



# DANONE

# 2010

Registration Document



DANONE

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# DANONE

## Registration Document **2010**

ANNUAL FINANCIAL REPORT

**This Registration Document includes  
all the items of the Annual Financial Report**



The French language version of this Registration Document (*Document de Référence*) was filed with the French Financial Markets Authority (*Autorité des marchés financiers*, or AMF) on March 25, 2011, pursuant to Article 212-13 of the AMF's General Regulations.

This Registration Document may be used only in support of a financial transaction if supplemented by a securities prospectus (*note d'opération*) authorized by the *Autorité des marchés financiers*.

This Registration Document was prepared by the issuer and its signatories are liable for its contents.

**This is a free translation into English for information purposes only.**

Copies of this Registration Document are available from Danone at:  
17, boulevard Haussmann 75009 Paris,

on Danone's website: [www.danone.com](http://www.danone.com)

and on the website of the *Autorité des marchés financiers*: [www.amf-france.org](http://www.amf-france.org)



# SELECTED FINANCIAL INFORMATION, INFORMATION ABOUT THE ISSUER

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## 1.1 Selected financial information

The financial information presented below is extracted from the Danone group's consolidated financial statements (hereafter the "Group" or "Danone") prepared in accordance with International Financial Reporting Standards (IFRS) and from Section 3 on Danone's business highlights in 2010 and outlook for 2011. Consolidated financial statements are presented in Section 4.1.

<i>In € millions (except for per share data, expressed in €)</i>	Fiscal year ended December 31	
	<b>2009</b> <sup>(1)</sup>	<b>2010</b>
<b>Consolidated income statement data</b>		
Net sales	14,982	17,010
Trading operating income <sup>(2)</sup>	2,294	2,578
Operating income	2,511	2,498
Net income – Attributable to owners of the Company	1,361	1,870
Net income – Attributable to non-controlling interests	160	164
<b>Underlying net income</b> <sup>(3)</sup>	<b>1,412</b>	<b>1,669</b>
Diluted earnings per share – Attributable to owners of the Company	2.41	3.04
<b>Underlying fully diluted EPS</b> <sup>(3)</sup>	<b>2.50</b>	<b>2.71</b>
Dividend per share <sup>(5)</sup>	1.20	1.30 <sup>(6)</sup>
<b>Consolidated balance sheet data</b>		
Current assets	4,407	5,895
Non current assets	19,900	22,204
Total assets	24,307	28,099
Equity – Attributable to owners of the Company	10,555	11,940
Non-controlling interests	54	47
Net debt <sup>(4)</sup>	6,562	7,074
<b>Consolidated cash flow data</b>		
Cash flows provided by operating activities	2,000	2,476
Free cash flow <sup>(7)</sup>	1,427	1,713
Net financial debt <sup>(8)</sup>	3,494	3,216

(1) Some balance sheet elements were restated as set forth in Note 1 of the Notes to the consolidated financial statements.

(2) See Section 3.9 for definition of Trading operating income.

(3) Attributable to the owners of the Company. See Section 3.5 for reconciliation between Underlying net income and Net income attributable to the owners of the Company.

(4) Net debt corresponds to current and non current financial debt less cash and cash equivalents, marketable securities and other short term investments and less Financial instruments – Assets.

(5) Dividend paid to the Company's shareholders, with respect to the fiscal year and paid the following year.

(6) Subject to the approval of the Shareholders' Meeting of April 28, 2011.

(7) See Section 3.9 for definition of Free cash flow.

(8) See Section 3.9 for definition of Net financial debt.

## 1.2 Information about the issuer

### Legal name and trade name

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The Company's legal name is "Danone" (hereafter the "Company"), having been changed by the Shareholders' General Meeting of April 23, 2009 from "Groupe Danone".

### Registration number in the Register of commerce and companies

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The Company is registered in the Paris Register of commerce and companies under number 552 032 534.

The Company's APE Industry Code is 7010Z, which corresponds to the activity of registered offices.

### Date of incorporation and term of the Company

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The Company was incorporated on February 2, 1899. The Extraordinary Shareholders' General Meeting of December 13, 1941 extended the term of the Company through December 13, 2040.

### Registered office

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The Company's registered office is located at 17, boulevard Haussmann, in Paris (75009), France. The telephone number of the registered office is +33 (0) 1 44 35 20 20.

### Legal form and applicable law

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The Company, a French corporation (*société anonyme*) with a Board of Directors, is subject to the provisions of Book II of the French Commercial Code.

## Corporate purpose

In accordance with Article 2 of Danone's by-laws, the purpose of the Company, whether directly or indirectly, in France and in any country, shall be:

- industry and trade relating to all food products;
- the performance of any and all financial transactions and the management of any and all property rights and securities, whether listed or unlisted, French or foreign, together with the acquisition and the management of any and all real estate properties and rights.

In general, the Company shall be entitled to effect any and all property, real estate, industrial, commercial, and financial transactions relating directly or indirectly or possibly useful in any

connection whatsoever to the Company in the fulfillment of its corporate purpose.

It shall be entitled to act and to effect the aforementioned transactions directly or indirectly, in any form whatsoever, on its own behalf or on behalf of third parties, and whether alone or in a joint venture, association, grouping or company involving any other individuals or companies.

It shall also be entitled to acquire interests and holdings in any and all French and foreign companies and businesses, regardless of the purpose thereof, by means of the establishment of special companies, through asset contributions or subscriptions, through the acquisition of shares, bonds or other securities and any and all company rights, and, in general, by any means whatsoever.

## Statutory Auditors

### PRINCIPAL STATUTORY AUDITORS

ERNST & YOUNG ET AUTRES  
Membre de la Compagnie Régionale  
des Commissaires aux Comptes de Versailles  
41, rue d'Ybry  
92576 Neuilly-sur-Seine Cedex  
Represented by Jeanne BOILLET and Gilles COHEN

PRICEWATERHOUSECOOPERS AUDIT  
Membre de la Compagnie Régionale  
des Commissaires aux Comptes de Versailles  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex  
Represented by Étienne BORIS and Philippe VOGT

#### Start date of first term of office

April 22, 2010

May 21, 1992

#### Expiration date of term of office

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015

### SUBSTITUTE STATUTORY AUDITORS

AUDITEX  
Tour Ernst & Young  
Faubourg de l'Arche  
92037 La Défense Cedex

Yves NICOLAS  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex

#### Start date of first term of office

April 22, 2010

April 22, 2010

#### Expiration date of term of office

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015



# STRATEGY, RISK FACTORS

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## 2.1 History

The Group's origins date back to 1966 when the French glass manufacturers, Glaces de Boussois and Verrerie Souchon Neuvesel, merged to form Boussois Souchon Neuvesel, or BSN. In 1967, BSN generated sales of around € 150 million in flat glass and glass containers. In 1970, the BSN group began a program of diversification in the food and beverage industry and successively purchased Brasseries Kronenbourg, Société Européenne de Brasseries and Société Anonyme des Eaux Minérales d'Evian which were, at the time, major customers of the BSN group for glass containers. These acquisitions made the BSN group France's market leader in beer, bottled water, and baby food. In 1973, BSN merged with Gervais Danone, a French food and beverage group specialized in dairy and pasta products, becoming the largest food and beverage group in France, with consolidated sales of around € 1.4 billion, 52% out of which in food and beverage.

During the 1970s and 1980s, after selling off its flat glass operations, the BSN group focused its growth on food and beverages, primarily in Western Europe. This expansion included (i) the acquisition of major breweries in Belgium, Spain, and Italy; (ii) Dannon (the leading producer of yogurt in the United States); (iii) Generale Biscuit, a French holding company which owned LU and other major European biscuit brands; (iv) the biscuit subsidiaries of Nabisco, Inc. in France, Italy, the United Kingdom and Asia; and (v) Galbani, Italy's leading cheese maker. With consolidated sales of € 7.4 billion in 1989, the BSN group was the third largest diversified food and beverage company in Europe, and the largest in France, Italy, and Spain.

In the early 1990s, the BSN group started consolidating the positions it had acquired in previous years, developing synergies within Western Europe and expanding into growing markets. This group also laid the first milestones of its development strategy outside Western Europe. The Group expanded its operations significantly, acquiring a significant number of companies and creating a number of joint ventures. In Western Europe, for example, BSN acquired Volvic in France to strengthen its position in bottled water. Outside Western Europe, BSN pursued an active acquisition strategy to expand internationally (in the Asia-Pacific region, Latin America and Eastern Europe, as well as in selected markets such as South Africa and the Middle East).

In 1994, in order to consolidate its position as an international food and beverage group, the BSN group decided to change the BSN parent company's name to "Groupe Danone" (in 2009,

the shareholders approved the modification of the relevant article of the by-laws to change the legal name of the Groupe Danone parent company to "Danone").

In 1997, the Group decided to focus on three worldwide Divisions: Fresh Dairy Products, Beverages, and Biscuits and Cereal Products. The Group accordingly made several major divestitures in its Grocery, Pasta, Prepared Foods, and Confectionery Products operations, primarily in France, Belgium, Italy, Germany, and Spain. In 1999 and 2003, the Group also sold 56% and 44%, respectively, of the capital of BSN Glasspack, the holding company of its Glass Containers business, and in 2000 the Group sold most of its European Beer activities. In 2002, the Group also sold (i) Kro Beer Brands, which held the Kronenbourg and 1664 brands, among others; (ii) its Italian Cheese and Meat activities (Galbani); and (iii) its Brewing operations in China. The Group also sold its Sauces operations (i) in the U.K. and U.S in 2005 and (ii) in Asia in 2006. In 2005 the Group also finalized its exit from its European Brewing activities, selling its interest in the Spanish company Mahou.

The year 2007 marked the end of a 10-year period during which the Group refocused its operations on the health sector. In 2007, the Group sold nearly all of its Biscuits and Cereal Products business (to the Kraft Foods group). That same year, it also acquired Numico, which enabled it to add the Baby Nutrition and Medical Nutrition Divisions to its portfolio.

2010 represented a major new stage in the Group's development strategy with the acquisition of the Unimilk group companies. This transaction concerns Russia, Ukraine, Kazakhstan and Belarus and covers all dairy products. It makes Danone-Unimilk the leader for dairy products in the CIS area as a whole, and particularly in Russia, where it accounts for around 21% of the total market and hold strong positions in high-value, high-growth segments.

Danone-Unimilk draws strength from the tie-up between two fast-growing and highly complementary businesses offering:

- complementary geographical presence, with Danone operating mainly in western Russia, while Unimilk has a higher profile to the east;
- complementary product ranges: Danone's strength in the value-added health segment rounds out Unimilk's strong positions and powerful brands in core markets;

- complementary distribution networks: Danone's access to modern trade is matched by Unimilk's strength in proximity distribution;
- complementary strengths in production, with Danone contributing expertise built up as the global expert in making dairy products since 1919, while Unimilk covers the whole of Russia, Ukraine and Belarus with 26 production sites.

These complementary features give the new entity the benefit of significant sales and cost synergies. They also position Danone-Unimilk extremely well to take advantage of strong growth momentum in the region's dairy product market, and to accelerate it in the years ahead.

## 2.2 Strategy

### Positioning on four Divisions

Since 2007 and the acquisition of Numico, Danone is positioned on four Business Lines:

- Fresh Dairy Products, which accounted for 57% of consolidated sales in 2010, or € 9.7 billion, consists of the production and marketing of yogurts, fermented dairy products and other specialty fresh dairy products;
- Waters, which represented 17% of consolidated sales in 2010, or € 2.9 billion, comprises the natural waters as well as flavored and vitamin-enriched waters products;
- Baby Nutrition focuses on specialized nutrition for babies and toddlers to complement breast-feeding. It accounted for 20% of the Group's consolidated sales in 2010, or € 3.3 billion. The milk formulas represents three-fourths of this business, with a special focus on the development of grown up milk (for children between the ages of 1 and 3). Baby food, also known as

"weaning foods," account for one-fourth of the business and is concentrated primarily in European countries such as Italy, Poland and France;

- Medical Nutrition, which accounted for 6% of consolidated sales in 2010, or € 1.1 billion, targets mainly patients, infants and frail elderly people. The division's products are aimed at treating malnutrition related to illness by catering to specific dietary needs. These products are recommended by healthcare professionals (doctors, medical personnel in hospitals and clinics, and pharmacists), and most of them are eligible for insurance reimbursement.

The Group benefits from the following market leading positions: No. 1 worldwide for fresh dairy products; No. 2 worldwide for packaged water; No. 2 worldwide for baby food; and No. 3 worldwide in medical nutrition.

## Development strategy of the Divisions

The Group's strategy is based on (i) powerful and unique brands adapted to the local environment (nutritional needs, tastes and affordability, food culture, tradition, etc.), (ii) product categories that provide health and wellness benefits, (iii) a sustained communication support, and (iv) geographic expansion in countries offering strong growth potential, in particular Mexico, Indonesia, China, Russia, the United States and Brazil.

Danone defines "mature" markets as those of Western Europe (including Southern Europe countries such as Spain, Italy, Portugal and Greece), North America, Japan, Australia and New Zealand; "Emerging markets" are identified as all the other countries where the Group is present.

### FRESH DAIRY PRODUCTS

The division's strategy consists of (i) developing the consumption of its products (ii) in every region of the world. It is based on:

- strengthening its position in the major markets with strong growth potential, especially the United States, Russia and Brazil, where per capita consumption of fresh dairy products is low;
- pursuing its fast-growing pace in emerging countries such as Mexico, Argentina, Saudi Arabia and South Africa;
- maintaining growth in mature European countries through product line extensions, diversification of formats and a stronger presence in different retail distribution channels.

The division's dynamism lies in its capacity to further develop its product lines and to continuously introduce new products that reach new customer segments while covering various price points. The focus on a limited number of brands at the global level has enabled it to optimize its allocation of resources for many years. This focus, combined with the Group's decentralized organization, enables each country to innovate based on the local culture, consumption habits and tastes, while nurturing the vertical innovation strategy applied to all the major brands. These factors result in a broad and rapid worldwide spread of high-potential products.

Major brands are:

- Activia, which is positioned on the benefit of digestive comfort, has been developed for more than 20 years and is currently present in 72 countries;
- Actimel, which is positioned on the benefits of stronger immune system defenses, has been developed for more than 10 years;
- Danonino, – also locally known under Fruchtswerge and Petit Gervais brand names – is targeting children, to help them have strong bones through its calcium and vitamin D properties and is currently sold in more than 50 countries;

- Vitalinea, also marketed under the Taillefine and Ser brand names, comprises the low-fat product lines;
- so-called "core business" brands, which are based on the generic nutritional benefits of dairy products at affordable prices, include all basic fresh dairy products such as plain and fruit yogurts;
- the division's other main brands and product lines include "pleasure" lines such as Fantasia yogurt, young adolescents' product lines such as Danimals and Dan'Up, and functional brands such as Danacol and Densia.

Thanks to its "Reset" strategy implemented in 2009, the division strengthened the competitiveness of its product lines across all regions. It thereby enjoys greater leeway in the management of selling prices, in a context where raw material costs show high volatility.

### WATERS

The Group's strategy is focused on its major natural water brands in mature and emerging countries, as well as the development in some countries of flavored and vitamin-enriched waters:

- the main international brands include Evian, Volvic (France, Germany, United Kingdom, Japan), Bonafont (Mexico and Brazil), and Mizone (China, Indonesia);
- the main local brands include Fontvella and Lanjarón in Spain, Villavicencio and Villa del Sur in Argentina, Aqua in Indonesia and Zywiec Zdroj in Poland.

