of local conditions and employment issues. To stay in step with changing job markets, we offer our employees a variety of training and career development opportunities.

Employment trends at DANONE

In 2004 we revamped our social reporting system to provide more detailed information on trends within the Group. In addition, DANONE and the International Union of Food Workers' Associations have agreed to monitor 20 jointly defined social indicators (see pages 44-45).

At constant scope, the Group's total workforce is up slightly, showing a net rise of 839 jobs over the year. New investments were the source of new jobs, including a dairy startup in Indonesia and expansion of our Chekhov plant in Russia, which hired 600 new operators in a fast-growing market.

Where employment was affected by industrial restructuring, DANONE provided support and assistance. In keeping with our 2001 commitments, Employment and Mobility teams remained at several industrial sites in Europe until June 2004, helping find alternatives for employees affected by a multi-year restructuring process in our Biscuits line. By the end of 2004, 94% of those who had lost their job had found alternatives, with 29% transferred within the Group, 38% accepting positions with other employers, 20% taking early retirement and 13% leaving to start new businesses or pursue other goals.

All three facilities closed in Europe succeeded in attracting new businesses to their sites, with a total of 520 new jobs created. Long term, nearly 1,500 jobs may result from the additional projects now being finalized.



DANONE managers at the Campus meeting at Evian.

GROUP WORKFORCE

→ By region

	2004	2003	04/03
Europe	33,452	33,616	-0.5%
Asia	41,027	40,960	+1.6%
Rest of the world	14,970	14,034	+6.7%

→ By business line

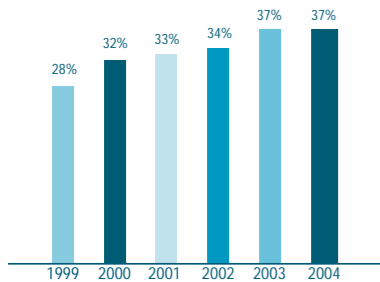
	2004	2003	04/03
Fresh Dairy Products	22,447	19,853	+13%
Biscuits	21,829	23,999	-9.1%
Beverages	39,696	38,569	+2.9%
BSH*	1,920	1,865	+2.9%
Other	4,137	4,324	-4.4%

*Blédina, sauces and HOD.

Overall, the Group's total workforce increased a little. Variations over the past years bear out our strategic decision to refocus on three core business lines representing 93% of employees and to grow business in developing countries, which account for 67% of DANONE's workforce.

Breakdown by business line has changed slightly with the reallocation of some activities: some Home and Office Delivery (HOD) water business has been brought together with our Blédina baby food and HP Foods sauce businesses in the BSH unit. The number of Biscuits employees declined following the sale of Irish Biscuit in Ireland and Jacob's in the United Kingdom.

WOMEN IN MANAGEMENT



EVOLUTION PROGRAM: MEASURABLE TARGETS FOR OPERATOR EMPLOYABILITY

- 1 **Basic skills:** reading, writing and arithmetic.
- 2 **Training:** at least 23 hours per year on average over each three-year period.
- 3 **Skills Passport:** a detailed record of each employee's training and job experience.
- 4 **Individual development review:** at least once a year.
- 5 **Professional mobility:** at least one offer every five years.

KEY FIGURE

2% of DANONE employees have disabilities

Workforce trends by category

The proportion of management-level staff within the DANONE workforce was steady at 11%, and mobility within the Group is high. Our goal is to fill 80% of managerial openings from within DANONE. The rate is currently 62%, due in part to the heavy outside recruiting required by rapid growth of our business in developing countries. Excluding entry-level positions that are necessarily filled by young graduates, the rate rises to nearly 70%, but there is still room for better management of in-house resources, with employment opportunities for spouses and family concerns limiting geographical mobility.

The percentage of women in DANONE's workforce showed a further one-point rise, but is distributed unevenly. Though very well represented in human resources, marketing and quality, women are less present in purchasing, research, and finance, and very little in production, logistics and information technology. There are still too few women in management, with 24% overall and only 9% at the senior executive level, and DANONE will continue its recruitment efforts to attract female candidates. Results and recommendations from a 2005 evaluation will be incorporated into the Diversity program.

The percentage of temporary workers increased significantly across all businesses in 2004, up from 19% to 21%. In Beverages, it reflects the large number of carriers required for water deliveries. While temporary status is often associated with job insecurity, the underlying reality can be very different. In China, for example, companies enter into one- to three-year regional contracts involving workers from distant provinces. If local governments issue work permits, these contracts can be renewed.

Evolution program: enhancing employability

While the Group has provided many professional development programs for managers, our offerings for non-managers—a full 89% of our workforce worldwide—have been uneven and inadequate. To close this gap, in 2004 DANONE launched Evolution, a program to help workers adapt to a rapidly changing business environment where there is no guarantee of lifetime employment. Now in the pilot phase at around fifteen production sites, the program sets quantified targets using a series of indicators (see sidebar). Evolution promotes both business success and social progress, raising organizational effectiveness and improving collective performance, while at the same time helping individual workers maintain and enhance their employability.

At once local and global, the Evolution program targets operators, administrative employees and sales representatives. Ultimately, all Group business units will participate, adapting the program for each site. This flexibility is critical in responding to a wide variety of local job markets. In some developing countries, for example, the challenge is retaining qualified personnel, and the labor market may be tight. In markets with high unemployment, by contrast, employee mobility is limited.

Evolution focuses primarily on training in the broadest sense of the word. Employees acquire not just technical skills but other forms of knowledge, improving communications skills, learning to run meetings, and enhancing problem-solving abilities. A second main objective is making organizations more effective at cultivating employee initiative. Third, the program offers career development plans to foster advancement and mobility. And finally, Evolution brings together a host of DANONE partners involved in training, from union representatives and national authorities to local communities. In France, for example, the Group has teamed up with the Ministry of Education to create Evoluance, a program that has enabled 400 workers to earn qualifications validated by the Ministry.