Moreover, given the bipolarization of its markets, the Group adopts different development strategies:

- in the mature countries packaged water is subject to several constraints, including in particular (i) competition from private labels and tap water in terms of pricing and convenience, and (ii) criticism on environmental grounds in response to these constraints, the division has in recent years strengthened its research and communications on the health benefits of natural water consumption and stepped up its efforts to reduce its environmental footprint (see "Environment Strategy" section). Notably, the division aims to achieve carbon neutrality for Evian by the end of 2011;
- in the emerging countries, the strategy of the division is to accelerate its growth model, notably by spreading its experience in proximity channels and by finding and preserving new water sources (while taking into account the social and local politics context). The roll-out of brands in several countries – such as Bonafont, which was successfully launched in Mexico and then Brazil, and Mizone in China and Indonesia – also represents a growth opportunity for the division.

## BABY NUTRITION

The Baby Nutrition Division develops its infant formula brands and product lines around two platforms known as Immunity (for example with the Aptamil brand) and Superior Nutrition (for example with the Bebelac brand). The division is also pursuing its development on the axis of affordability, in particular in Indonesia with its SGM and Gizikita brands.

The division is pursuing its development in fast-growing emerging countries, always in compliance with the World Health Organization (WHO) Code and with local legislations requirements. Among the division's priority markets are China and Indonesia, where it currently ranks first and third, respectively, in terms of sales.

## MEDICAL NUTRITION

In the Medical Nutrition market, the Group is a market leader in Europe as well as in some countries in Latin America and Asia through its Nutricia brand, which covers a large portfolio of sub-brands.

The Group aims at increasing its worldwide development in expanding in new countries as well as distribution channels.

The Group estimates that the Medical Nutrition market offers strong growth opportunities due to: (i) the ageing of the population in some countries, (ii) the growing awareness of the role of nutrition in health (notably as a preventive measure), (iii) the emergence of new illnesses and allergies and (iv) the growing number of screening procedures facilitating the early stage treatment of affected patients. In addition, this growth potential could be strengthened through the Research & Development effort to treat other illnesses and allergies if it could successfully result in product development in Medical Nutrition markets.

## Strategy for external growth

In the pursuit of its international development strategy, the Group will continue to make acquisitions, any time suitable opportunities arise, in order to strengthen its various Divisions. To that end, the Group is constantly examining opportunities for external growth.

The Group may acquire an initial equity interest of less than 100% in the capital of a target company (including, as the case

may be, a non-controlling interest), and concurrently enter into agreements with the other shareholders (options to purchase or sell), allowing the Group to increase its interest over time and then obtain effective control, or even become the sole owner of the Company's capital.

## Customers, distribution and marketing strategy

**Customers.** Although the end customers of the Group's products are individual consumers, the bulk of the Group's sales are to major retail and grocery chains. This retail sector has become increasingly concentrated over the past several years. In many markets, the Group's three largest customers represent a significant portion of sales. This concentration, mostly advanced in Europe, is expected to increase in North America and in emerging countries. In this environment, the Group has established global partnership

agreements with major retailers. These partnership agreements contain, in particular, logistical collaboration or management of food safety. However, they typically exclude pricing terms, which remain within the responsibility of the Group's subsidiaries.

The Group has undertaken several initiatives to work closely with its mass retailers to accelerate the development of its product categories, to optimize the flow of products and

## Strategy

the inventory levels of its customers. These include efficient consumer response, or ECR, which, in addition to achieving inventory management, automatic inventory replenishments and just-in-time delivery, is used to work with distributors to better manage consumer demand and expectations at the point of sale. In order to accomplish this, the Group, in collaboration with its principal distributor customers, put in place a shared inventory management system that is used to coordinate inventory levels between the stores, the customers' warehouses and Danone's warehouses. The Group also works with its customers to develop specific marketing activities such as joint promotions.

In recent years, certain European retail chains have rapidly expanded internationally, enabling the Group to accelerate its own geographic expansion as well as the international development of its brands. In these new areas, most large retail chains indeed seek to sell quality brand name products, as they represent an engine for growth and profitability.

In the Medical Nutrition market, the Group works closely with local and regional regulatory authorities, doctors, scientists, hospitals, clinics and pharmacies.

In the Baby Nutrition market, customers include major retail or grocery chains, pharmacies, hospitals, and clinics.

**Distribution.** Although distribution policies vary among different countries due to local characteristics, the Group has two major distribution policies: on the one hand, distribution aimed at major retailers, and on the other hand, distribution designated for traditional market outlets.

In emerging countries, particularly in Asia, Latin America and Eastern Europe, a large portion of Danone's sales is made through traditional market outlets or through small traditional business

networks that are most often controlled by the Group. A strong distribution structure is a competitive factor in those countries, where traditional businesses and independent supermarkets still represent a significant share of food sales.

Besides, in Latin America and in Asia, a large part of the distribution of the Waters Division is made directly to the consumers (Home and Office Delivery ("HOD")).

The Group follows an active policy of streamlining its logistics flows in order to increase the quality of service whilst reducing costs. This policy is based on an ongoing assessment of the Group's organizational models, most notably aimed at outsourcing its distribution in collaboration with specialized distributors.

In the Baby Nutrition and Medical Nutrition markets, products are commercialized in hospitals, clinics and pharmacies, as well as through mass distribution with respect to the Baby Nutrition Division. Medical visitors meet with general practitioners and specialists (e.g., pediatricians, nutritionists, etc.), as well as with pharmacists.

**Marketing.** The Group's advertising and promotional policies constitute a key element in the success of its overall strategy based on innovation, brand recognition and market leadership.

Danone's operating companies in each Division and geographic market are responsible for developing their own advertising, promotional and sales strategies adapted to local consumer patterns while based on common foundations defined by dedicated central organizations. In order to ensure the coherence of marketing strategies within the Group, the sharing of marketing know-how and the optimization of costs, the Group has a department in charge of commercial retail strategies and transversal marketing teams.

## Competition strategy

The Group's competitors in its respective businesses include (i) large international food and beverage groups, such as Nestlé, PepsiCo and Coca-Cola, (ii) large groups in Baby and Medical nutrition such as Abbott, Mead Johnson and Fresenius, (iii) smaller companies that are specialized in certain product lines or certain markets, and (iv) food retailing chains offering generic products or private labels.

The packaged food and beverage sector is highly competitive due to the large number of national and international competitors. The Group is confident that its strategy for profitable growth is strongly supported by its products quality, convenience, proximity, affordability and innovation, and by the powerful brand image vehicled on health, nutrition and food safety. Reckoning that the success in this industry is achieved through strong local market positions, the Group is (or seeks to become) the market leader of

each segment in every country where it operates, always in a manner consistent with competition laws and regulations. This strategy allows for a longlasting, balanced and constructive relationship with major distribution networks, by marketing key products yielding growth and profitability for both parties.

- In Western Europe, where markets tend to be relatively mature, competition for market share gain is particularly intense. The Group's strategy is to differentiate itself from its competitors by marketing innovative, value-added products that respond to a growing consumer demand for health-oriented/well-being food products. This effort is reinforced by a sustained advertising support as well as by the development of new ways to connect to consumers.

- In North America, the Group operates mainly in categories which offer strong opportunities for consumption per capita growth (fresh dairy products and medical nutrition), in which it faces the competition of large groups. Danone has based its strategy on developing the size of its categories, in particular through innovation and enhanced distribution.
- In emerging countries, the competitive pressure is high due to (i) the presence of local players who develop products at very low prices, and (ii) also due to the efforts of international competitors to penetrate or increase their activities in these high potential markets. The Group's strategy in these areas is to offer quality products bearing strong health/food safety benefits and affordable to the largest number of people.

## Health and Nutrition strategy

The Group considers that nutrition plays an important role in health and well-being. This conviction has been reaffirmed through the Group's mission of "providing health through food to as many people as possible" and inspired Danone's Food, Health and Nutrition Charter, which was released in 2009.

This charter presents the Group's convictions and commitments with respect to nutrition and health in order to help provide answers to current food-related public health issues (obesity, diabetes, cardiovascular illnesses, nutritional deficiencies). These commitments include: (i) adapting products to the needs

of consumers in terms of nutritional quality, taste and affordability; (ii) the development of products that provide health benefits; (iii) consumer information presented in a clear, reliable and responsible manner, especially with respect to nutritional labeling of products, product claims and advertising; (iv) promoting healthy lifestyles; (v) support for nutrition and health research programs; (vi) dialogue with public health authorities, consumer groups and scientists; and finally (vii) sharing of knowledge with the scientific community and health professionals.

## Research and Development strategy

The Group's Research and Development (R&D) activities are consolidated within Danone Research, whose mission is to:

- develop products whose nutritional qualities are adapted to the needs – and tastes – of the local populations;
- develop products with specific and targeted effects to optimize people's health capital and quality of life. A significant portion of the product portfolio is therefore associated with health benefits in the area of digestive health, a balanced immune system, bone development, weight management and cardiovascular health;
- improve dietary practices and promote healthier diets for everyone. Danone therefore promotes nutrition research, educates and trains health professionals on diet-related matters and contributes to the improvement of the local population's diet through educational and informational campaigns.

This process is conducted in compliance with a policy of uncompromising food safety, and through the development of innovative production processes that serve the general strategy of reducing costs.

The Group's Research & Development Department has approximately 1,200 people staff, including 500 in France. The R&D talent works in two major scientific centers: one in Palaiseau, near Paris, and the other in Wageningen, in the Netherlands. Most countries in which the Group is present also have local R&D teams, whose main mission is to adapt products (namely their texture, aroma, size, packaging, etc.) to local consumption habits and to develop specific products for their market.

The Group has developed considerable scientific expertise in the following areas:

**Digestive system and microbiology.** Along with its research into lactic bacteria, probiotics and prebiotics, Danone has also conducted research for the past several years into the bacteria that make up the intestinal microbiota. This microbiota plays a part in the digestion of certain foods, affects the immune system and protects against certain harmful bacteria. In fact, prebiotics and probiotics can have a positive impact on the composition of the intestinal flora and therefore provide positive health benefits. Consequently, there is a network of interactions between the



## Strategy

human body, its intestinal microbiota, prebiotics and probiotic bacteria. For all their work, teams use the latest techniques in genomics and robotics and collaborate with high-level scientific partners such as the Pasteur Institute, INRA (the French National Institute for Agricultural Research), Washington University (United States), Wageningen University (Netherlands), and the Lawson Institute (Canada).

**Nutrition & physiology.** Nutrition is a prerequisite for good health. Through collaboration with experts and governmental authorities, Danone has built a nutritional strategy based on two key areas:

- Nutritional epidemiology, aimed at understanding and analyzing changes in dietary practices and the nutritional status of local populations in order to identify the major food-related public health challenges for each country. For example, Danone's expertise in this area made it possible to develop a nutritional and public health map in 17 countries, identify the deficiencies and excesses, and adapt the formulas of the Group's products accordingly. As a result, Danonino (known as Petit Gervais aux Fruits in France), a dairy product for children, differs from one country to another, for example with added vitamins D and E in Brazil, calcium and vitamin D in Poland, zinc and vitamin D in Mexico;
- Continuous improvement of the products' nutritional quality, which applies the recommendations developed by the World Health Organization (WHO) to come up with nutritional targets for each nutrient, product category and consumer group, and to implement gradual action plans to bring these products closer into line with the targets.

**Sensory analysis and behavioral sciences.** Putting the consumer, i.e. the individual, at the heart of the development

projects, represents a major challenge and opportunity for Danone. The development of this link between the Company's R&D and the consumer involves integrating the consumer upstream from product development, understanding the human element in food consumption and identifying consumer expectations in terms of taste, typical use and experience in daily life, targeted benefits, etc.

The Group regularly conducts research in collaboration with external entities such as universities and specialized public research centers. The Group benefits from the expertise of external scientific committees on strategic themes (such as probiotics or water) and its health brands. The Group also maintains permanent contact with the scientific community to better understand health and nutrition issues and to remain at the forefront of advances in research. This ongoing dialogue with scientists and research support are two of the commitments made by the Group in its Diet, Nutrition and Health Charter.

As part of its contribution to nutritional research, 18 Danone Institutes (non-profit organizations) around the world have been created to help further understanding of the links between diet, nutrition and health. Their initiatives support scientific research, provide information and training for health professionals, and extend into public education. The Danone Institutes bring together independent experts with strong reputations (researchers, doctors, dieticians) covering all areas of food and nutrition (biology, medicine, and human sciences, such as psychology and sociology).

Lastly, the Danone International Institute has established a biennial international award to recognize innovative research and concepts that make a major contribution to public health in the area of nutrition.



## Strategy for protecting intellectual property rights

The Group owns rights to brand names, registered designs and patterns, copyrights and domain names throughout the world. The territorial extent of the protection depends on the significance of the products and business activities concerned: the protection is global for products intended for the international area, and local or regional for other products. The Group is in constant contact with its subsidiaries in order to update its intellectual property rights portfolio continuously and thereby protect and defend its brand names, decors, forms, packaging, advertisements, websites, etc. that are used by the Group.

The Group is also the owner of patents, licenses, proprietary recipes, and substantial expertise related to its products and packaging, as well as to the manufacturing procedures.

Finally, the Group has established licensing agreements with its subsidiaries and partners that use these intellectual property rights.

Intellectual property represents a significant portion of the Group's assets. In order to monitor its assets and ensure the management and protection of these rights in a coherent and optimized manner, the Group has drawn up an "Intellectual Property" Charter. Through a more proactive intellectual property strategy, the Group is thereby committed to taking all appropriate legal steps to protect and defend its rights at the international and local levels.

## Plants and equipment strategy

The Group's general policy is to own its production facilities. The Group has many, widely-dispersed production facilities, with the exception of the Baby Nutrition and Medical Nutrition Divisions, whose facilities are relatively tightly concentrated.

The production sites are inspected regularly to assess possibilities for improving quality, environmental protection, safety, and

productivity. On the basis of these reviews, management establishes plans for the expansion, specialization, upgrading, and modernization (or closing) of specific sites.

Non-strategic assets such as administrative buildings and logistics centers are not systematically owned by the Group and in those cases are leased.

## Raw materials purchasing strategy

The Group's principal raw material needs consist primarily of:

- materials needed to produce Danone's food and beverage products, primarily milk and fruits ("food raw materials"); and
- materials needed for packaging its products, primarily plastics and cardboard ("packaging").

Energy supplies represent a smaller portion of the Group's purchases.

Purchased performed more locally wherever possible, as local markets are less dependant than global markets.

In an environment of strong raw materials price volatility, the Group manages this commodity inflation through the following measures, in order of importance:

- to manage price volatility as well as the risk related to the availability of certain raw materials, the establishment of a purchasing policy ("Market Risk Management"), which consists of identifying rules for securing the physical supply and setting of prices with suppliers and/or on financial markets where applicable. The monitoring of the risk exposure and

implementation of this policy are carried out by the Group's central purchasing agents for each category of raw materials. The purchasers primarily negotiate forward purchasing agreements with suppliers, since no financial markets exist that would make it possible to hedge against the price volatility of the Group's main raw materials.

- productivity improvements and production cost reductions, for example by streamlining packaging;
- optimization of fixed costs through concentration and increased sales volumes;
- depending on the markets and products, sales price adjustments while maintaining the Group's competitive position;

These forward purchasing agreements are monitored at the Group level at the end of each year. The information regarding these future purchase commitments is presented in Note 28 of the Notes to the consolidated financial statements. In addition, with respect to the Group's primary raw material category, a sensitivity analysis of changes in milk prices on the Group's annual

purchasing costs (applied simultaneously in all countries where the Group has production activities) is presented in Note 15 of the Notes to the consolidated financial statements.

**Raw materials – Food.** Milk represents the largest portion of the Group's purchases of food raw material in terms of cost. In the countries where the Group uses liquid milk, operating subsidiaries generally sign contracts with individual local milk producers or dairy cooperatives. Thus a large portion of the Group's purchases, liquid milk essentially and milk powder, is subject to worldwide market fluctuations. The purchase of other food raw materials,

mainly fruit mixtures, is managed through global or regional purchasing programs, allowing for synergies.

**Raw Materials – Packaging.** The Group also manages its purchases of packaging raw materials through global or regional programs in order to optimize shared knowledge and volume effects. Factors that influence the pricing of packaging materials include international and regional supply and demand, economic cycles, production capacities and oil prices. The main packaging materials purchased by the Group are PET, plastics and cardboard.