Odyssee: improving manager performance

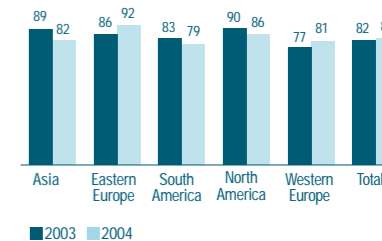
The career development opportunities presented by an international group are critical to competitiveness, making it imperative for DANONE to offer international career paths for managers in the roughly 100 countries where it is present. To meet this need, in 2000 the Group launched the Odyssee management development program to attract, develop and retain talent. Annual Performance and Development Reviews are a key component, allowing managers to map out full-fledged career paths in addition to reviewing performance and setting targets for the future. In 2004, 81% of our managers participated in Performance and Development Reviews. Since 2003, the Odyssee program has supplemented annual reviews with Individual Development Plans (IDP). Working with a supervisor, each participating manager draws up a plan that incorporates not only the training required to achieve performance goals, but also career development components such as coaching and hands-on assignments to broaden their experience. To make senior executives accountable under the program, a portion of their bonus is based on team development, as measured by indicators such as the number of IDPs and the ratio of in-house promotion to outside hires. In 2004, 80% of the Group's executives and 46% of our managers developed an IDP. The Group has also developed new training programs focusing on the importance of individual employees for the Group's overall performance. On a practical level, these programs aim to translate DANONE's corporate values into a state of mind, enabling managers to share best practices, understand local cultures and customs, and keep pace with changing business conditions.

TRAINING

→ Hours of training per employee per year



→ % of employees trained by region



Overall training time declined slightly due to completion of two major projects: one for the launch of Thémis, our integrated information system, which began in 2000, and the other for re-employment training for employees affected by restructuring of our Biscuits line in Europe beginning in 2001.

Diversity, redeveloping sites affected by restructuring
To learn more, visit www.danone.com and click on "sustainable development"

Interview:
Peter BRIDGEWATER

Peter Bridgewater is Secretary General of the Ramsar Convention on Wetlands, a treaty dedicated to the conservation and wise use of all wetlands that has now been ratified by 138 countries. The Ramsar Convention is an example of cooperation between governments, associations and business.



What conditions are needed for a partnership to work well between the public and private sectors?

Peter Bridgewater → For partnerships to work really well, there must be trust—otherwise we cannot go anywhere. We must have a common objective. In the specific case of the Ramsar Convention and DANONE, we have a shared interest in questions about water and how to manage the landscape in order to produce quality water. We are also interested in how we can produce the best scientific advice and communicate it to the wider public. At the beginning, there was probably a cautious working relationship. This partnership offered a chance to help the Convention communicate about itself and its issues. It allowed DANONE to participate in the activities of this inter-governmental convention. I believe we now have a high level of commitment on both sides to delivering good-quality products.

How is it possible to make progress on the environment while contributing to human activities?

P. B. → This is the key question that we face globally. Certainly, we must change some of the ways in which we live: consumption patterns, use of energy, water and other natural resources. There are now a number of low-cost technologies available that will help us achieve these goals. We must use them, rather than simply continuing with the old. These are the challenges for countries such as China and India, which want to rapidly achieve the level of development found in the West. The real problem is how to ensure that those countries can reach the level of development they aspire to without causing further degradation of the global environment. The technical solutions are all there, but a certain amount of will and some global redistribution of funding is required to implement them. We must respond now and proactively.

Critics might say DANONE is partnering with Ramsar solely to improve its image, with no genuine commitment. What is your opinion?

P. B. → With regard to the issue of whether the company is simply using Ramsar as green-wash, people can always make these comments. I think the answer is no. And let me explain why. Everyone is struggling to find out how to solve big issues, and the biggest one at present is water. The water issue is where DANONE and the Convention come together. It is appropriate for DANONE to help sensitise the population at large as to the preservation of water. This is not an issue that only governments can solve; it must be solved together with the private sector and civil society. DANONE has a number of brands of bottled water. One of the challenges for the Group will be how to behave responsibly in promoting bottled water, without compromising the quality from the source. Another area is how the Group can help support not only communication about the issues but actual problem solving. A vision for the future is that DANONE will also help local communities implement the wise-use principle of the Ramsar Convention.

Local relationships built on trust

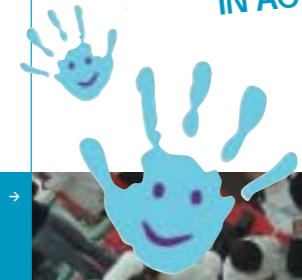
Though DANONE is an international group, each of our business units belongs to a local community. Which means the jobs they create, the salaries and local taxes they pay, and the raw materials they buy contribute to local economic and social progress. Building relationships of trust with local stakeholders is critical to staying competitive and running a socially responsible business. To meet these dual responsibilities, DANONE has long been involved in a wide variety of local initiatives.

Training for effective outreach

Training is essential to effective community involvement. In France, for example, DANONE offers an outreach seminar to give human resource directors as well as plant and logistics hub managers a better understanding of local conditions, with a special focus on the expectations of elected officials and society at large. Participants also acquire tools for successful outreach initiatives such as support for business startups and apprenticeships, training for young jobseekers, job openings for disadvantaged local residents, sponsorship, and partnerships with local sports clubs. Over the past four years, nearly all eligible managers have completed the seminar and a growing number of DANONE sites are becoming involved in their local communities. The program will gradually be expanded to include all DANONE sites, with support from dedicated training modules and networking to share best practices.