## Social and environmental responsibility strategy

A direct outcome of Danone's dual economic and social project, Corporate Social Responsibility (CSR) is deeply anchored in the Group's strategy.

In 1972, Antoine Riboud noted that "corporate responsibility does not stop at the factory gate or the office door." This vision was then formalized into the dual economic and social project that forms the basis for Danone's development and organizational model.

Since 1996, Franck Riboud has lent increasing weight to societal concerns, making corporate social responsibility and sustainability essential levers for strong and lasting growth.

2006 marked a key stage, with the formalization of Danone's mission: "Bring health through food to as many people as possible."

This mission is reflected in the Group's major social welfare challenges:

- social challenges: employment, increased employability and professional skills, due consideration for employees' commitment and well-being, for occupational health and safety standards, and for the local and regional areas where the Company operates;
- challenges linked to products and consumers: taking nutrition and food into account as basic elements in public health policies;

- environmental challenges: satisfy the needs of an ever-increasing number of consumers while minimizing the environmental impact of this industry's activities.

To satisfy these challenges and grow in accordance with its mission, Danone decided to focus on four key areas to ensure sustained and responsible growth:

- Health: strengthening of the Group's capacity to deliver relevant benefits with respect to nutrition and health challenges;
- For All: establishment of new economic models to bring high-quality nutritional solutions to populations with limited purchasing power in a growing number of countries;
- Nature: faster recognition of environmental impact through reductions in the Group's carbon footprint and water consumption;
- People: transformation of the Company as a place for the development of all employees.

These four areas (Health, For All, Nature, and People) are a guiding principle by which Danone design, produce and market its products.

See also Sections 7.1 to 7.5.

## Environment strategy

The Group's strategy with respect to environmental issues is linked to its businesses and to its corporate mission. The environment and natural raw materials enter into the Group's nutritional business activities, as it transforms these materials to manufacture products with a strong health/well-being component.

For many years, the Group has sought to improve food safety and the quality of the raw materials used. The Group is currently putting in place environmentally-friendly sustainable industrial and farming models, allowing it to reduce the environmental footprint of its operations throughout the production chain.

In 2008, the Group identified five types of impact across the entire scope of its activities:

- CO<sub>2</sub>;
- water;
- agriculture;
- biodiversity;
- packaging.

On this basis, the Group set new objectives. Specifically, since CO<sub>2</sub> is a key indicator from which the bulk of all other environmental indicators are derived, the Group chose to focus on carbon in order to engage the Company transformation. The ambitious target of reducing the Group's carbon intensity by 30% from 2008 to 2012 was set with the consequent result to force the Company to challenge its business practices and reinvent itself.

In 2009, Danone also has set up a Nature Department, which reports to the Group Finance Department. This unit places the minimization of the Group's environmental footprint at the heart of the Group's decision-making process, notably with respect to investment decisions, new Research and Development projects and management control.

The achievement of environmental goals also determines a portion of the annual variable compensation awarded to the Group's 1,400 executive and senior managers (including all Executive Committee members).

Danone's Nature strategy, its implementation and results in 2010 are described in Section 7.5.

## Information technology strategy

The Group has a policy for developing specialized IT (information technology) systems and deploying them in its subsidiaries in order to optimize and streamline investments in information technology while taking advantage of global synergies. The development and deployment of IT systems are the responsibility of a centralized team within the Group's IT Systems Department.

This IT systems policy covers all of the Group's functions and activities, in particular:

**Themis.** At its subsidiaries, the Group implements an integrated information system (Themis) based on an SAP architecture.

Currently, Themis supports activities accounting for around three-fourths of consolidated sales in the Fresh Dairy Products and Waters businesses. The system is now in the process of being implemented at the subsidiaries of the Medical Nutrition and Baby Nutrition Divisions. Further, the integration plan of the Unimilk companies anticipates the implementation of Themis.

**Research and Development.** In this area, the Artemis (SAP) system was developed in order to consolidate all formulations of products and raw materials used. This application makes it possible to take advantage of and share all nutritional and food safety information related to products and ingredients used by Danone and to accelerate the design phases for new products.

Artemis is widely used in the Fresh Dairy Products Division, as well as for the Waters Division in France. It will be deployed at all entities of the Baby Nutrition and Medical Nutrition Divisions by end-2011.

For example, the Waters Division initiated a Hydra project for systematic quality measurement of hydrological resources that combines an analysis management application with a GPS application. Following an initial successful pilot program in France, this project will be rolled out to all the water sources managed by the Group.

**Supply chain.** The Group has implemented a Supplier Relationship Management solution, which covers the processes for analyzing expenditure, selecting suppliers, managing contracts, and analyzing suppliers' performance. This system is designed to structure and reinforce the internal procurement processes and the relationship with suppliers. This solution has already been implemented in the Fresh Dairy Products and Waters Divisions and will be soon in the Baby Nutrition and Medical Nutrition Divisions.

For example, the Fresh Dairy Products Division has developed an SAP-based application for analyzing the value of fruit preparations.

## Risk factors

This application enables a collaborative approach with suppliers in order to optimize the preparations.

As for the supply chain, the Group offers its suppliers and industrial partners a range of EDI (electronic data interchange) messages to automate and digitize information flows from orders to invoices (eSupply Chain).

**Environment.** Through a joint effort with IT systems developer SAP, the Group developed an innovative application to measure the carbon footprint of its products. Based on an analysis of the product's life cycle and operational monitoring of these various stages, this application makes it possible to measure the carbon footprint of each product. Two pilot entities made it possible to validate the model in 2010, and it will be deployed in 2011 to all subsidiaries equipped with the Themis application.

**Sales and Marketing.** Several major initiatives were launched in order to satisfy our customers' expectations more precisely, especially in the so-called modern trade sales area as well as to satisfy new consumer expectations:

- implementation of a new generation of "Sales force" systems in Modern trade that provide a complete overview of point of sale performance;
- implementation of applications for handling our customers' out-of-stock situations;
- initial operational experiences in Digital Marketing, both with respect to Group customers (In Store Digital) as well as consumers of Group products (Customer Relationship Management (CRM) programs).

## Financial risk management strategy

The Group's policy consists of (i) minimizing the impact that its exposure to financial market risks could have on its results and, to a lesser extent, on its balance sheet, (ii) monitoring and managing such exposure centrally, whenever the regulatory and monetary frameworks so allow and (iii) using derivative instruments only for the purpose of economic hedging.

Through its Treasury Department, which is part of the Finance function, the Group possesses the expertise and tools (trading

room, front and back office software) necessary to act on different financial markets following standards generally implemented by first-tier companies. In addition, the Internal Control and Internal Audit Departments review the organization and procedures applied. Lastly, a monthly treasury report is sent to the Group's General Management, enabling it to monitor the decisions taken to implement the previously approved management strategies (see Section 2.3 – Risk Factors).

## 2.3 Risk factors

### Risk identification and control policy

Danone maintains an active risk management policy aimed at protecting and developing its assets and reputation and protecting the interests of its shareholders, employees, consumers, customers, suppliers, the environment and other stakeholders.

Since 2002, the Group has implemented a global risk identification and management system that prioritizes challenges in terms of their probability of occurrence and their estimated impact on the Group. It uses a special risk mapping methodology known as "Vestalis."

In the entities that use it, this mapping is designed to identify the risks related to the various processes and activities, to prioritize them at the local level and to consolidate and contextualize them at the regional or Division levels. This mapping then leads to the definition of key risk mitigation actions through preventive measures, which may be local or global as appropriate, or through the establishment of crisis management plans.

Vestalis has thus been deployed in all companies in the Fresh Dairy Products and Waters Divisions, and since 2009 its use has been steadily and significantly extended to the companies in the Medical Nutrition and Baby Nutrition Divisions. As of December 31, 2010, Vestalis was deployed in 109 Group operating subsidiaries, which represent more than 84% of the Group's consolidated sales.

The most significant risks are reviewed once a year by the management teams of the Divisions and geographic regions during specific meetings that also make it possible to discuss their main opportunities. More than 75% of the Zone CEOs and CFOs participated in a risk review meeting focusing on the risks

faced by their subsidiaries in 2010 (100% for the Fresh Dairy Products and Waters Divisions). Risk review meetings organized by function or by process may also be held. A general review of the Group's risks is regularly performed by Danone's Executive Committee to ensure a more detailed review, a management committee (the Danone Enterprise Risk Committee) was created in 2008 and meets every six months. The Audit Committee is also regularly informed of these risks, and operating managers occasionally attend its meetings in person in order to report on the risks related to their areas of responsibility.

The risk management system is described in greater detail in the Chairman's report on internal control and risk management systems in Section 6.11.

The operational risks generally related to the business sectors in which Danone is active and those specific to the Group's business activities and organization, legal risks, industrial risks, environmental risks and market risks are presented below by thematic category.

## Operational risks related to the Group's business sectors

### I. RISKS ASSOCIATED WITH THE VOLATILITY OF PRICES AND THE AVAILABILITY OF RAW MATERIALS

The Group's results may be negatively affected by the availability and price of raw materials, in particular materials needed to produce the Group's food and beverage products (mainly milk and fruits), and materials needed to package or transport its products (PET, polystyrene, cardboard and petroleum-based products). Variations in supply and demand at global or regional levels, weather conditions, government controls and geopolitical events could substantially impact the price of the raw materials concerned. Moreover, increases in their prices may not be passed on, either in full or in part, in the sales price of the Group's products and could have in any event a significant adverse effect on the Group's business activities and on its results.

The management of these risks is presented in Section 2.2 and in Note 15 of the Notes to the consolidated financial statements.

### II. RISKS ASSOCIATED WITH THE CONCENTRATION OF DISTRIBUTION AND THE DEFAULT OF A CUSTOMER

While the end customers of Danone products are individual consumers, the Group sells its products mainly to major retail and grocery chains. Overall, the distribution market has become increasingly concentrated. The Group's ten largest customers worldwide (five out of ten being French) are listed in Section 4.4. A continuation of the movement to concentrate distribution, which would translate into a smaller number of customers, could affect the Group's operating margin or represent a counterparty risk in the event of a default by a major customer, in particular given the economic environment in some countries.

In some countries, certain subsidiaries of the Baby Nutrition and Medical Nutrition Divisions have commercial relations with public and quasi-public organizations, health insurance and supplementary health insurance companies, as well as hospitals, whose default risk is relatively limited but which sometimes make payments only after lengthy time periods. It is possible that some of these organizations would collaborate and make joint tenders, which could put pressure on the earnings of the respective Divisions.

## Risk factors

Additional information is presented in Section 2.2.

Moreover, the Group's exposure to unpaid trade receivables not yet the object of a provision is limited, as indicated in Note 11 of the Notes to the consolidated financial statements.

The mitigation of this risk involves an action plan focused on the large key accounts as well as Credit Committees or equivalents in Danone subsidiaries.

### III. RISKS ASSOCIATED WITH COMPETITION

The Group conducts its business in highly competitive markets that include large multinational companies and numerous local players of different sizes. In Western Europe and North America, the Group's markets tend to be relatively mature, and competition is therefore particularly intense, both in terms of pricing and innovations. With respect to the Group's activities in the Rest of the World, a few international food and beverage groups also hold strong positions in some emerging markets and seek to expand such positions or enter new markets. In addition, certain retail and grocery chains have developed their own private brands.

If the Group cannot differentiate itself relative to its competitors in terms of the range of products, the value (quality/price ratio), and the positioning (which are the main areas for managing this risk), it may no longer be able to effectively compete with the main participants in these markets.

### IV. RISKS ASSOCIATED WITH THE GEOPOLITICAL ENVIRONMENT

Danone's interests, commercial and industrial activities and employees could be subjected directly or indirectly to the effects of a period of economic, political or social instability in numerous countries susceptible of experiencing or having recently experienced such periods, particularly in Africa, the Near and Middle East, Latin America or Asia.

Also, some countries where the Group is present offer legal environments that are not very developed and/or not very protective (in particular with respect to intellectual property rights); some of these countries maintain exchange controls, control the repatriation of profits and invested capital, impose taxes and other payments and impose restrictions, sometimes retroactively, on the activities of multinational groups. Lastly, any economic or political measure whose purpose or result is to limit free trade and that could be implemented in some countries could have an unfavorable impact on the Group's growth.

However, Danone's international growth enables a more balanced geographical distribution of these risks. In addition, the Group is preparing action plans and is implementing measures aimed at reducing to the greatest extent possible the impacts of these risks in the areas of human resources, financial and legal affairs. Depending on the situation, the Security Department participates in the development and implementation of these plans and measures. However, there can be no assurance that the results of the Group will not be significantly affected by a deterioration of economic, political or regulatory conditions or by a crisis in some of the countries where the Group is present.

### V. RISKS ASSOCIATED WITH ECONOMIC CONDITIONS IN THE GROUP'S PRINCIPAL MARKETS

As a major player in the food and beverage industry, the Group's sales are dependent on the overall economic climate in its principal geographic markets. In periods of economic slowdown that may hit some countries, the Group may have to contend with reduced spending by consumers whose purchasing power has declined and changing consumption patterns as a result of economic conditions. These trends may have adverse effects on the Group's business activities and on its results. Nevertheless, Danone's diversified geographic presence makes it less susceptible to the particular challenges in a given country.

### VI. RISKS ASSOCIATED WITH WEATHER CONDITIONS AND SEASONAL CYCLES

Some of the Group's product markets are affected by seasonal consumption cycles and weather conditions, which may have a negative impact on its interim and annual results. In particular, demand for beverages peaks during the summer months. As a result, the Group's sales are generally higher during these months. Conversely, relatively cool summer temperatures may result in substantially reduced sales of beverage products, especially packaged water, in the impacted geographical area relative to a normal year, and thus may have adverse effects on the Group's business activities and results. The Group manages these seasonal effects on the basis of lengthy operational experience and anticipates changes in weather conditions to the greatest extent possible.



## VII. RISKS ASSOCIATED WITH THE CONSEQUENCES OF RESTRUCTURING PLANS

Danone works continuously to improve its efficiency in order to achieve better performance and anticipate adjustments needed to respond to changes in the market, projects, competition and, with respect to its internal organization, jobs and skills. This commitment to blending both short- and medium-term visions may in some cases result in difficult decisions regarding jobs (plant closings, restructuring plans with layoffs, etc.), that may be poorly understood and received by both employees (potential labor disputes) and local constituencies (local elected officials, governmental authorities, etc.). Such decisions would therefore be susceptible of having negative effects on the Group's activities, image and results. At Danone, however, a restructuring decision needs to be made when the Company is performing well and has the time and resources to prevent and responsibly manage the social and human consequences.

In order to minimize the various risks associated with this type of decision (labor disputes, increase in local unemployment, loss of reputation), Danone has adopted an employment policy that is based on forward-looking staffing and skills management. The Company's restructuring decisions are based on economic and social criteria consistent with the international agreement signed on this subject with the International Union of Food Workers (IUF) in 1997, and are implemented with an emphasis on a return to employment and support for employees.

## VIII. RISKS ASSOCIATED WITH THE GROUP'S REPUTATION

The Group's international expansion and strong reputation expose it to attacks of any nature and origin, or in good or bad faith, and that could affect its reputation via various means of communication. The Group has established crisis management processes designed to anticipate such attacks and limit their effects as much as possible.

## Operational risks specific to the Group's activity and organization

### I. RISKS RELATED WITH THE CONCENTRATION OF PURCHASES OF SOME PRODUCTS AND SERVICES FROM A LIMITED NUMBER OF SUPPLIERS

In connection with its policy of optimizing its purchasing, the Group centralizes the purchase of certain goods (in particular raw materials such as the ferments used in the Fresh Dairy Products Division or powdered milk for the Baby Nutrition line in some Asian countries) and services (in particular sub-contracted services or information technology services) from a limited number of suppliers. Notwithstanding the measures taken to safeguard these supplies and services and the development of business continuity plans that include the identification of backup suppliers, if some of these suppliers were not able to provide the Group with the quantities and qualities of products or goods specified that the Group needs under the conditions set forth, or if the suppliers are not able to provide services in the required

time period, the Group's business activities and results could be materially adversely affected.