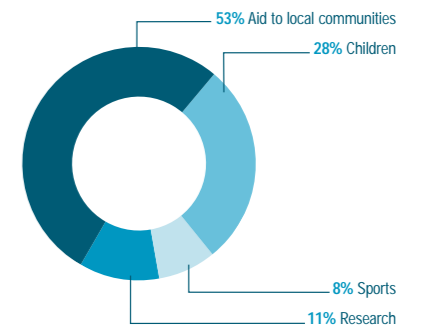
Serving the community

As part of the Group's commitment to local outreach, DANONE sites work with our business lines to plan community service initiatives built around employee involvement, use of marketing resources, and emergency relief. Over the past few years, these initiatives have been organized around one main theme—children.



Ten sites in China took part in DANONE Children's Day.

SERVING THE COMMUNITY
→ Where donations went



Our commitment to the community totaled €11.5 million in 2004. Assistance for children goes to institutions with varied programs, including those selected for DANONE Children's Day, and children are also the primary beneficiaries of sports funding, through the Danone Nations Cup program and local sports clubs. Danone Institutes are the primary vehicle for supporting research. Aid to local communities consists largely of donations to food banks such as the America Second Harvest program in the United States, environmental initiatives like Stonyfield's "Profits for the Planet," also in the United States, and emergency relief.



THE RAMSAR PARTNERSHIP: ACTIVE COMMITMENT TO THE ENVIRONMENT

Since 1998 DANONE has supported the Ramsar Convention through the DANONE-Evian Fund for Water, established to protect water resources and wetlands. These fragile environments serve as natural reservoirs, filtering rainwater, replenishing the water table, and providing important natural protection against flooding, coastal erosion and other climatic phenomena. One highly practical step involved creating a network for wetland managers around the world. This has not only established communication among the governments and other stakeholders involved, but also provided opportunities for managers to gain practical experience, and enabled them to exchange information and know-how through administrative, scientific and technological workshops. The network spans 200 sites in Europe, the Niger River region, the Andes and the Himalayas, and covers issues such as cross-border river management, protection of high-altitude ecosystems and protection of migratory species. DANONE worked in partnership with the Ramsar Convention's four International Organization Partners—BirdLife, IUCN, Wetlands International, and WWF International—and drew support from many national and international NGOs.

Each year DANONE Children's Day rallies our employees in support of institutions benefiting children in need. The program is unique in that employees make the decisions, selecting projects based on local needs and then donating time and energy to make them a success. Around 100 sites worldwide participate in the three-year-old program, which identifies appropriate solutions for clearly defined social needs and generates collective momentum through the joint efforts of our employees and their partner groups. Concretely, this can take a variety of forms—volunteer work for local associations, support for education, employee donations of supplies and toys, parties and games, or sports events. Children's Day activities benefit schools, children's hospitals, associations for children in need, sports clubs in disadvantaged neighborhoods, and other community service groups. Because most are local organizations near DANONE sites, employees can follow the progress of their chosen cause over time, thus meeting one of the primary goals of DANONE Children's Day—forging links with local communities.

Widely used in the United States and United Kingdom, cause-related marketing is an effective and increasingly popular means of supporting and raising money for humanitarian causes. The process is simple: participating companies donate a percentage of sales from a given product and can provide additional support through messages on packaging and in advertising. At DANONE, local teams are responsible for choosing the causes and implementing the initiatives. In our continuing efforts to build win-win partnerships with associations and NGOs, we have developed a training program that helps marketers lay the groundwork by choosing appropriate causes and partners, identifying projects with genuine benefit for society, communicating responsibly with consumers and using funds transparently. In 2004 DANONE implemented some ten programs, benefiting children's groups in countries from Mexico to South Africa to Poland. Finally, the Danone brand sponsors the Danone Nations Cup. Over the past five years, this worldwide event has brought together over 2.5 million soccer enthusiasts aged 10 to 12 each year, with proceeds donated to humanitarian associations.

Helping people in emergencies

Relief efforts are another important area where Groupe DANONE has committed resources in times of need. In late 2004 this reached an unprecedented level in response to the tsunami in Southeast Asia. With the Group's support, DANONE's three Indonesian business units donated water, biscuits and dairy drinks to help stricken communities in the immediate aftermath of the disaster. Our donations, totaling nearly 5 million units, were delivered by DANONE's local distributor and Indonesian authorities.

Later, the Group rallied its employees to support the tsunami victims, launching DANONE Solidarity for Asia to raise money for the International Federation of Red Cross and Red Crescent. We chose this global NGO as our partner for several reasons: its professional expertise, its ability to handle both the immediate crisis and long-term reconstruction needs, and, finally, its national networks, which enable it to collect funds in all the countries where our Group is present. DANONE employees have contributed €420,000, and in most cases our business units have topped up their donations. Over the longer term, Evian will join Aqua, DANONE's water business in Indonesia, in a program to assist schools affected by the tsunami.

Protecting local environments

DANONE places special emphasis on protecting water resources, both locally near the springs we operate and internationally in partnership with the Ramsar Convention.

In addition to operating our springs efficiently and sustainably, we work in partnership with local communities, farmers and environmental groups to protect water resources. In Spain, for example, our Lanjaron site has joined an effort to restore a century-old rainwater collection system that irrigates crops, waters livestock and regulates the spring's output. In France, DANONE has helped fund efforts to protect the Volvic spring from the threat of urban and agricultural pollution through initiatives such as sewage collection, chemical-free weed control and environment-friendly manure storage. Finally, the Evian spring is protected by an association founded in 1992 to promote environment-friendly farming and other practices (see our 2002 Social and Environmental Responsibility Report). Our many initiatives around the world provided the basis for our Groundwater Resources Protection Policy, a new DANONE charter adopted in 2004. The policy takes a coherent, worldwide approach to long-term protection of the groundwater that supplies our springs. Building on past successes, it emphasizes cooperation with local communities in sustainable environmental protection.