### II. RISKS ASSOCIATED WITH THE GROUP'S DOMINANT POSITION IN CERTAIN MARKETS

The Group is market leader in some of its markets. As a consequence, the Group may be accused of abusing a dominant position in these markets by third parties. Such allegations could affect the reputation of the Group, result in legal proceedings or even potential penalties that could have a material adverse effect on the Group's business activities and results. This topic is addressed with considerable attention through Danone Business Conduct Policy and the issue of a Commercial Code of Ethics.

### III. RISKS ASSOCIATED WITH THE GROUP'S ACQUISITION AND PARTNERSHIP STRATEGY

**Acquisitions.** The Group's strategy is to become the leader in each of the markets in which it operates. Within the context of continued concentration in the food and beverage industry, this strategy involves the pursuit of growth opportunities through acquisitions, as was the case in 2010 with the Unimilk transaction in Russia and in other countries with YoCream and ProViva, among others. In order to prevent these acquisitions from having a negative impact on its business, the Group strives to integrate the acquired companies, provide the necessary resources, achieve the anticipated growth and/or achieve all of the expected synergies and cost savings.

**Partnerships.** The relationships with partners of the Group in certain entities are governed by agreements, contracts, or documents that could allow certain decisions to be made either with the agreement of such partners or without the agreement of the Group. Such restrictions could make it difficult for the Group to carry out its strategy in these entities. In addition, certain agreements signed with partners may provide the Group or its partners with call or put options on their stake. Danone therefore carefully reviews the drafting of shareholders' agreements and maintenance of adequate governance.

### IV. RISKS ASSOCIATED WITH AN UNFAVORABLE CHANGE IN BUSINESS ACTIVITY FORECASTS AND ITS IMPACT ON IMPAIRMENT TESTING OF ASSETS

In connection with the allocation of Numico's acquisition price in 2007, a significant amount was allocated to goodwill and to acquired, non-amortized brands with an indefinite useful life from an accounting standpoint.

Goodwill and indefinite useful life brands are not amortized. They are subject to an impairment test at least once annually and whenever events or circumstances indicate that a reduction in value might have occurred.

Despite permanent efforts by Danone operationals to develop the Group, an unfavorable change in business activity forecasts and assumptions used in the projection of cash flows for the purpose of the impairment tests, in particular with respect to goodwill and to the Numico brands, could result in the recognition of impairment charges. These charges could then have significant adverse effects on the Group's results.

### V. RISKS ASSOCIATED WITH THE GROUP'S PRODUCTS

A number of the Group's products, in particular fresh dairy products, must be maintained within certain temperatures to retain their flavor and nutritional value and to avoid contamination or deterioration. In most of our business segments, the absence of chemical contaminants in raw materials and packaging, and the lack of cross-contamination with allergens and the maintenance of sterility and safety in the packaging process are crucial. In addition, in the Waters Business, there exists a risk of

pollution of the natural water sources that supply the necessary resources for this activity. For all of its activities, disclosures regarding the detection of trace contaminants originating in the product environment, even if they involve infinitesimal amounts, could significantly affect the Group's results.

The risk of product contamination is classified into four categories (microbiological, chemical, physical and allergic) and depends on the nature of the products. This risk of contamination exists at each stage of the production and marketing cycle: at the time of purchase and delivery of raw materials, the production process, the packaging of products, the stocking and delivery of finished products to distributors and food retailers, and the storage and shelving of finished products at the points of final sale.

In the event that certain of the Group's products (including recipes/formulas or certain active ingredients) are alleged to be contaminated or have harmful short- or long-term health effects or have no health effects, or if in fact the products are contaminated or have such negative or non-existent effects, the Group's activities could be negatively affected. In addition, reports or allegations of inadequate product quality control relating to certain products of other food manufacturers could negatively impact the Group's sales. The Group believes that it has put in place measures to limit the risk of contamination, in particular through the completion of multiple controls of the production lines and regular audits of its sites, partnerships with scientific organizations of international standing and the implementation of zero-tolerance quality management and food safety policies.

The Group's strategy rests on the development of products with a strong nutrition/health component. In this context, the Group is particularly vigilant regarding scientific fundamentals, the regulatory context and the origin of ingredients used. In addition, the Group is developing more and more complex products made from active elements and organic materials, especially probiotics.

The Group also remains vigilant with respect to the follow-up of issues considered critical by the consumer, of which GMOs (Genetically Modified Organisms) and obesity constitute some striking examples. To this end, the Group has developed a network of privileged interlocutors (including, in particular, consumer associations) in order to discuss common subjects that preoccupy individuals and to offer elements of clarification in both a formal and informal manner.

Lastly, the Group's activities are subject to trends in the tastes and preferences of consumers. If the Group cannot predict, identify, and interpret trends in the tastes and dietary habits of consumers, its results could be negatively affected.

### VI. RISKS ASSOCIATED WITH HUMAN RESOURCES

The availability, quality and commitment of Danone's employees plays an essential role in the Group's success. A decline in the appeal of the Group to attract and retain employees with the necessary skills or talents could negatively affect Danone's ability to achieve its objectives.

The Group's subsidiaries and top management carefully monitor indicators related to human resources, annual employee survey results and how Danone is perceived as the "employer of choice"



in countries where it is present. The Group's actions in these areas are focused on compensation, the provision of employee health benefits and the priority given to training and career development programs, as part of its global sustainable development policy called DanoneWay.

## VII. RISKS ASSOCIATED WITH INFORMATION SYSTEMS

The Group is increasingly dependent upon common infrastructures and information technology applications for all its business activities. The main risks are related to the availability of computer services and the confidentiality and integrity of data. Indeed, any failure of these infrastructures, applications or communication networks and any interruption linked to the failure of securitization of data centers or networks may block or slow down production or sales, delay or taint certain decisions and result in financial losses for the Group.

In addition, most of the former Numico subsidiaries rely on various information systems, as do the recently acquired Unimilk entities. Any accidental or intentional loss of data, if it were to be used by third parties, may have adverse effects on the Group's business activities and on its results.

## VIII. RISK OF AN INTERNAL CONTROL FAILURE

The Group has implemented an internal control system (see Section 6.11 on the Report on internal controls and risk management procedures established by the Company). This system, regardless of how adequate it may be, can only provide reasonable assurance and not an absolute guarantee with respect to the achievement of the Company's objectives due to the limits inherent in any control process. Therefore, the Group cannot exclude the risk of an internal control failure.

Similarly, the Group cannot exclude any risk of fraud from employees, stakeholders, or third parties which could have an impact on its activities and results. However, given the risk profile of its activities and the existence of an exhaustive anti-fraud and anti-corruption program, covering all aspects of reducing the risk of fraud and the potential impact of any fraud (risk identification, prevention, detection, and corrective measures and reporting). Its dissemination (notably via the DANgo internal control system) and the risk profile of the Group's activities reduce Danone's exposure to this risk.

## Legal risks

### I. RISKS ASSOCIATED WITH BRANDS, INTELLECTUAL PROPERTY AND DATA CONFIDENTIALITY

Given the strategic importance of brands for its business, the Group invests considerable effort in protecting and defending its portfolio of brands and in particular *Danone*, *Activia*, *Actimel*, *Danonino*, *Nutricia*, *Blédina*, *Badoit* and *Evian*. The Group also takes measures to protect and defend its other intellectual property rights and in particular its registered designs and patterns, copyright, domain names, patents and its know-how (as indicated in Section 2.2). However, the Group cannot be certain that third parties will not attempt to infringe on its intellectual property rights.

Moreover, the Group's potential recourse to intellectual property rights protection varies by country. The degree of protection may be different, as may be the Group's implementation of a defense strategy. If the Group is unable to protect its intellectual proprietary rights against such infringement or misappropriation, its results and growth could be negatively affected.

Certain employees have access to confidential documents in the course of their work. The loss or dissemination of sensitive and/or confidential information could significantly hurt Danone interests. The Group continues its efforts to develop awareness among staff with access to and/or in possession of this type of information.

## II. RISKS ASSOCIATED WITH REGULATIONS

As a player in the food and beverage industry present in numerous countries, the Group's activities are subject to extensive laws and regulations enacted by many national and international authorities and organizations, including regulations with respect to corporate governance, tax and import/export duties, labor law, hygiene and food safety and quality control and use of water sources. The Group's activities are also subject to good conduct rules such as those of the World Health Organization (WHO) regarding the marketing of breast-milk substitutes and the corresponding rules at the various local regulatory levels. The Group may also be subject to customs duties, trade barriers or sanctions that may be imposed.

More particularly, the Group's activities are subject to various laws and regulations that are always changing and more and more restrictive. These regulations relate in particular to the protection of health and food safety, consumer protection, nutrition and claims about the health benefits of products marketed by the Group, along with environmental claims, the reimbursement of certain products of the Medical Nutrition business and the Group's advertising and promotional activities. Any change in these laws or regulations, any decision by an authority regarding these laws or regulations or any other event that would challenge the nutritional or health claims related to certain products could have a significant impact on the Group's activities, increase its costs, reduce consumer demand and possibly result in litigation.

Major litigations are presented in Note 30 of the Notes to the consolidated financial statements and Section 3.4.

## Industrial and environmental risks

### I. INDUSTRIAL RISKS

The safety of the Group's employees, subcontractors, people living close to the Group's industrial sites, and its industrial sites is a key priority for the Group's industrial policy.

The Group's main industrial sites have limited exposure to major natural hazards (floods, earthquakes and hurricanes). These risks are assessed prior to each major investment, and the Group's new industrial installations are designed to satisfy applicable safety standards. However, the Group's geographical expansion makes it necessary for the Group to set up businesses in areas that are occasionally exposed to the risk of natural hazards, in particular earthquakes.

The Group's main industrial activities do not intrinsically expose it to particular risks. The management of fire, explosion and pollution risks nevertheless remains a major concern of the Group's Divisions.

In order to reinforce its risk management, the Group has put in place procedures to assess safety levels at its industrial sites. These assessments are made by independent experts and enable operational units to define and implement customized prevention and protection policies. These procedures are based on international standards that typically exceed local standards. Furthermore, they allow an exhaustive inventory of the various potential industrial risks and also apply to partnerships with the Group's largest suppliers.

In 2010, 83 safety audits of the Group's industrial sites were conducted by independent companies, which assigned a rating from 1 to 5 (with 5 being the best) to each audited industrial site. As of December 31, 2010, 36 sites had a rating of 5, enabling them to obtain an HPR certification (Highly Protected Risk). The weighted average rating for Danone's industrial sites was

3.93 in 2010, compared with 3.90 in 2009. This rating does not take into account the recent acquisition of Unimilk, whose sites will be visited or audited in 2011.

### II. RISKS ASSOCIATED WITH ENVIRONMENTAL REGULATIONS

The Group's environmental policy aims to respond to the concerns of many different parties in this area, especially consumers, who are increasingly focused on the environmental impact of products, while controlling risks. Environmental expenditures and investments are presented in Section 7.5.

The Group's activities are subject to numerous laws and regulations (which mainly relate to water, air, the use of natural resources, noise and waste). They are becoming more and more stringent and are constantly evolving.

These activities are, in particular, subject to obtaining authorizations or making prior declarations in Europe, pursuant to applicable legislation concerning installations classified for environmental protection and, in other countries, pursuant to similar regulations.

Access to water sources and resources is sometimes linked to national or local regulations. Changes in these regulations could negatively affect the availability of water intended to be bottled and marketed by Danone.

Packaging is subject to specific regulations and in particular European Directive 94/62, as amended in 2004, relating to packaging and packaging waste, which requires reductions at the source, reductions in the toxicity of hazardous substances, recycling, and recovery. Danone's activities are in fact subject to the European Waste Framework Directive 2008/98/EC.

The Group's activities are also subject to, on the one hand, the European Directive of 2003 establishing a trading system and, on the other, quotas for greenhouse gas emissions and the transpositions of the National Allocation Plans in the European Union. Four of the Group's sites in the European Union are thereby subject to quotas (whose impact on the Group's financial situation is not significant), while the other sites are currently below the minimum eligibility threshold. If, in the future, the Group is unable to limit the emissions of these five sites and comply with allocated quotas, it will incur a fine and would have to purchase the shortfall on the market for greenhouse gas quotas.

When the Group is unable to reduce its environmental impact through direct action, notably in the agricultural and water preservation areas, it undertakes to help players in various areas, such as research and education, and any other actions that favor reductions in its environmental impact. The environmental action plans are presented in Section 7.5.

There is no significant provision for environment-related risks and liabilities in the consolidated balance sheet as of December 31, 2010.

### III. RISKS ASSOCIATED WITH CONSUMERS' CHOICES, PREFERENCES OR ENVIRONMENTAL CONSIDERATIONS

Consumers' purchasing preferences, notably in the most developed countries, are increasingly influenced by environmental

concerns (in particular greenhouse gas emissions and the preservation of water resources), and such preferences are at times supported by NGOs (Non-Governmental Organizations). Distributors also pay an increasing amount of attention to the communication towards the consumers (in particular the labeling of the carbon footprint of products). If the Group is unable to anticipate changing consumer preferences, in particular through the implementation of measures associated with reductions and communication on environmental consequences, its results could be negatively affected.

Consequently, the Group undertakes continuous efforts to reinforce its corporate commitment and improve the management of its business activities with respect to every step of its products' life cycle. Danone carefully ensures that all environmental claims made in connection with its products are well founded.

### IV. OTHER ENVIRONMENTAL RISKS

The principal potential other risks are water pollution (essentially organic and biodegradable pollution), risks related to cooling installations (ammonia and other cooling liquids), and risks related to the storage of raw materials or products for the cleaning and disinfection of the Group's plants (acid or basic products), especially when these installations are located in inhabited areas. In the event that the Group's environmental responsibility is called into question, resulting from a significant accident or case of pollution, its results could be adversely affected.

## Financial market risks

As part of its normal business, the Group is more or less exposed to financial risks, especially foreign currency, financing and liquidity, interest rate, counterparty credit, and security-related risks. The risk management policy and its organization within the Group are described in Section 2.2 "Financial risk management strategy"

and additional information and data, in particular with regard to the Group's residual exposure (after hedging) to these different risks, are described in Note 15 of the Notes to the consolidated financial statements.

## I. CURRENCY RISK

Due to its international presence, the Group could be exposed to foreign exchange rate fluctuations in the three following situations:

- in relation to its operating activities: the sales and operating expenses of the subsidiaries of the Fresh Dairy Products Division and most of the subsidiaries of the Group's Waters Division are expressed primarily in their country's domestic currency. Certain imports (especially raw materials and finished goods) and exports are, however, expressed in other currencies. Also, due to the limited number of production units in the world, the subsidiaries of the Medical Nutrition and Baby Nutrition Divisions and certain Waters subsidiaries frequently use intra-group imports denominated in a currency other than their functional currency. The sales and operating margin of certain Group subsidiaries are therefore exposed to fluctuations in exchange rates against their functional currency. Pursuant to its operational foreign exchange risk hedging policy, the Group's residual exposure (after hedging) was significantly reduced during the fiscal year (see Note 15 of the Notes to the consolidated financial statements);
- in relation to its financing activities: in application of its risk centralization policy, the Group manages multi-currency financings and liquidities. Pursuant to its financial foreign exchange risk hedging policy, the Group's residual exposure (after hedging) is not significant (see Note 15 of the Notes to the consolidated financial statements);
- when translating into euros the financial statements of subsidiaries denominated in a foreign currency: sales and the trading operating income may be generated in currencies other than the euro (see Section 3.2 for the respective shares of Group sales generated in euros and in other currencies). Consequently, fluctuations in exchange rates of foreign currencies against the euro may have an impact on the Group's income statement. These fluctuations also have an impact on the carrying amount in the consolidated balance sheet of assets and liabilities denominated in currencies other than the euro. The Group has implemented a monitoring and hedging policy with regard to the net assets of some subsidiaries.

In addition, in accordance with IAS 39 relative to derivative instruments, foreign exchange rate fluctuations can have an impact on the Group's results and consolidated shareholders' equity (see Note 15 of the Notes to the consolidated financial statements).

## II. FINANCING RISK AND LIQUIDITY RISK

- The Group does not use indebtedness in either a recurring or a significant way in connection with its operating activities. Operating cash flows are generally sufficient to self-finance the Group's business operations and organic growth.

The Group may, however, in the future, increase its indebtedness to finance acquisitions.

Its goal remains to maintain debt at a reasonable level, notably to retain some flexibility with respect to its financing sources.

- The Group's liquidity risk arises mainly from the maturities of its (i) interest-bearing (bonds, bank debt, etc.) and (ii) non interest-bearing liabilities (liabilities on put options granted to minority shareholders), and from payments on derivative instruments (see Note 15 of the Notes to the consolidated financial statements).
- As part of its debt management strategy, the Group regularly seeks new financings to refinance its existing debt. The Group manages its exposure to refinancing risk by: (i) borrowing from diversified financing sources, (ii) arranging a significant portion of its financing as medium term financing, (iii) maintaining financing sources available at any time, and (iv) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts. Exceptionally and temporarily, these rules cannot always be fully applied in countries where centralized or medium-term financing are not available or, in some cases, when the existing financing agreements at a company predate the control obtained by the Group.

In countries in which centralized financing is not accessible or where medium-term financing is not available, the Group could be exposed to a liquidity crunch, but only in limited amounts.

Further information on the financing structure and on financial security is given in Section 3.7.

## III. INTEREST RATE RISK

The Group's interest-bearing debt exposes it to interest rate fluctuations that impact its financial expenses.

The Group has established a policy for monitoring and managing risk to limit the volatility of its financial income and expense.

In addition, in accordance with IAS 39 relative to derivative instruments, interest rate fluctuations may have an impact on the Group's results and consolidated shareholders' equity (see Note 15 of the Notes to the consolidated financial statements).

## IV. COUNTERPARTY RISK

The Group is exposed to counterparty risk, especially on banking counterparties, as part of its financial risk management activities.

The Group's banking policy focuses on counterparty credit quality as a means to reduce risks (see Note 15 of the Notes to the consolidated financial statements).

## V. SECURITIES-RELATED RISK

### Risk related to the Company's shares

Pursuant to its share buyback policy, and pursuant to the authorizations granted by the Shareholders' Meeting, the Company may choose to repurchase its own shares. Any fluctuations in the price of the Company's treasury stock repurchased in this manner have no impact on the Group's results. Any decrease in the Company's share price could, however, have an impact on the potential amount paid out in shares in connection with the financing of acquisitions.

### Risks related to other shares

The Group holds equity interests in listed companies. Any significant and/or prolonged decline in the prices of these companies' stock could have an adverse impact on the Group's results.

## Insurance and risk coverage

The insurance coverage guidelines are centralized. It relies on stringent technical evolutions and uses insurance products from the world market, depending on availability and local regulations. Thus, this risk coverage is consistent for all companies over which the Company has operational control. The policy is as follows:

- potentially major traditional risks** (property damage, business interruption, commercial general liability): such programs are negotiated at Group level for all subsidiaries, with top international insurers. The "all risks except" policies are based on the broadest guarantees available on the market, coupled with deductibles which, while of varying amounts, are relatively low compared to those extended to groups of comparable size to reflect the autonomous management of subsidiaries. The guarantee limits are set based on worst case scenarios and on insurance market availability. The coverage was renewed on January 1, 2007 for a fixed term of three years. They were renewed again on January 1, 2011 for a term of one year; the total cost of these programs was approximately € 22 million in 2010;
- common risks:** these risks, which require local management, include coverage of fleets of vehicles, guarantees for the transportation of merchandise, work-related accidents (in countries in which these accidents are covered by private insurance), and insurance specific to some countries. These insurance policies are negotiated and managed in accordance with local practices and regulations, within the framework of precise directives provided and controlled by the Group. Total premiums came to approximately € 19 million in 2010;
- special risks:** these potentially significant risks require centralized management. The liability of the Group's Executive Directors and officers (*mandataires sociaux*), fraudulent acts, and assorted risks (taking products off the market, credit risk, environmental risk, etc.) are covered according to market availability, on the basis of scenarios estimating the probable impact of these claims. The total cost of this category of coverage amounted to approximately € 3 million in 2010.

In addition, in order to optimize its insurance costs and properly control its risks, the Group has a self-insurance policy through its captive reinsurance subsidiary Danone Ré (a fully consolidated Group entity). The self-insurance policy applies to specific risks where the costs can be accurately estimated as the Group is aware of their frequency and financial impact. This concerns essentially (i) coverage of property damage, business interruption, commercial general liability, and transportation for a large majority of the Group's companies (these self-insurance programs are limited to frequent claims with a maximum of € 7.5 million per claim) and, for the French subsidiaries, (ii) payments for death, long-term disability, and education. Moreover, stop-loss insurance protects Danone Ré against any increased frequency of claims. These self-insurance programs are managed by professional insurers under Danone's supervision and the provisions are determined by independent actuaries.



# DANONE'S BUSINESS HIGHLIGHTS IN 2010 AND OUTLOOK FOR 2011

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Danone's consolidated financial statements and the Notes to the consolidated financial statements are presented in Section 4. Risk identification and control policy, as well as the major operational risks relating to the Group's business sectors or to the Group's activity and organization, are described in Section 2.3 – Risk factors.

The Group reports on financial indicators not defined by IFRS. They are defined in Section 3.9:

- like-for-like changes in net sales, trading operating income and trading operating margin;
- trading operating income and trading operating margin;
- underlying net income attributable to the Group;
- free cash flow;
- net debt.

The Group also uses references that are defined in Section 3.9.

Finally, competitive positions of Group activities result from external analysis, carried out by Nielsen, IRI and Euromonitor notably.

## 3.1 Highlights of 2010

The highlights below appeared in the principal press releases issued in 2010:

- On March 30, 2010, Danone announced the formation of a joint venture with Chiquita Brands International, Inc. to market fruit-based drinks.
- On June 11, 2010, Danone announced the acquisition of Medical Nutrition USA, Inc.
- On June 18, 2010, Danone announced the signature of an agreement to merge Danone's Fresh Dairy Product businesses in the CIS area with those of Russian company Unimilk. The new entity will become the leader for dairy products in the CIS area as a whole, and particularly in Russia. On November 30, 2010, Danone and Unimilk announced that they had finalized the merger of their fresh dairy products businesses in Russia and other CIS member countries, thereby creating the region's leader in fresh dairy products.
- On July 28, 2010, Danone announced the sale of its 22.98% shareholding in China Hui Yuan to SAIF Partners.
- On August 12, 2010, Danone announced that it had entered into an agreement with Wimm Bill Dann to sell back its 18.4% stake in this company. On October 28, Danone announced it had completed the deal for \$470 million.
- On November 17, 2010, Danone announced that it had successfully lengthened its debt maturity pursuant to its bond exchange offer relating to two tranches maturing in February 2014 and May 2015, respectively.
- On November 24, 2010, Danone announced that it signed an agreement to acquire Yocream, the leading producer of frozen yogurt in the United States, for about \$103 million.
- On November 25, 2010, Danone announced the appointment of Jordi CONSTANS and Felix MARTIN, respectively, as Executive Vice-President, Fresh Dairy Products, and Executive Vice-President, Baby Nutrition.
- On December 8, 2010, Danone announced that EFSA published opinion concluded that the positive elements included in the application filed by Danone in August 2009 were not sufficient to establish a definite relationship of cause and effect between the consumption of Actimel, containing the L. casei DN114 001, and a reduced risk of diarrhea associated with the bacterium clostridium difficile in a hospital setting.



## 3.2 Business and major markets

This section describes the business of each division in 2010 as well as the Group's business by geographical area and by its major clients. The tables below show sales, trading operating income and trading operating margin by division for fiscal years 2009 and 2010.

Fiscal year ended December 31				
<i>(In € millions)</i>	2009	2010	Change Like-for-like	Volume growth like-for-like
<b>Net sales</b>				
Fresh Dairy Products	8,555	9,732	+6.5%	7.50%
Waters	2,578	2,868	+5.3%	7.80%
Baby Nutrition	2,924	3,355	+8.9%	7.60%
Medical Nutrition	925	1,055	+9.0%	8.70%
<b>TOTAL</b>	<b>14,982</b>	<b>17,010</b>	<b>+6.9%</b>	

Fiscal year ended December 31					
<i>(In € millions)</i>	2009	2010	2009	2010	Change like-for-like
	Trading operating income		Trading operating margin		
Fresh Dairy Products	1,244	1,365	14.54%	14.03%	-3 bp
Waters	324	371	12.56%	12.93%	+13 bp
Baby Nutrition	536	635	18.32%	18.92%	+17 bp
Medical Nutrition	190	207	20.57%	19.65%	-62 bp
<b>TOTAL</b>	<b>2,294</b>	<b>2,578</b>	<b>15.31%</b>	<b>15.16%</b>	<b>+3 BP</b>

### Fresh Dairy products

The division earned sales of € 9.7 billion in 2010, up 6.5% on a comparable basis from 2009. Unimilk has been wholly consolidated since December 1, 2010.

#### DANONE FRESH DAIRY PRODUCTS WITHOUT UNIMILK

**Net sales.** Sales of the Fresh Dairy division excluding Unimilk increased by +6.3% on a like-for-like basis from 2009 due to steady volume growth (+7.5% on a like-for-like basis).

This performance illustrates continued momentum from the Reset program implemented in 2009, despite a persistently difficult consumer market in Southern Europe.

Prices had a negative impact of 1% on a like-for-like basis on sales growth for the entire 2010 fiscal year, mainly concentrated on the first half. Indeed, prices had a positive contribution again by the fourth quarter of 2010. This marked the end of the "reset" program's impact and a return to competitive management of the products and prices portfolio.

	1 <sup>st</sup> quarter 2010	2 <sup>nd</sup> quarter 2010	3 <sup>rd</sup> quarter 2010	4 <sup>th</sup> quarter 2010
Like-for-like Net Sales growth	7.6%	6.6%	5.5%	5.4%
Volume growth	12.5%	9.3%	5.6%	2.8%
Price/mix growth	(4.9)%	(2.7)%	(0.1)%	2.6%

### Main markets

The division's priority markets, among them the US, Russia, Brazil and Mexico, continued to drive growth thanks to double-digit growth.

Europe's performance was more uneven:

- the United Kingdom and Poland enjoyed rapid growth;
- some countries, including France, returned to slightly positive growth in 2010;
- the situation remains difficult in Southern Europe, mainly in Spain and Italy, owing to the economic environment.

Lastly, the Group's expansion continued in the new geographical areas, especially in China, where sales rose by over 100% in 2010, thus ensuring a future growth driver for the Group.

As a result, Danone is the world's largest producer of Fresh Dairy Products with 28% market shares in the 43 main countries where the Division operated in 2010.

### New products and brands

Activia brand remains one of the Division's growth drivers, accounting for half of overall growth in 2010. This growth was obtained by:

- expanding the product range with the introduction of such new items as Activia Intensely Creamy in the United Kingdom and Activia Pouring Yogurt in the United Kingdom and France, where it met with great success in both countries;

- stepped-up deployment of existing products in non-mature countries like China.

This strategy was also deployed for the Division's other leading brands. For example, Danonino generated extensions like Crush Cup and Coolision in the United States, Danonino Ice in Spain and My Funny Yogurt in France.

Lastly, the Division pursued an innovative strategy with Densia (product enriched with calcium and vitamin D needed for bone health), and with stewed fruits, which were developed and introduced under the Taillefine brand, thus opening a new market segment for fresh products.

### UNIMILK'S CONTRIBUTION

Consolidated since December 1, 2010, Unimilk contributed to the division's sales only for one month in the 2010 fiscal year with an amount of € 121 million.

During 2010, Unimilk earned estimated net sales of € 1.292 billion, a 24% like-for-like growth from 2009 despite an inflationary environment for raw materials accentuated by exceptional weather conditions in summer 2010. This inflation affected all of the segment's players. Unimilk could maintain a high growth and earned market shares. But inflation dampened the trading operating margin in the second half of 2010. Trading operating margin is estimated at 2% in 2010, as opposed to 6% in 2009.

## Waters

### NET SALES

The Waters Division recorded net sales of € 2.9 billion in 2010, a 5.3% like-for-like growth from 2009. This growth stems from the

strong rise in sales volume, which rose by 7.8%. This confirms the trend observed for six quarters now, which reflects both the double-digit growth in emerging countries and the stabilization of sales volume in the mature countries.

	1 <sup>st</sup> quarter 2010	2 <sup>nd</sup> quarter 2010	3 <sup>rd</sup> quarter 2010	4 <sup>th</sup> quarter 2010
Like-for-like Net Sales growth	2.3%	4.8%	8.7%	5.2%
Volume growth	8.5%	7.8%	7.6%	7.3%
Price/mix growth	(6.2)%	(3.0)%	1.1%	(2.1)%

## MAIN MARKETS AND NEW PRODUCTS

**Mature countries.** Business picked up in the mature countries in 2010, reflecting resumed growth in the bottled water market. Danone largely contributed to this market's growth in the past few years, largely by explaining the health benefits of natural mineral waters. As a result, the division's sales volume returned slightly positive, particularly driven by France and Germany, while Spain and Japan remained tough markets.

Initiatives supporting this growth include the followings:

- reducing the carbon footprint and communicating this to consumers, e.g., by introducing a vegetable PET bottle for Volvic;

- reviving up brands through original and interactive advertising actions like the roller babies.

**Emerging countries.** Growth in emerging countries remained very strong, with double-digit growth in Indonesia, Mexico, China and Argentina. One of the main growth drivers consisted in stepping up the deployment of the Division's flagship brands, such as Bonafont in Brazil's São Paulo region and Mizone in China and Indonesia.

The Group has the second worldwide position in bottled water. The average market share for the division's 11 major countries was 22% in 2010.

## Baby Nutrition

### NET SALES

The division reported net sales of € 3.4 billion in 2010, with sales up +9.8% like-for-like in the only fourth quarter 2010 and +8.9% like-for-like sales growth in full year 2010.

The growth that occurred in 2010 was due to a 7.6% like-for-like volume growth and a 1.3% rise in value.

### MAIN MARKETS AND NEW PRODUCTS

All regions reported growth, with China, Indonesia, and the United Kingdom still the main contributors to the Division's growth.

The Asia Pacific region now earns sales in excess of € 1 billion and experienced double-digit growth in 2010.

In Europe, the United Kingdom, the Netherlands and Poland also achieved double-digit growth, but Southern Europe remains a tough market, particularly because of the local economy.

The milk category continued to deliver double-digit growth, while weaning foods saw a slight rise in the fourth quarter reflecting good performances in France, Poland and Russia.

As a result, Danone has the second worldwide position in the Baby Nutrition market. It had a 27% market share in the 33 main countries where the division operated in 2010.

## Medical Nutrition

### NET SALES

The Division reported net sales of € 1.1 billion in 2010 with a 9% like-for-like sales growth from 2009. This advance stems mainly from a 8.7% rise in volume.

### MAIN MARKETS AND NEW PRODUCTS

The division's performance remained geographically balanced, with Western Europe and the new geographic regions contributing equally to the sales growth :

- the bulk of the growth in Western Europe was made by France, the United Kingdom, Germany, Italy and Spain. Germany and Austria remained difficult markets although they rose in 2010;

- among the new geographical areas, China and Brazil achieved double-digit growth.

All product categories made progress, with the pediatrics and gastrointestinal allergies categories growing faster than average once again.