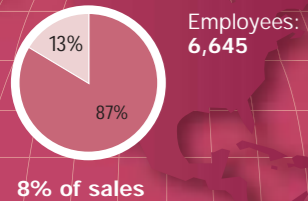
LU BENELUX: ROAD SAFETY FOR CHILDREN

LU has formed a local outreach partnership with the city of Herentals, where a staff of 1,450 makes LU the largest employer. Two projects were chosen: promoting exercise by encouraging children to cycle or walk to school, and improving road safety by creating easy-to-use tools for both children and drivers. LU helped finance publication of a map showing both the safest routes to schools and the areas with the most dangerous traffic. Handed out to 8,500 schoolchildren throughout the city, the map was also distributed to drivers, LU employees, and carriers that regularly use roads near its plant. In addition, LU provided more visible safety vests for the 200 volunteer crossing guards at the town's schools. Both projects show that partnership with local stakeholders can make a difference to a community's daily life.

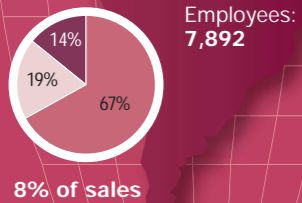
DANONE Children's Day, Ramsar partnership,
DANONE Solidarity for Asia
To learn more, visit www.danone.com
and click on "sustainable development"

DANONE Worldwide

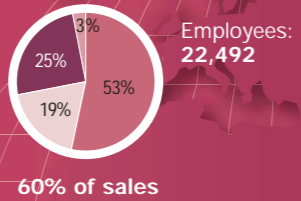
NORTH AMERICA



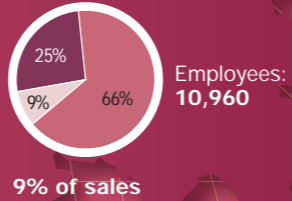
LATIN AMERICA



WESTERN EUROPE



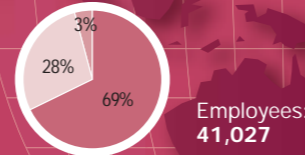
EASTERN EUROPE



AFRICA AND MIDDLE EAST

No. 1 for fresh dairy products in South Africa*

Employees: 433



ASIA-PACIFIC

SALES BY BUSINESS LINE

- → Fresh Dairy Products
- → Beverages
- → Biscuits and Cereal Products
- → Other business

* Groupe DANONE has significant holdings in companies with strong positions in Saudi Arabia, Morocco, Tunisia, Algeria and Israel.

Rating DANONE's performance

This report reviews the business, social and environmental performance of Groupe DANONE for the period from January 1 to December 31, 2004.

The indicators and management systems described in this report:

- comply with the recommendations of the Global Reporting Initiative (GRI) and the GRI index
- comply with reporting obligations under recent French legislation (New Economic Regulations)
- take into account annual social indicators defined jointly by the IUF and Groupe DANONE in 2004.

Figures on DANONE's performance are summarized in the following pages.

In 2004, specifications, schedules and procedures for collecting human resource data as well as the staff team responsible for consolidation were reorganized:

- to focus on the indicators most relevant to our business and scope of operation
- to ensure that terminology is properly understood (a glossary was produced to this end)
- to speed up data collection, starting at the end of the calendar year
- in so doing, to ensure that time is available for appropriate checks.

Unless otherwise indicated, figures refer to the worldwide scope of operation of companies controlled by Groupe DANONE. A list of companies included in consolidated accounts appears in our 20-F.

The 20-F, Annual Report and Report on Social and Environmental Responsibility—which together give a comprehensive view of Group DANONE operations—can be downloaded from www.danone.com. Two new features were added this year to make the report more user-friendly:

- a table at the back cross-references information in the report with GRI indicators for quicker access and immediate identification of full or partial compliance.
- reports on specific issues can be downloaded at www.danone.com.

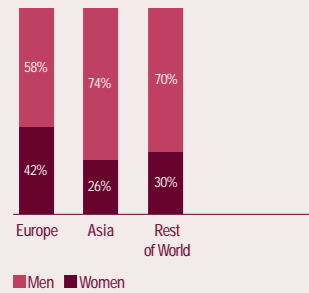


DANONE Way

performance indicators

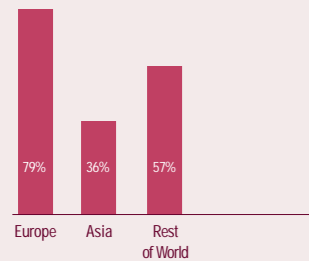
MANAGERS BY REGION

→ By region



IN-HOUSE RECRUITMENT

→ By region



BUSINESS PERFORMANCE

	2003	2004
Net sales (€ millions)	13,131	13,700
Operating income (€ millions)	1,604	1,705
Net income excluding non-recurrent exceptional items (€ millions)	839	917
Sales by business line		
Fresh Dairy Products	6,185	6,914
Beverages	3,557	3,427
Biscuits	3,071	3,041
Other Food Business	318	318
Sales by region		
Europe	8,876	9,354
Asia	1,957	2,072
Rest of World	2,298	2,274
Total cost of capital goods, raw materials and services purchased	7,700	8,245
Total wages and benefits (€ millions)	2,080	1,930
Europe	na	1,450
Asia	na	195
Rest of World	na	285
Payments to suppliers of capital (€ millions)		
Interest on debt	95	105
Loans	(530)	1,313
Dividends on all types of share	432	456
Rise(fall) in undistributed earnings at year end	232	(109)
Total taxes of all types paid, by region (€ millions)	700	700
Europe	na	525
Asia	na	70
Rest of World	na	105
Donations to local communities and other groups (€ millions)		
Children's charities	2.2	3.1
Research	2	1.2
Sports	1.9	0.8
Other	4.6	6.4
SOCIAL INDICATORS		
	2003	2004
Net rise in employment		
Europe	na	836
Asia	na	-164
Rest of World	na	67
Employees by region		
Europe	37%	37%
Asia	47%	47%
Rest of World	16%	16%
Total employees at Dec. 31	88,607	89,449
Average permanent employees for the year	85%	79%
Average temporary employees for the year	15%	21%
Managers	11%	11%
Other	89%	89%
Male managers	63%	63%
Female managers	37%	37%
Other employees, male	67%	66%
Other employees, female	33%	34%