The Division continues to develop new products, particularly in fast-growing categories such as Fortimel (enhanced recovery) and Neocate (allergology) product lines.

## Sales breakdown by Geographical area and percentage of sales in currencies other than the euro

The tables below show sales, trading operating income and trading operating margin by geographical area, for fiscal years 2009 and 2010:

Fiscal year ended December 31						
(In € millions)	2009	2010	Change like-for-like	Volume growth like-for-like	Sales breakdown by geographical area in 2009	Sales breakdown by geographical area in 2010
<b>Net sales</b>						
Europe	8,960	9,449	+1.9%	3.8%	60%	56%
Asia	1,877	2,386	+14.0%	12.6%	13%	14%
Rest of world	4,145	5,175	+14.9%	11.8%	28%	30%
<b>TOTAL</b>	<b>14,982</b>	<b>17,010</b>	<b>+6.9%</b>			

Fiscal year ended December 31					
(In € millions)	2009	2010	2009	2010	Change like for like
	Trading operating income		Trading operating margin		
Europe	1,437	1,483	16.04%	15.70%	-1 bp
Asia	333	445	17.72%	18.66%	+63 bp
Rest of world	524	649	12.64%	12.55%	+1 bp
<b>TOTAL</b>	<b>2,294</b>	<b>2,578</b>	<b>15.31%</b>	<b>15.16%</b>	<b>+3 BP</b>

The Company's growth strategy is to focus its geographical expansion on high-growth countries like Mexico, Indonesia, China, Russia, the United States and Brazil. With the acquisition of Unimilk and its consolidation into the Group's financial statements

over the entire 2010 fiscal year, Asia and the Rest of the World accounted for nearly 50% of Danone's sales, with a like-for-like growth rate of over 14% for each geographical area. France would only represent 11% of the Group's sales, the same as Russia.

The Group's 10 principal countries would then be the following:

	Year ended December 31
	<b>2010</b>
France	11%
Russia <sup>(1)</sup>	11%
Spain	8%
USA	8%
Mexico	5%
Germany	5%
Indonesia	5%
United Kingdom	5%
China	4%
Argentina	4%

(1) Including Unimilk sales for the entire 2010 fiscal year.

This geographical expansion is reflected in the weighting of non-euro currencies on the Group's consolidated net sales, which rose to 62% in 2010 as against 55% in 2009. It breaks down as follows:

	Year ended December 31
	<b>2010</b>
Euro	38%
US dollar	9%
Mexican peso	6%
Pound sterling	5%
Argentine peso	5%
Russian ruble	5%
Indonesian ruble	5%
Chinese yuan	5%
Polish zloty	4%
Brazilian real	4%
Canadian dollar	2%
Turkish pound	2%
Other currencies	10%

## Major customers

In 2010, the Group's ten largest worldwide customers (among which five are of French origin) accounted in aggregate for approximately 23% of total consolidated net sales. The five largest

customers accounted for approximately 16% of consolidated net sales, and Danone's largest customer, Carrefour, accounts for approximately 6% of consolidated net sales.

### 3.3 Financial investments in 2010 and a simplified organization chart as of December 31, 2010

#### Financial investments

Financial investments came to € 695 million in 2010, of which € 333 million was in cash, as opposed to € 147 million in 2009 (see details in Note 2 to the consolidated financial statements).

The main financial investments during 2010 related to:

- the takeover of Unimilk (Fresh Dairy Products – Russia) on November 30, 2010;
- the acquisition of a 51% equity stake in the Chiquita Fruits company (France) on May 25, 2010;
- the acquisition of 100% of Medical Nutrition USA Inc.'s share capital. (Medical Nutrition – United States) on July 22, 2010;
- the acquisition of a 51% equity stake in ProViva, a Fresh Dairy Products company located in Sweden on September 30, 2010;
- the acquisition of a 94.67% stake in YoCream (fresh dairy products – United States) on December 23, 2010.

All financial investments as well as disposals during the 2010 fiscal year are described in Note 2 to the consolidated financial statements.

**Unimilk deal.** The agreement signed on November 30, 2010 by Danone and Unimilk group covers the pooling of the two companies' Fresh Dairy Products businesses located in Russia, Ukraine, Kazakhstan and Belarus. Danone will control the new entity through a holding company named Dairy JV CIS Holdings (see Note 2 to the consolidated financial statements).

The Unimilk group's companies have been fully consolidated since December 1, 2010. The regrouping has been accounted for on a temporary basis. The amount allocated to identifiable assets and liabilities may be modified within a year starting from November 30, 2010. The identifiable assets amount to

€ 965 million (of which € 278 million are brands, € 439 million are tangible assets and € 19 million financial assets). Furthermore, the deal resulted in the recognition of goodwill corresponding to Danone's stake, equal to € 308 million.

The deal had the following impact on the Group's debt and shareholders' equity as of December 1, 2010:

- a € 1.351 billion increase in net debt, of which € 775 million was linked to put options granted to Unimilk's selling shareholders;
- a € 282 million decline in shareholders' equity caused by accounting for put options as a reduction to its shareholders' equity pursuant to IFRS 3 and IAS 27 as revised.

Also refer to Note 2 and Note 25 to the consolidated financial statements.

The new entity's management is already in position and the integration plan is being carried out. The integration costs are estimated to be € 100 million, which will be accounted and paid over the next three years. The following priorities have been assigned to the integration process starting in 2011:

- merging organizational structures in a pilot region (Siberia);
- producing Activia and Danone's core activities in Unimilk's factories in Siberia;
- managing purchases jointly;
- managing major customers jointly;
- implementing the Thémis information system (see Section 2.2 on "IT Strategy");
- uniting the consolidation, reporting and management accounting systems.

## Share buy-back

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After receiving the proceeds from the sale of non-strategic interests in Hui Yuan and Wimm-Bill-Dann, Danone launched in October 2010 a share buy-back for a total amount € 500 million.

As of February 4, 2011, Danone purchased 9,180,100 shares for a total amount of € 423 million. The transactions for the 2010 fiscal year as well as the amounts of shares held by Danone and

its subsidiaries as of December 31, 2010 and February 28, 2011 are described in Section 8.2.

Considering robust generation of free cash flow and assuming steady debt ratios, Danone plans to continue to buy back shares in the first half of 2011, up to a maximum of an additional € 500 million.

## Organization chart

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As of December 31, 2010 the Company consolidated 242 companies, of which 226 were fully consolidated and 16 were associates.

The list of all consolidated companies with country of origin, percentage of ownership and control as of December 31, 2010 appears in Note 31 to the consolidated financial statements.

### PUBLICLY TRADED EQUITY INTERESTS

The Company holds, directly or indirectly, equity interests in the following companies:

- fully consolidated entities:
  - Aqua (Water – Indonesia), listed on the Jakarta Stock Exchange;
- entities consolidated as equity affiliates:
  - Yakult Honsha (Fresh dairy products – Japan), listed on the Tokyo Stock Exchange,
  - Centrale Laitière du Maroc (Fresh dairy products – Morocco), listed on the Casablanca Stock Exchange.

## 3.4 Danone's other business activities in 2010

### Capital expenditures in 2010, plant and equipments at December 31, 2010

#### CAPITAL EXPENDITURES

Capital expenditures reached € 832 million in 2010, compared with € 699 million in 2009, representing 4.9% and 4.7% of net sales respectively. They consist mainly of expanded production capacity in the Company's priority geographical areas like China, Indonesia, the United States, Brazil and Russia. Significant investments were also made in 2010 to boost productivity and to offset the impacts from higher commodity prices. Lastly, expenditures aimed at reducing the Group's carbon footprint increased in 2010 compared with 2009 (see Section 7.5).

As it did in 2009, the Group plans to focus its capital spending effort on emerging countries and those with high growth potential. It plans to commit to an investment level of around 4 to 5% of its consolidated net sales in 2011 in order to encourage growth, increase volume, and achieve geographical expansion.

#### PLANT AND EQUIPMENT

As of December 31, 2010, the Company excluding Unimilk owned 158 factories of which:

- 54 were in Europe, with 13 of these in France and 10 in Spain;
- 49 in the Asia-Pacific region, of which 19 were in Indonesia and 24 in China; and
- 55 in the Rest of the World, of which 5 were in the United States, 1 in Canada, and 30 in the area covering Argentina, Brazil and Mexico, and 16 are in Africa and the Middle East.

In addition, Unimilk owned 26 manufacturing facilities.

Lastly, the Group rents some of its facilities, notably offices and warehouses, (see Note 15 to the Notes to the consolidated financial statements on outstanding amounts for financial leases and Note 28 to the consolidated financial statements on off-balance sheet commitments relating to lease agreements).

## Research and Development

#### FRESH DAIRY PRODUCTS

In 2010, the Fresh Dairy Products Division continued with its studies, particularly in the areas of i) bone health, ii) interactions between microbes in the human intestine and their host, and iii) the impact of these microbes on human health. This work has been conducted in collaboration with many scientific experts and lead to several publications in the specialized press.

#### WATERS

In the Waters Division, 2010 saw the introduction of the first vegetable PET bottle under the Volvic brand. This bottle, which is made up partly with PET of vegetable origin, was one of many projects to reduce the carbon footprint as well as expanding the use of recycled PET and optimizing the bottle's weight. The Research and Development teams also continued their investigation on hydration by establishing the negative impact of a minor dehydration episode on cognitive performance. They also established the key biomarkers for hydration. Lastly, the Waters Division introduced new formulas containing Stevia.

#### BABY NUTRITION

The Baby Nutrition Division did work on i) children atopic eczema, ii) the metabolic imprint called NUTURIS (a lipidic matrix that imitates the structure of human milk) and iii) on allergies. Nutritional studies were conducted in 16 countries in Europe, Africa, the Middle East and Asia. These provided information on food behaviors, nutritional status and deficiencies in each of these countries. Moreover, the Division's Research and Development team came up with a growth milk containing the probiotic scgos/lcfos, which is associated with bifidobacterium breve. The milk was introduced in Thailand under the name Dumex hi-q1.

Finally, the Division has opened a research center in Singapore that will concentrate on global and local projects in the areas of neonatal nutrition, including the mother's dietary regime during pregnancy and nursing.



## MEDICAL NUTRITION

The year 2010 was characterized by continued activity in the three following areas: i) memory/neurosciences, ii) mobility/muscular metabolism and iii) managing infections/immunology.

In order to strengthen Danone's global presence, a research center was opened in the United States in 2010. The new Nutrison Tube feeds were also introduced in 2010 with new formulas based on

the most recent nutritional information and recommendations, including a new protein and a mix of fats. In addition, a beverage named Fortini Smoothie was developed and circulated in pediatric nutrition circles.

Total Research and Development expenses came to € 209 million in 2010, as opposed to € 206 million 2009, or 1.23% of consolidated net sales.

## Reducing carbon footprint

Danone products mainly come from natural ecosystems. Accordingly, it is in the Group's interest to help preserve the environment as part of its activities.

Since the carbon footprint is a global indicator that reflects numerous environmental parameters, Danone has made the ambitious commitment to reduce its carbon intensity (gram of CO<sub>2</sub>/kg of products sold) by 30% from 2008 to 2012.

As a result, Danone has reduced its carbon intensity by 22% on a constant scope of activity and on the scope of emissions under Danone's direct responsibility from 2008 to 2010 (packaging, manufacturing activities, logistics and scrapping). Management confirms its goal to reduce it by 30% by 2012, i.e., over a period of five years.

See also Section 7.5.

## Social and societal responsibility

These activities are described in Sections 7.3 and 7.4

## Main financing transactions

In order to extend the average maturity of its debt and to profit from historically low long-term interest rates, Danone launched the following dual transaction on the euro bond markets in November 2010:

- exchange tender offer for formerly issued shares, which are to mature in February 2014 and May 2015, in exchange for newly issued shares (these tranches were already used in a share repurchase tender offer in November 2009);
- new bond issue maturing in 2020.

At the end of this dual transaction, a net face value of € 344 million in new debt was raised: The Group issued € 500 million maturing in 2020 at a rate of 3.6%. It also issued € 156 million maturing in 2014 to 2015 for an exchange tender offer. Accordingly, the average maturity of the Group's outstanding bond issues was increased by 1.4 years and the tranche arriving at maturity in May 2011 is in large part pre-financed in advance.

## Change in accounting principle

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In view of changes introduced for first-time application of IAS 27 (Revised), the Group has changed its method of accounting for put options granted to minority shareholders.

Starting January 1, 2010, the difference between the exercise price of put options granted to minority shareholders and the book value of these options is no longer accounted for by an increase in goodwill, but recognized into equity (Group share).

To ensure consistent accounting for all similar transactions, the Group extended the scope of this change in method to cover put options granted prior to January 1, 2010 and not exercised at that date. As a result, goodwill corresponding to put options granted to

minorities at December 31, 2009 has been reclassified, reducing equity by € 2.7 billion.

The consolidated balance sheet for 2009 was restated to ensure comparability of figures for the 2009, 2010 and subsequent financial years (in accordance with IAS 8).

This change in accounting method has no impact on the amount of net debt, since put options granted to minority shareholders remain classified as debt.

See also Note 1 of the Notes to the consolidated financial statements.

## Legal arbitration proceedings

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Class actions filed in 2008 in the United States against The Dannon Company Inc., one of the Group's U.S. subsidiaries, criticizing certain allegations related to Activia and DanActive products were settled out-of-court in 2010. Under the terms of this settlement, the U.S. subsidiary has agreed to create a \$35 million fund to compensate consumers and to cover legal and publication fees, the rest being allocated to donations of products to charities.

Moreover, in early 2010, Attorney Generals from 39 states initiated investigations into allegations related to Activia and DanActive. These investigations were settled and The Dannon Company Inc. paid a total of \$21 million under these settlements.

Finally, an investigation conducted by the Federal Trade Commission, the competition regulator in the U.S. market, was also settled, with no financial obligation for The Dannon Company Inc.

Under these agreements, certain allegations were modified without changing the positioning of DanActive and Activia in the U.S. The impact of the legal proceedings described above was provided for in the consolidated balance sheet of the Group as of December 31, 2009.

In October 2009, a class action against Danone Inc. and The Dannon Company Inc. was filed by an individual plaintiff with the Quebec Superior Court, to obtain restitution for consumers from the alleged false advertising of the health benefits of probiotic cultures in Danone's Activia and DanActive products. This action is based on the Quebec Civil Code and the Consumer Protection Law. The plaintiff filed a request for authorization to institute a class action lawsuit. No hearing has been held by the court. As of December 31, 2010, the Group cannot obtain a reliable assessment of the scope of this action and its impact on the Group's earnings and financial position. Therefore, no provision has been recognized in the financial statements as of December 31, 2010.

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated (see Note 17 of the Notes to the consolidated financial statements).

To the best of the Group's knowledge, no other state legal or arbitration proceedings are currently underway, which are likely to have or have had over the last twelve months a material impact on the Group's financial position or profitability.

## Major contracts and related-party transactions

The Group engaged to acquire stakes held by third-party shareholders in certain consolidated companies and associates in the event such shareholders wished to exercise their put options. The exercise price for these options is generally based on the profitability and/or the financial position of the entity in question. As of December 31, 2010, the amount of these commitments was approximately € 3.9 billion; they are recognized in financial liabilities. The main commitments pertain to Danone Spain, for

a sum of € 2.3 billion, and Dairy JV CIS Holdings (the holding company for the Unimilk and Danone CIS group of companies), for a sum of € 0.8 billion. (See Note 15 of the Notes to the consolidated financial statements).

Related-party transactions are described in Note 24 of the Notes to the consolidated financial statements.

Also see Section 5.4 on "Regulated agreements".

## 3.5 Net income review

<i>In € millions (except per-share data in €)</i>	For the year ended December 31		
	2009	2010	Change
<b>Sales</b>	14,982	<b>17,010</b>	<b>+6.9%</b> <sup>(1)</sup>
<b>Trading operating income</b>	2,294	<b>2,578</b>	<b>+7.1%</b> <sup>(1)</sup>
<b>Trading operating margin</b>	15.31%	<b>15.16%</b>	<b>+3 bp</b> <sup>(1)</sup>
<b>Underlying Net income attributable to the Group</b>	1,412	<b>1,669</b>	<b>+18.2%</b>
<b>Underlying Diluted earnings per share</b>	2.50 <sup>(2)</sup>	<b>2.71</b>	<b>+8.6%</b> <sup>(2)</sup>

(1) Like-for-like.

(2) Adjusted based on a notional price excluding subscription rights (TERP).

## Net sales

Consolidated reported net sales increased by 13.5% in 2010, to € 17.01 billion. Excluding the effect of exchange rates (+6.0%) and changes in the scope of consolidation (+0.6%), sales increased 6.9%. This organic growth breaks down into 7.6% higher volumes and a decline in mix/price (0.7%). The effects of fluctuations in exchange rates are mainly imputable to the rise in the Brazilian real, Mexican peso, U.S. dollar and Russian ruble.

The change in the scope of consolidation is explained primarily by the inclusion in the scope of consolidation of the Russian company Unimilk as from December 1, 2010 and, to a lesser extent, by the inclusion of two new European fruit beverage subsidiaries (Danone Chiquita and ProViva), which was partially offset by the disposal of the New Zealand company Frucor in February 2009.

## Trading operating income and trading operating margin

Trading operating income was € 2.578 billion in 2010 versus € 2.294 billion in 2009.

Danone's trading operating margin (EBIT) raised +3 basis points to 15.16% in 2010, which saw a steep rise in raw material prices, particularly milk. The margin evolution was particularly favorable in the second half, with a +78 basis points rise like-for-like compared to 2009.

The 10% increase in raw materials was primarily offset by various cost-cutting measures that generated record savings of over € 500 million during the year.

The benefits of a call for bids from media-space suppliers made in the end of 2009 for 2010 as a whole financed an increase of around 10% in media visibility for Group brands for a like-for-like rise in advertising expenses of only +6.8%.

At the same time, promotional levels were gradually scaled back from particularly high levels during the Reset program in 2009, reducing total Advertising and Promotion expenses as a percentage of sales by 93 basis points (like-for-like).

These cost-saving measures and the reduction of the levels of promotions have had the following effects:

- offset of part of the increase in raw materials on the cost of goods sold. These pertain to production costs and essentially include the cost of raw food materials and packaging, industrial labor and the amortization of production equipment. The increase in 2010 of the cost of goods sold was thus contained at 174 basis points compared to 2009, for a total of € 7.959 billion;
- decline in selling expenses, specifically advertising and promotional expenses, distribution costs and sales force structural costs. Selling expenses as a percentage of sales declined 70 basis points in 2010 compared to 2009, to € 4.663 billion;
- 27 basis point decline in overhead in 2010 compared to 2009 for a total of € 1.494 billion.

Research and Development costs totaled € 209 millions, 1.23% of consolidated sales, versus € 206 million in 2009 (see Section 3.4).

## Financial Income (Expenses)

The Group implemented a financial risk management policy described in Section 2.2 Its 2010 implementation is described for each risk in Note 15 to the consolidated financial statements.

In 2010, the Group's financial expenses were € 9 million, € 480 million less than in 2009. This decline resulted primarily from the following:

- the decline in the cost of net financial debt to € 143 million in 2010 versus € 264 million in 2009, which derives from the combined effect of the following items:
  - the decline in the Group's average net debt following (i) the capital increase carried out in June 2009, (ii) solid generation of free cash flow and (iii) the result of the sale of a number of non-strategic activities,

- the effect of the debt restructuring transactions executed in 2009 and 2010, which have reduced the Group's cost of financing;
- the line Other financial income and expenses represented income of € 134 million in 2010, versus a € 225 million expense in 2009. The positive balance of Other financial income and expenses resulted primarily from the gain from the disposal of the stake in the Russian company Wimm Bill Dann, which was € 237 million. This gain essentially represents € 225 million for non-current items under Other financial income and expense recognized in 2010.

(See Note 22 of the Notes of the Notes to the consolidated financial statements).

## Tax rate

The current tax rate is 25.2% for 2010. This tax rate excludes the non-current income items and tax assets and liabilities pertaining to these non-current items.

Moreover, if we include these non-current items, the Group's effective tax rate was 23.1% in 2010 (21.0% in 2009) and the differential with the normal tax rate in France (34.43%) in 2010

and 2009 is provided in Note 23 of the Notes to the consolidated financial statements.

## Underlying net income attributable to the Group and Underlying diluted earnings per share attributable to the Group

Underlying net income attributable to the Group increased by 18.2% on a reported basis, to € 1.669 billion, an increase of 14.2% on a like-for-like basis.

Underlying diluted earnings per share increased by 8.6% compared to 2009 to € 2.71 on a reported basis, and 12.7% on a like-for-like basis.

The transition (i) from net income attributable to the Group to underlying net income attributable to the Group and (ii) from net earnings per share attributable to the Group to underlying net earnings per share attributable to the Group is shown in the following table:

	For the year ended December 31			For the year ended December 31		
			2009			2010
<i>(In € millions)</i>	Underlying	Non-current items	Total	Underlying	Non-current items	Total
<b>Trading Operating income</b>	<b>2,294</b>		<b>2,294</b>	<b>2,578</b>		<b>2,578</b>
Other operating income and expenses		217	217		(80)	(80)
<b>Operating income</b>	<b>2,294</b>	<b>217</b>	<b>2,511</b>	<b>2,578</b>	<b>(80)</b>	<b>2,498</b>
Cost of net debt	(264)		(264)	(143)		(143)
Other financial income and expenses	(120)	(105)	(225)	(91)	225	134
<b>Income before taxes</b>	<b>1,910</b>	<b>112</b>	<b>2,022</b>	<b>2,344</b>	<b>145</b>	<b>2,489</b>
Income tax	(448)	24	(424)	(590)	14	(576)
<b>Income from fully consolidated companies</b>	<b>1,462</b>	<b>136</b>	<b>1,598</b>	<b>1,754</b>	<b>159</b>	<b>1,913</b>
Income of the associates	110	(187)	(77)	80	41	121
<b>Net income</b>	<b>1,572</b>	<b>(51)</b>	<b>1,521</b>	<b>1,834</b>	<b>200</b>	<b>2,034</b>
• <b>Attributable to the Group</b>	<b>1,412</b>	<b>(51)</b>	<b>1,361</b>	<b>1,669</b>	<b>201</b>	<b>1,870</b>
• <b>Attributable to non-controlling interests</b>	<b>160</b>		<b>160</b>	<b>165</b>	<b>(1)</b>	<b>164</b>

	2009		2010	
	Underlying	Total	Underlying	Total
<i>(In € per share except the number of shares)</i>				
<b>Number of shares</b>				
• before dilution	<b>565,508,159</b>	565,508,159	614,433,216	614,433,216
• after dilution	565,598,476	565,598,476	615,990,584	615,990,584
<b>Net earnings per share attributable to the Group before dilution</b>	<b>2.50</b>	<b>2.41</b>	<b>2.72</b>	<b>3.04</b>
<b>Net earnings per share attributable to the Group after dilution</b>	<b>2.50</b>	<b>2.41</b>	<b>2.71</b>	<b>3.04</b>

## Dividend

Danone will propose to the Annual General Meeting of Shareholders on Thursday, April 28, 2011, to approve distribution of a € 1.30 dividend per share, to be paid in cash in respect of the 2010 fiscal year. This amount represents a +8.3% rise from 2009.

The ex-dividend date will be Tuesday, May 10, 2011 and the dividend will be payable as from Friday, May 13, 2011.

## 3.6 Free cash flow and change in net debt

The Group is confident that the cash flows generated by its operating activities, its cash and equivalents and the funds available under lines of credit will be sufficient to cover the

expenditures and investments necessary for its operation, service its debt (including the financing during the year of all put options granted to holders of non-controlling interests) and pay dividends.

## Free cash flow

The Group's free cash flow increased by 20.0%, to € 1.713 billion, or 10.1% of net sales in 2010, versus 9.5% in 2009.

Cash flow from operating activities was € 2,476 million in 2010, versus € 2,000 million in 2009. Cash flow from operating activities as a percentage of sales increased to 14.56% in 2010, versus 13.35% in 2009. Cash flow from operating activities equals cash flows provided by operating activities excluding changes in net working capital. In general, first-half cash flow from operating activities is less than second-half cash flow from operating activities

since working capital requirements are greater at the beginning of the year. The reasons for this are as follows: (i) increase in stockpiled production (in anticipation of a slowdown of activity and the closing of certain plants during summer vacations), (ii) building of beverage inventories (given the increase in consumption during the summer months) and (iii) trade accounts receivable for sales made in May and June (because of seasonal fluctuations).

Capital expenditure in 2010 was € 832 million, i.e 4.9% of sales (see Section 3.4).

The transition from cash flow from operating activities to free cash flow is shown in the following table:

(In € millions)	For the year ended December 31	
	2009	2010
Cash flow from operating activities	2,000	2,476
Capital expenditure	(699)	(832)
Disposal of tangible assets	126	44
Transactions fees related to business combinations <sup>(1)</sup>		25
<b>Free cash flow</b>	<b>1,427</b>	<b>1,713</b>

(1) These expenses previously classified as investment flows impact cash flow from operating activities as from January 1, 2010 pursuant to Revised IFRS 3 on Business Combinations.

## Change in net debt in 2010

Consolidated net debt was € 7,074 million as of December 31, 2010. The Group's consolidated net debt increased by € 512 million in 2010. This increase is related primarily to the acquisition of the Unimilk group (for € 1.3 billion) notably to put options granted to the selling shareholders of

Unimilk. Consolidated net financial debt declined by € 278 million in 2010, thanks to the solid progression of net free cash flow (taking into account dividends and share buybacks, acquisitions including the Unimilk transaction). Consolidated net financial debt was € 3,216 million as of December 31, 2010.

## 3.7 Balance sheet and financial security review

### Simplified consolidated balance sheet

In € millions (except ratios in %)	For the year ended December 31	
	2009	2010
Current assets	4,407	5,895
Non-current assets	19,900	22,204
Total assets	24,307	28,099
Shareholders Equity attributable to the Group	10,555	11,940
Non-controlling interests	54	47
Net debt <sup>(1)</sup>	6,562	7,074
Net financial debt <sup>(2)</sup>	3,494	3,216
Indebtedness ratio based on net debt	62%	59%
Indebtedness ratio based on net financial debt	33%	27%

(1) Net debt pertains to current and non-current financial net of cash and equivalents, marketable securities, other short-term investments and investment derivatives

(2) See definition of the net financial debt indicator in Section 3.9.

### Shareholders' equity and indebtedness ratio

Shareholders' equity attributable to the Group was € 11,940 million as of December 31, 2010, versus € 10,555 million as of December 31, 2009 (after deduction of € 2,700 million after reclassification of goodwill related to put options granted to holders of non-controlling interests – See Section 3.4 and Note 1 of the Notes to the consolidated financial statements). The change in shareholders' equity attributable to the Group during the year is detailed in the statement of changes in equity in the consolidated financial statements. It is explained primarily by (i)

the positive effect of current earnings and translation adjustments and (ii) the effect of the dividend paid to Company shareholders and the Unimilk transaction (see Section 3.3, Note 2 and Note 25 of the Notes to the consolidated financial statements).

The Group's indebtedness ratio based on shareholders equity attributable to the Group and the net financial debt was 27% as of December 31, 2010 versus 33% as of December 31, 2009, due to the combined effect of the decline in net financial debt and the increase in shareholders' equity attributable to the Group.

## Indebtedness structure as of December 31, 2010

As of December 31, 2010, the Group's debt broke down as follows by nature and maturity:

<i>(In € millions)</i>	<b>Carrying amount on consolidated balance sheet at December 31, 2010</b>	<b>Contractual cash flows 2011</b>	<b>Contractual cash flows 2012</b>	<b>Contractual cash flows 2013</b>	<b>Contractual cash flows 2014</b>	<b>Contractual cash flows 2015 and after</b>	<b>Contractual cash flows of which the date is unknown<sup>(6)</sup></b>
Bonds <sup>(1)</sup>	3,373	(894)	(210)	(267)	(719)	(1,283)	-
Derivative financial instruments – liabilities (fair value) <sup>(3) (4)</sup>	147	(147)	-	-	-	-	-
Accrued interest	84	(84)	-	-	-	-	-
Bank financing – subsidiaries and others <sup>(2)</sup>	1,296	(1,296)	-	-	-	-	-
Commercial Paper <sup>(1) (5)</sup>	657	(657)	-	-	-	-	-
Finance lease commitments <sup>(2) (3)</sup>	60	(15)	(29)	(5)	(3)	(8)	-
<b>Total financing (before flows of financial instruments other than accrued interest)</b>	<b>5,617</b>	<b>(3,093)</b>	<b>(239)</b>	<b>(272)</b>	<b>(722)</b>	<b>(1,291)</b>	<b>-</b>
Liabilities related to put options granted to non-controlling interests <sup>(6)</sup>	3,858	-	-	-	-	-	(3,858)
<b>Total debt (before flows of financial instruments other than accrued interest)</b>	<b>9,475</b>	<b>(3,093)</b>	<b>(239)</b>	<b>(272)</b>	<b>(722)</b>	<b>(1,291)</b>	<b>(3,858)</b>
Interest on above-mentioned debt <sup>(3) (7)</sup>		(139)	(99)	(96)	(94)	(91)	-
Flows on derivative financial instruments <sup>(3) (4) (7)</sup>		(106)	(59)	(8)		1	-

(1) Contractual nominal flows.

(2) Contractual nominal and interest flows.

(3) The floating interest rate is calculated on the basis of the rates applicable as of December 31, 2010.

(4) Net contractual flows, including premiums payable, net flows payable or receivable relating to the exercise of options in the money at the year-end.

(5) The Commercial Paper issuances are backed-up by available confirmed credit lines. See table below.

(6) These options can be exercised at dates specified in Note 15 of the Notes to the consolidated financial statements, Section "Financial liabilities linked to put options granted to non-controlling interests". No significant cash outflow is currently considered probable in the short-term with respect to these options.

(7) Interest flows are net of accrued interest taken into account in the subtotals above.

The debt related to the put options granted to holders of non-controlling interests are valued based on the exercise price of the options. The main obligations pertain to Danone Spain, for a sum of € 2,309 million as of December 31, 2010 (€ 2,401 million as of December 31, 2009) and Dairy JV CIS Holdings (the holding company for the companies Unimilk and Danone CIS), for a sum € 754 million as of December 31, 2010.

(See also Note 15 of the Notes to the consolidated financial statements).

No significant cash outflow is considered probable in the short term with respect to all put options granted to non-controlling interests.



## Financing structure and financial security

The Group's financing policy consists of reducing its liquidity risk exposure by (i) borrowing from diversified financing sources, (ii) arranging a significant portion of its financing as medium-term financing, (iii) maintaining financing sources available at any time, and (iv) ensuring that it is not subject to any covenants related to the maintenance of financial ratios. Exceptionally and temporarily, these rules cannot always be fully applied in countries where centralized or medium-term financing are not available or, in some cases, when the existing financing agreements at a company predate the control obtained by the Group.