SOCIAL INDICATORS

	2003	2004
Permanent employees at Dec. 31 by age		
< 18	na	na
18 to 25 (for 2004 shows all employees under age 25)	nd	17%
26 to 35	nd	39%
36 to 45	nd	25%
45 to 55	nd	15%
> 55	nd	4%
Turnover of permanent employees as % of total workforce		14%
% of business units whose employees are covered by a company or multi-sector collective agreement	85%	85%
% of business units with employee representatives (elected or appointed by a union)	95%	95%
Number of labor disputes with work stoppages	na	na
Number of workplace accidents with stoppages	1,536	1,347
Number of fatal accidents	0	5
Frequency of workplace accidents	10	10
% of employees insured for major risks (death/incapacity)	na	> 80%
% of business units with profit-sharing agreements	na	> 36%
Number of employees receiving training during the year	49,302	53,736
Managers	8,086	7,795
Non-managers	41,216	45,941
Men	na	na
Women	na	na
Average number of training hours in the year (number of hours/total workforce)	26	25
Managers	46	44
Non-managers	23	22

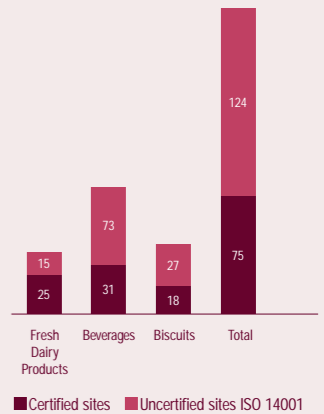
ENVIRONMENTAL INDICATORS

	2003	2004
Production ('000 metric tons)	16,542	16,896
Agricultural raw materials ('000 metric tons)	5,100	5,209
Direct consumption of thermal energy ('000 MWh)	2,260	2,188
Direct consumption of electricity ('000 MWh)	1,576	1,536
Total direct consumption of energy ('000MWh)	3,836	3,724
Total production of waste ('000 metric tons)	323	275
Total waste recovered ('000 metric tons)	247	218
Waste recovery rate	76%	72%
Total water consumption ('000 cubic meters)	35,100	34,942
Wastewater COD (chemical oxygen demand) (metric tons)	4,397	4,263
Significant accidental emissions (chemical and hydrocarbons) (cubic meters)	0	0
Greenhouse gas emissions (CO ₂ , CH ₄ , N ₂ O, CFC, etc.) in metric kilotons of CO ₂ equivalent	521	503
SOx (sulfur oxide emissions)	2,621	2,652
NOx (nitrogen oxide emissions)	1,218	1,151
Gases depleting the ozone layer (metric kilo CFC)	1,941	1,894
Land owned in biodiverse habitats (hectares)	74,000	74,000
Consumption of primary and secondary packaging (excluding recycled bottles and jugs)	750	743
Actual recycling of plastic bottles (in Europe)	17%	20%
Actual recycling of paper and cardboard packaging (in Europe)	44%	50%
Total number of sites	203	199
Total number of ISO 14001-certified Beverages sites	27	31
Total number of ISO 14001-certified Biscuits and Cereal Product sites	17	18
Total number of ISO 14001-certified Fresh Dairy Product sites	20	25
Total number of ISO 14001-certified Other Food Business sites	0	1

na : not available ■ DANONE/IUF indicator

ISO 14001

→ Site certification by business line





Danone Canada employees discuss their views on DANONE Way practices in a cross-functional working group. Over 40% of the workforce took part.

Group results: DANONE Way

A Group-wide review of progress in implementing 35 practices defined in the DANONE Way program.

The table opposite and the report submitted by the Group's auditors (page 48) include results for 49 business units with DANONE Way assessments validated at the end of 2004. These results confirm that DANONE performed best in areas where policies are linked to our history and values, in fields closest to our core businesses and in domains governed by existing standards:

- caring for people (e.g., insurance coverage for employees, compensation policy, support for career paths),
- quality (strategy, organization) and supplier management,
- dialog with consumers and attention to their expectations (areas where over 80% of business units are at levels 3 or 4),
- communication on health benefits and nutrition (where over 90% of business units are at levels 3 and 4).

Ratings for reliability of financial information are very high, with no business unit performing at the lowest level. This reflects:

- satisfactory operation of internal control systems,
- effective risk assessment using Group tools,
- satisfactory application of recommendations for financial flows with third parties.

In other areas, however, results are mixed, in some cases because of recent additions to the Group and in others because policies have been implemented only recently, or have been difficult to implement due to wide differences from one country to the next. This is particularly the case for:

- full compliance with Fundamental Social Principles for supplier management,
- promoting employability and training opportunities throughout staff members' working life,
- appropriation of the Business Conduct Policies by all staff members,
- development of team diversity through targeted initiatives with results tracked by indicators.

Greater Group commitment is needed for each of these issues, calling for cross-functional/cross-company projects and use of appropriate tools. Moves of this type are already under way.

Practices for the environment and local community relations, areas where the Group has purposely set demanding standards, are the subject of a host of action plans to raise awareness in different functions within the company.

DANONE WAY RESULTS AT 49 BUSINESS UNITS IN 2001-2004

PRACTICES AS DEFINED IN THE REPORT	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
EMPLOYEES				
	% of business units by level			
→ Respect for fundamental social principles	6	0	0	94
→ Compliance with applicable law	0	22	49	29
→ Progress in workplace safety	0	41	35	24
→ Cover for basic healthcare, insurance and related needs of employees and their families	0	8	37	55
→ Salaries in line with good practices for the country	0	8	45	47
→ Clearly defined, fair rules on compensation	6	65	20	8
→ Wages reflecting skills	0	49	41	10
→ Giving employees a share in business success	21	25	23	31
→ Progress in training	2	61	35	2
→ Favoring diversity in career paths and profiles	0	47	47	6
→ Encourage local communication	0	24	49	27
→ Sharing information	0	38	45	17
→ Providing necessary resources for employee representatives	6	37	24	33
→ Favoring in-house dialog	17	27	33	23
→ Circulating information on regulations concerning conflicts of interest	25	25	8	42
→ Support for individual progress	0	31	33	37
CUSTOMERS AND CONSUMERS				
→ Identifying risks	2	16	55	27
→ Communications based on proven facts	4	4	49	43
→ Outreach: meeting consumer expectations	0	17	54	29
→ Outreach: meeting customer expectations	16	29	47	8
→ Implementing a quality strategy	4	35	39	22
→ Implementing efficient quality structures	2	40	44	15
→ Responsive to consumers	4	50	29	17
SUPPLIERS				
→ Monitoring risk linked to purchasing	4	22	59	15
→ Respect for fundamental social principles by suppliers	47	34	17	2
ENVIRONMENT				
→ Reduce consumption of natural resources	7	52	39	2
→ Promote ISO 14000 certification	43	14	25	18
→ Reduce packaging at source	51	16	16	18
→ Recover and recycle packaging materials	18	49	27	7
→ Define a policy for the environment	46	38	13	4
LOCAL COMMUNITY				
→ Contributing to local communities	12	63	18	6
SHAREHOLDERS				
→ Share power and responsibilities	7	17	41	35
→ Provide reliable financial information	0	25	35	40
→ Verify financial and distribution circuits	8	8	17	67

DANONE WAY RATING LEVELS EXPLAINED

Each practice is assessed on a scale of 1 to 4. Levels are clearly defined to enable participating business units to grade themselves as objectively as possible. Level 1 is the lowest, indicating that measures have not yet been defined. At level 2, measures are being implemented but there has been no definition of policy. At level 3, the business unit has defined its policy and measures are being applied, checked and monitored with indicators. Level 4 represents the highest level of achievement—excellence and/or innovation in implementation, and the ability to share input with other business units.

Verification statement of PricewaterhouseCoopers and Mazars on DANONE Way

Verification statement of the auditors on the DANONE Way results published in this report

Acting on request and in our capacity as auditors of Groupe DANONE, we conducted a review that allows us to express “moderate assurance” on the indicators published in this report, which reflects the consolidated performance of Group subsidiaries under the DANONE Way program. These indicators are entitled “DANONE Way Results.”

These figures were prepared by the management of Groupe DANONE in keeping with procedures for program deployment, data collection and consolidation, which may be consulted at Group headquarters (DANONE Way 2004 Practical Guide, Book of Practices 2004 and Rules for Consolidation).

It is our responsibility to express a conclusion on the “DANONE Way Results” based on our review.

→ Nature and scope of analysis

For data on published practices, which together form “DANONE Way Results”, we have proceeded as described below. Our review covered the 20 of the 49 subsidiaries that had fully implemented DANONE Way programs—four subsidiaries in 2002, nine more in 2003, and seven more in 2004—and was conducted with limited diligence leading to “moderate assurance” that DANONE Way published results include no significant anomalies.

At Groupe DANONE headquarters our review included:

- interviews with the members of the DANONE Way corporate team
- review of deployment, data collection and consolidation procedures
- review of the main functions of the DANONE Way intranet
- validation of the scope of DANONE Way procedures
- validation of effective inclusion of data reviewed at business units visited
- validation by sampling of effective inclusion of data from business units not visited
- validation of effective inclusion of trends in the DANONE Way questionnaire from 2001, 2002, 2003 and 2004 in calculating consolidated indicators, and the claim that the DANONE Way program continues to offer a relevant, reliable, objective and understandable benchmark.

In the seven business units visited in 2004 our review included:

- review of structures for deployment of the program in keeping with Group procedures: interviews with those in charge of the program, and examination of relevant documents (company structure, minutes of meetings, management committee decisions, presentations and internal communication, etc.)
- review of results of self-audits for 35 key practices: interviews with heads of DANONE Way working groups, members of Management Committees, employees, examination of documents (manuals of procedures, indicators, policy and internal charts, contracts, etc.).

To assist us in this assignment, we called in Thierry Raes and Philippe Moutenet, the associates in charge of our Sustainable Development department.

→ Conclusion

Based on our reviews:

- we observed the effective deployment of the DANONE Way program in keeping with Group procedures
- with regard to the procedures defined by the Group, we observed no significant anomaly likely to call into question the DANONE Way results consolidated and published in this report.

Paris, 2 March 2005.

PricewaterhouseCoopers Audit Mazars & Guérard
Eric Bulle Olivier Lotz Thierry Colin Loic Wallaert



* For a list of the 20 business units reviewed, see www.danone.com

External assessments of Groupe DANONE performance

Each year, social responsibility rating agencies examine Groupe DANONE's policies in detail, measuring economic, social and environmental impact against their benchmarks.

These external assessments supplement the consolidated figures provided by our own DANONE Way reviews, providing an independent view of the Group's strengths and weaknesses. Due in part to DANONE Way, rating agencies place Groupe DANONE among the industrialized world's leaders in day-to-day practice of social responsibility and sustainable development in three areas:

- Employee relations. DANONE earns high marks for its training and employee development, relations with employee representatives and agreements with the International Union of Food Workers' Associations, although a shortage of indicator data and the absence of specific targets leave room for improvement in occupational safety and health.
- Consumer relations. Supply-side risks are controlled by the Group's quality and food-safety strategy, while proactive crisis management protects consumers from distribution-related hazards.
- Environment. DANONE protects the environment by controlling risks at production facilities, limiting energy and water consumption, and reducing the impact of packaging.

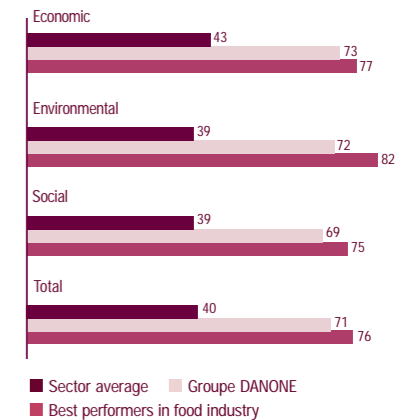
On other points, the Group's ratings are more mixed, particularly in emerging risk areas such as:

- social and environmental aspects of purchasing policy.
- health claims and advertising in connection with obesity.
- the environmental impact of transport in the distribution chain.

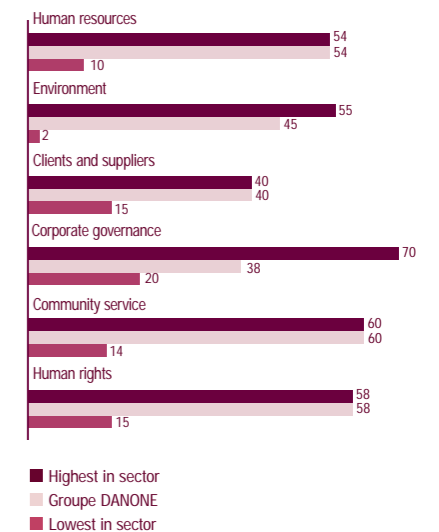
Social responsibility indexes also use external audits in making their annual selection of socially responsible companies from component stocks of traditional market indexes. In 2004, Groupe DANONE was once again included in:

- the Dow Jones Sustainability Index World, based on the top 314 performers in sustainable development.
- the Dow Jones Sustainability Index Stoxx, based on the top 175 companies listed on European exchanges.
- the ASPI Eurozone index.
- the Ethibel Sustainability Index.

→ DOW JONES SUSTAINABILITY INDEX



→ VIGEO RATING



GRI Index and NRE provisions

The tables below list indicators used in the Global Reporting Initiative index and under France's New Economic Regulations Act, and direct the reader to more information in the corresponding sections of this report and in other DANONE publications.

GLOBAL REPORTING INITIATIVE

1. VISION AND STRATEGY	PAGE OF THIS REPORT	SCOPE	OTHER DOC./ WEBSITE
1.1 → 1.1 Statement of the organization's vision and strategy regarding its contribution to sustainable development	8-15	●	
1.2 → 1.2 Statement from the CEO (or equivalent senior manager) describing key elements of the report	2-3	●	
2. PROFILE			
2.1 → Name of reporting organization	Cover	●	
2.2 → Major products and/or services, including brands if appropriate	4-5	●	20-F
2.3 → Operational structure of the organization		●	20-F
2.4 → Description of major divisions, operating companies, subsidiaries and joint ventures	4	●	20-F
2.5 → Countries in which the organization's operations are located	42	●	20-F
2.6 → Nature of ownership; legal form	12	●	20-F
2.7 → Nature of markets served	4	●	20-F
2.8 → Scale of the reporting organization	4	●	20-F
2.9 → List of stakeholders, key attributes of each, and relationship to the reporting organization	10-11	●	WEBSITE
2.10 → Contact person(s) for the report, including e-mail and web addresses	Inside back cover	●	
2.11 → Reporting period (e.g., fiscal/calendar year) for information provided	43	●	
2.12 → Date of most recent previous report (if any)		●	2003
2.13 → Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures/subsidiaries) and any specific limitations on the scope	43	●	
2.14 → Significant changes in size, structure, ownership, or products/services that have occurred since the previous report	12	●	20-F
2.15 → Basis for reporting on joint ventures		●	WEBSITE
2.16 → Explanation of the nature and effect of any re-statements of information provided in earlier reports		○	
2.17 → Decisions not to apply GRI principles or protocols in the preparation of the report	50-52	●	
2.18 → Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits	5	●	
2.19 → Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information	43	●	
2.20 → Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability of the sustainability report	13	●	
2.21 → Policy and current practice with regard to providing independent assurance for the full report	11; 48	●	WEBSITE
2.22 → Means by which report users can obtain additional information	Inside back cover	●	
3. GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS			
3.1 → Governance structure of the organization	12-13	●	20-F
3.2 → Percentage of the board of directors that are independent, non-executive directors	13	●	
3.3 → Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities	13	●	
3.4 → Board-level processes for overseeing the organization's identification and management of economic, environmental, and social risks and opportunities	12-13	●	20-F
3.5 → Linkage between executive compensation and achievement of the organization's financial and non-financial goals	12	●	20-F

KEY
 ● Applies to all units included in consolidation
 ● Applies to some units included in consolidation
 ○ Not available in 2004, or compiled locally but not consolidated at Group level
 Website: www.danone.com
 20-F: includes roughly the same information as that found in the Document de Référence (in French).

3. GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS	PAGE OF THIS REPORT	SCOPE	OTHER DOC./ WEBSITE
3.6 → Organizational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies	12-13	●	20-F
3.7 → Mission and values statements, internally developed codes of conduct or principles	8-9	●	WEBSITE
3.8 → Mechanisms for shareholders to provide recommendations or direction to the board of directors	12	●	
3.9 → Basis for identification and selection of major stakeholders	10-11	●	
3.10 → Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group		●	WEBSITE
3.11 → Type of information generated by stakeholder consultations	10-15; 46-47	●	
3.12 → Use of information resulting from stakeholder engagements	10-15; 46-47	●	
3.13 → Explanation of whether and how the precautionary approach or principle is addressed by the organization		○	
3.14 → Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives	8; 12-13; 23; 25; 31; 41	●	
3.15 → Principal memberships in industry and business associations		●	WEBSITE
3.16 → Policies and/or systems for managing upstream and downstream impacts	5-7	●	
3.17 → Reporting organization's approach to managing indirect economic, environmental, and social impacts resulting from its activities	8-15	●	
3.18 → Major decisions during the reporting period regarding the location of, or changes in, operations	12	●	
3.19 → Programmes and procedures pertaining to economic, environmental, and social performance	9-11; 13; 46-47	●	
3.20 → Status of certification pertaining to economic, environmental, and social management systems	22-23; 25	●	
4. GRI CONTENT INDEX			
4.1 → A table identifying location of each element of the GRI Report Content, by section and indicator	44-45	●	
5. PERFORMANCE INDICATORS			
EC1 → Net sales	5	●	20-F
EC2 → Geographic breakdown of markets	42	●	20-F
EC3 → Cost of all goods, materials, and services purchased	5	●	20-F
EC4 → Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements		○	
EC5 → Total payroll and benefits	5	●	20-F
EC6 → Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares	44	●	
EC7 → Increase/decrease in retained earnings at end of period	44	●	
EC8 → Total sum of taxes of all types paid, broken down by country	5; 44	●	
EC9 → Subsidies received broken down by country or region		○	
EC10 → Donations to community, civil society, and other groups broken down in terms of cash and in-kind	15; 39; 44	●	
EN1 → Total materials use other than water, by type	17	●	
EN2 → Percentage of materials used that are wastes (processed or unprocessed)	45	●	
EN3 → Direct energy use segmented by primary source	22	●	
EN4 → Indirect energy use		○	
EN5 → Total water use	22	●	
EN6 → Location and size of land owned, leased, or managed in biodiversity-rich habitats	18-19; 41	●	
EN7 → Description of the major impacts on biodiversity associated with activities and/or products and services of the organization	18-19	●	
EN8 → Greenhouse gas emissions	45	●	
EN9 → Use and emissions of ozone-depleting substances	45	●	
EN10 → NOx, SOx, and other significant air emissions by type	45	●	
EN11 → Total amount of waste by type and destination	45	●	
EN12 → Significant discharges to water by type	45	●	
EN13 → Significant spills of chemicals, oils, and fuels in terms of total number and total volume	45	●	
EN14 → Significant environmental impacts of principal products and services	6-7	●	
EN15 → Percentage of the weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed	45	●	
EN16 → Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties		○	
LA1 → Breakdown of workforce	35; 44	●	
LA2 → Net employment creation and average turnover segmented by region/country	44	●	
LA3 → Percentage of employees represented by independent trade union organisations	33; 45	●	
LA4 → Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations (e.g., restructuring)	33	●	
LA5 → Practices on recording and notification of occupational accidents and diseases	32	●	
LA6 → Description of formal joint health and safety committees	32	●	

Note: Reporting on environmental indicators covers 85% of all sites

5. PERFORMANCE INDICATORS	PAGE OF THIS REPORT	SCOPE	OTHER DOC./ WEBSITE
LA7 → Standard injury, lost day, and absentee rates and number of work-related fatalities (including subcontracted workers)	32; 45	●	
LA8 → Description of policies or programmes (for the workplace and beyond) on HIV/AIDS		○	
LA9 → Average hours of training per year per employee by category of employee	37; 45	●	
LA10 → Description of equal opportunity policies or programmes, as well as monitoring systems		◐	WEBSITE
LA11 → Composition of senior management and corporate governance bodies (including the board of directors), including female/male ratio and other indicators of diversity as culturally appropriate	13	●	20-F/WEBSITE
HR1 → Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results	31	●	
HR2 → Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors	19	◐	WEBSITE
HR3 → Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors	19	◐	
HR4 → Description of global policy and procedures/programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring	31	●	WEBSITE
HR5 → Description of freedom of association policy and extent to which this policy is universally applied independently of local laws	31; 33	●	
HR6 → Description of policy excluding child labour as defined by ILO Convention 138 and extent to which this policy is visibly stated and applied	31	●	
HR7 → Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied	31	●	
SO1 → Description of policies to manage impacts on communities in areas affected by activities	39-41	◐	
SO2 → Description of policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption	12	◐	WEBSITE
SO3 → Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions	12	◐	WEBSITE
PR1 → Description of policy for preserving customer health and safety during use of products and services	25-26	●	
PR2 → Description of policy, procedures/management systems, and compliance mechanisms related to product information and labelling	27	●	WEBSITE
PR3 → Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy		◐	WEBSITE

INDICATORS UNDER NRE ACT

ARTICLE 1	PAGE OF THIS REPORT	SCOPE	OTHER DOC./ WEBSITE
1.a → Total staff	35; 44	●	
1.b → Plan for workforce reduction	35	●	
2 → Organization of working time		●	WEBSITE
3 → Compensation	5; 32-33; 44	●	
4 → Professional/workplace relations	28; 33; 39-41	◐	
5 → Hygiene and safety	32	●	
6 → Training	36-37; 45	●	
7 → Employment of and assistance to disabled workers		●	WEBSITE
8 → Employee benefit programs	15; 39; 44	●	
9 → Scope of subcontracting	31; 36	◐	
ARTICLE 2			
1 → Water consumption	22	●	
2 → Measures to limit impact on biosphere	18-19; 41	◐	
3 → Evaluation or certification method	22-23; 25	●	
4 → Compliance procedures	6-15	●	
5 → Budget committed to anticipate consequences of operations		●	20-F
6 → In-house departments for environmental management	22-23; 27	●	
7 → Amount of provisions and coverage for risks		●	20-F
8 → Compensation paid during the year pursuant to court orders		○	
9 → Information on targets set for foreign subsidiaries on points 1 to 6 above	22-23; 27	●	

This report was designed, coordinated and written by Groupe DANONE's Sustainable Development and Social Responsibility department, with contributions from DANONE employees throughout the Group, business lines and business units. We would like to take this opportunity to thank them for their help.

Content was produced through ongoing exchanges with our stakeholders. We welcome readers' comments and suggestions on how Groupe DANONE can improve its performance.

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