The Group's financing structure and financial security are mainly comprised of:

- bank financing: overall, the Group had committed credit facilities totaling € 4.7 billion as of December 31, 2010, which were unused as of that date;
  - a committed syndicated revolving credit facility entered into in December 2007 in order to finance the acquisition of Numico, for a principal amount of € 4 billion consisting of two tranches: a first tranche, with a principal amount of € 2.3 billion that expired in December 2010 and a second tranche for a principal amount of € 1.7 billion expiring in December 2012. As of December 31, 2010, the Group had not drawn any amount of this remaining tranche,
  - available committed credit facilities: a portfolio of back-up facilities entered into with major credit institutions, with maturity dates between one and five years, amounting to € 3 billion in principal. As of December 31, 2010 and 2009, the Group had not drawn any amount under these credit facilities,
- debt and capital markets financing:
  - EMTN (*Euro Medium Term Note*) bond financing: a program with a principal amount of maximum € 7 billion (of which € 3.2 billion had been drawn as of December 31, 2010),
  - French Commercial Paper : a program with a principal amount of maximum € 3 billion (of which € 657 million had been drawn as of December 31, 2010);
  - cash and marketable securities (mainly negotiable debt instruments) amounting to € 2.2 billion as of December 31, 2010, compared with € 1.1 billion as of December 31, 2009. See Note 15 of the Notes to the consolidated financial statements.

The aforementioned syndicated credit facility, certain bond issues under the EMTN program (as of its renewal in 2007) and certain available unused credit facilities include a change of control provision.

None of the financing sources are subject to any covenants relating to the maintenance of financial ratios.

In addition, as of December 31, 2010, debt issues by the Company, with a maturity of more than one year are rated as A3/Stable by Moody's and A-/Stable by Standard & Poor's. Issuances of French commercial paper are rated A2 by Standard & Poor's.

## 3.8 Outlook for 2011

### Material change in financial or trading position

The Company and its subsidiaries overall did not experience any material changes in their financial or trading position after the 2010 close.

To the best of the Company's knowledge, there are no material post-close events between the cut-off date of the financial statements and the filing date of this Registration Document.

### Earnings forecasts and estimates

#### FINANCIAL OUTLOOK FOR 2011

Backed by steady growth at the end of the year, Danone is moving into 2011 with confidence. It expects 2010 trends to continue in the months ahead: consumer spending in both the industrialized world and emerging economies shows no sign of either significant improvement or worsening; raw material prices remain on a volatile upward path.

More specifically, in view of developments since the beginning of 2011, the Group expects total raw material and packaging costs to increase by 6 to 9% on average over the year, with a steeper increase in the first half reflecting the comparison with figures recorded in 2010.

Danone will be drawing on its experience of 2010 to manage these increases through consistently high productivity. The Group will also continue to use pricing to maintain competitive edge, benefiting from increased room for maneuver thanks to repositioning in 2009 (Reset program).

Another priority for 2011 will be the integration of Unimilk's operations in Russia and CIS countries, with sales and cost synergies set to boost Unimilk's operating margin from the second half on.

Altogether, targets for the Group for the fiscal year 2011 are the following:

- a 6% to 8% rise in sales on a like-for-like basis (see definition Section 3.9);
- an increase of around 20 basis points in trading operating margin (see definition Section 3.9), like-for-like (see definition Section 3.9). This will be fueled by all the Group's activities, but especially by Unimilk and synergies from its integration. As a result, the rise will only take shape in the second half, with first-half trading operating margin down slightly from the same period of 2010;
- a rise in free cash flow (see definition Section 3.9) in keeping with the € 2 billion target set for 2012.

These forecasts, outlooks, representations and other forward-looking information included in this Registration Document are based mainly on the data, assumptions and estimates detailed below, and are deemed reasonable by the Group. They are not historic data and should not be interpreted as guarantees that actual results will be in line with said forecasts. By their very nature, such data, assumptions and estimates, as well as all other factors taken into account in the preparation of such representations and forward-looking forecasts and other information, may not be realized and are susceptible to change or be amended because of uncertainties primarily related to the Group's economic, financial and competitive environment. In addition, the realization of certain risks described in Section 2.3 could have an impact on the Group's activities, financial condition, earnings and outlook and on the realization of its forecasts, outlooks, representations and forward-looking information provided above.

#### MAIN ASSUMPTIONS UNDERLYING OUR FORECASTS

The above forecasts were prepared using accounting methods that are consistent with those applied by the Group for the preparation of historical information. They are based on a number of assumptions, including:

- the data was prepared based on projected exchange rates and interest rates determined at the Group level;
- forecasts concerning Unimilk were prepared based on historic information, and information related to the period prior to its acquisition by Danone covering the first eleven months of 2010 was prepared by Unimilk's management;
- current consumption trends in those countries that are the most important to the Group (including both emerging and mature countries) will continue throughout the year and will not improve or deteriorate significantly;

- raw materials price increases and volatility will continue. More specifically, in light of the developments after the beginning of this year, the Group anticipates an average 6% to 9% increase in all materials and packaging in 2011, with a sharper increase in the first half given the 2010 bases for comparison;
- the Group's revenue growth will continue to be primarily driven by its geographic expansion and by volumes, particularly those of its leading brands, with the clear priority being to increase by all of the Group's key markets their consumer price-benefit ratio in order to respond to consumption trends. This should enable the Group to gain market shares in its key countries;
- the Group will continue to pursue its policy of optimizing operating and general administrative costs in 2011, offsetting in part moderate cost inflation.

### STATUTORY AUDITORS' REPORT ON THE PROFIT FORECASTS

To the Chairman of the Board of Directors

In our capacity as Statutory Auditors of your Company and in accordance with EC Regulation no. 809/2004, we have prepared this report on Danone's like for like trading operating margin forecasts for year 2011, included in Section 3.8 of this Registration Document.

**These forecasts and the significant assumptions on which they are based are your responsibility, in accordance with the provisions of EC Regulation no. 809/2004 and the CESR recommendations on profit forecasts.**

It is our responsibility, on the basis of our procedures, to express an opinion, in accordance with the terms specified in appendix I, point 13.2 of EC Regulation no. 809/2004, as to whether such forecasts have been properly prepared.

We have carried out the procedures we deemed necessary with regard to the professional standards of the the French Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) regarding this assignment. This work has comprised an assessment of the procedures implemented by management for the preparation of the forecasts and the implementation of procedures to verify the consistency of the accounting methods used with those applied for the preparation of Danone's consolidated financial statements for the year ended December 31, 2010. Our procedures have also included gathering such information and explanations that we have considered necessary in order to obtain reasonable assurance that the forecasts were properly prepared on the basis of the assumptions as set out.

We remind you that, since forecasts are, by their very nature, subject to uncertainties, actual results sometimes differ significantly from the forecasts presented and that we do not express any opinion on the likelihood, or otherwise, of the actual results being in line with these forecasts.

In our opinion:

- the forecasts have been properly prepared in accordance with the basis indicated;
- the accounting principles used in the preparation of these forecasts are consistent with the accounting policies applied by Danone for the preparation of its consolidated financial statements for the year ended December 31, 2010.

This report is issued solely for the purposes of filing the 2010 Registration Document with the French securities regulator (*Autorité des marchés financiers* – AMF) and, where relevant, for a public offering in France and in the other countries of the European Union in which a prospectus containing this Registration Document, authorized by the AMF, would be published, and may not be used in any other context.

Neuilly-sur-Seine, March 25, 2011

**The Statutory Auditors**

**ERNST & YOUNG ET AUTRES**

Jeanne BOILLET

Gilles COHEN

**PRICEWATERHOUSECOOPERS AUDIT**

Étienne BORIS

Philippe VOGT

## 2011 financial communications calendar

The financial communications calendar for 2011 is as follows:

April 14, 2011	1 <sup>st</sup> -quarter 2011 revenues
April 28, 2011	Shareholders Meeting
May 24 to 25, 2011	Danone Investors' Seminar
July 28, 2011	1 <sup>st</sup> -half revenues and earnings
October 18, 2011	2011 nine-month revenues

### 3.9 References and definitions

Unless otherwise noted:

- all references herein to “markets” for products in particular, or to market shares, refer to markets for packaged products and exclude products that may be otherwise marketed or sold;
- data pertaining to market shares or the Group's market positions are based on the value of sales;
- all references herein to market shares or to the Group's market positions are derived from internal evaluations, which may be based on third-party market studies;
- all references herein to “Fresh Dairy Products” and the Fresh Dairy Products business or markets refer to processed dairy products and exclude milk, cream and butter;
- all references to “Packaged Water” refer to bottled water, water sold in large containers (jugs), and water sold in small containers (cups);
- all references to “Baby Nutrition” refer to baby formula (infant milk formula, follow-on milk, growing-up milks), milk-and fruit-based desserts, cereals, small pots of baby food and ready-made baby food;
- all references to “Medical Nutrition” refer to adult or pediatric clinical nutrition products to be taken orally, or through a catheter in the event of malnutrition related to illness or other causes;
- all references herein to “mature countries” and “emerging countries” relate to countries defined in Section 2.2.

The policy of identifying and managing risks, as well as the main operational risks associated with the Group's business sectors or those involving its activity and organization, are presented in Section 2.3 – Risk Factors.

Information published by Danone uses financial indicators that are not defined by IFRS. These are calculated as follows:

**Like-for-like changes in net sales**, trading operating income and trading operating margin exclude the impact of changes in (i) exchange rates, with both previous year and current year indicators calculated using the same exchange rates; and (ii) scope of consolidation, with previous year indicators calculated on the basis of current-year scope.

**Trading operating income and expense** is defined as the Group operating income excluding other operating income and expense. Other operating income and expense is defined under Recommendation 2009-R.03 of the French CNC, and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to current activities. These mainly include capital gains and losses on disposals of fully consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major acquisitions, and costs related to major litigation. Since application of IFRS 3 (Revised), they have also included acquisition fees related to business combinations.

**Trading operating margin** is defined as the trading operating income over net sales ratio.

**Underlying net income or net income attributable to the Group** measures the Group's recurring performance and excludes significant items that, because of their exceptional nature, cannot be viewed as inherent to the Group's current performance. Such non-current income and expense mainly include capital gains and losses on disposals and impairments of non fully-consolidated equity interests and tax income, and expense related to non-current income and expense. Non-current net income attributable to the Group is defined as non-current income and expense excluded from Net income attributable to the Group.

**Free cash flow** represents cash flows provided or used by operating activities less capital expenditure net of disposals and excluding acquisition costs related to business combinations (since the application of IFRS 3 (Revised)).

**Net financial debt** represents the net debt portion bearing interests. It corresponds to current and non current financial debt (i) excluding debt related to put options granted to non controlling interests (ii) net of cash and cash equivalents, marketable securities, other short term investments and assets components of financial instruments.



# CONSOLIDATED FINANCIAL STATEMENTS

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## 4.1 Consolidated financial statements and Notes to the consolidated financial statements

### Consolidated financial statements

#### CONSOLIDATED INCOME STATEMENT

<i>(In € millions)</i>	Notes	Year ended December 31	
		2009	2010
<b>Net sales</b>		<b>14,982</b>	<b>17,010</b>
Cost of goods sold		(6,749)	(7,959)
Selling expenses		(4,212)	(4,663)
General and administrative expenses		(1,356)	(1,494)
Research and Development expenses		(206)	(209)
Other income and expenses	20	(165)	(107)
<b>Trading operating income</b>		<b>2,294</b>	<b>2,578</b>
Other operating income and expenses	21	217	(80)
<b>Operating income</b>		<b>2,511</b>	<b>2,498</b>
<i>Interest income</i>		76	87
<i>Interest expenses</i>		(340)	(230)
Cost of net debt	22	(264)	(143)
Other financial income and expenses	22	(225)	134
<b>Income before tax</b>		<b>2,022</b>	<b>2,489</b>
Income tax	23	(424)	(576)
<b>Net income from fully consolidated companies</b>		<b>1,598</b>	<b>1,913</b>
Income (loss) from investments in associates	6	(77)	121
<b>Net income</b>		<b>1,521</b>	<b>2,034</b>
• <b>Attributable to owners of the Company</b>		<b>1,361</b>	<b>1,870</b>
• <b>Attributable to non-controlling interests</b>		<b>160</b>	<b>164</b>

#### EARNINGS PER SHARE

<i>(in € per share except for number of shares)</i>	Notes	2009	2010
<b>Number of shares</b>			
• before dilution		565,508,159	614,433,216
• after dilution		565,598,476	615,990,584
<b>Basic earnings per share attributable to owners of the Company</b>	13	2.41	3.04
<b>Diluted earnings per share attributable to owners of the Company</b>	13	2.41	3.04

In application of IAS 33, "Earnings per share," the dilutive effect of the capital increase with preferential subscription rights on June 25, 2009 has been taken into account retrospectively in the 2009 fiscal year.



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>(In € millions)</i>	Year ended December 31	
	<b>2009</b>	<b>2010</b>
<b>Net income</b>	<b>1,521</b>	<b>2,034</b>
Translation adjustments	297	920
Share of other comprehensive income of associates, recognized directly in equity	(37)	1
Change in value of derivative instruments, net of tax	(158)	13
Change in of available-for-sale financial assets, net of tax	248	(277)
<b>Total other comprehensive income</b>	<b>350</b>	<b>657</b>
Total comprehensive income attributable to owners of the Company	1,703	2,506
Total comprehensive income attributable to non-controlling interests	168	185
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>1,871</b>	<b>2,691</b>

Gains and losses recognized directly in equity during previous fiscal years and transferred to the income statement during 2010 include, in particular (i) cumulative translation adjustments relating

to the equity of companies that have been sold (see Notes 2 and 3) and (ii) the revaluation of Wimm-Bill-Dann securities recognized in profit or loss following their sale (see Note 7).

## CONSOLIDATED BALANCE SHEET

<i>(In € millions)</i>	Notes	As of January 1	As of December 31	
		<b>2009 Restated</b>	<b>2009 Restated</b>	<b>2010</b>
<b>ASSETS</b>				
Brands	4	3,846	3,903	4,255
Other intangible assets	4	380	355	565
Goodwill	4	9,886	10,227	11,213
Intangible assets	4	14,112	14,485	16,033
Property, plant and equipment	5	3,083	3,180	4,032
Investments in associates	6	1,267	805	947
Investments in non-consolidated companies	7	237	521	125
Long-term loans	8	73	27	42
Other long-term financial assets	9	137	127	138
Financial instruments – assets <sup>(1)</sup>	15		134	236
Deferred taxes	23	639	621	651
<b>Non-current assets</b>		<b>19,548</b>	<b>19,900</b>	<b>22,204</b>
Inventories	10	795	765	975
Trade receivables	11	1,534	1,682	1,924
Other receivables	11	950	645	768
Short-term loans		26	41	24
Marketable securities and other short-term investments	12	441	454	1,111
Cash and cash equivalents	12	591	644	1,054
Assets held for sale	3	546	176	39
<b>Current assets</b>		<b>4,883</b>	<b>4,407</b>	<b>5,895</b>
<b>TOTAL ASSETS</b>		<b>24,431</b>	<b>24,307</b>	<b>28,099</b>

(1) Financial instruments – assets are presented as a separate line item under assets and are not offset against non-current financial debt.

(In € millions)	Notes	As of January 1	As of December 31	
		2009 Restated	2009 Restated	2010
<b>LIABILITIES AND EQUITY</b>				
Share capital		128	162	162
Additional paid-in capital		297	3,596	3,627
Retained earnings		7,965	8,437	9,344
Cumulative translation adjustments		(1,121)	(869)	31
Accumulated other comprehensive income		166	256	(8)
Treasury stock		(1,225)	(1,027)	(1,216)
<b>Equity attributable to owners of the Company</b>		<b>6,210</b>	<b>10,555</b>	<b>11,940</b>
Non-controlling interests		56	54	47
<b>Equity</b>		<b>6,266</b>	<b>10,609</b>	<b>11,987</b>
Non-current financial debt <sup>(1)</sup>	27	11,435	6,092	6,946
Provisions for retirement and other post-employment benefits	16	208	219	248
Deferred taxes	23	1,109	937	1,172
Other non-current liabilities	17	515	594	543
<b>Non-current liabilities</b>		<b>13,267</b>	<b>7,842</b>	<b>8,909</b>
Trade payables	18	2,189	1,981	2,417
Other current liabilities	18	2,024	2,173	2,239
Current financial debt	27	652	1,702	2,529
Liabilities held for sale	3	33	-	18
<b>Current liabilities</b>		<b>4,898</b>	<b>5,856</b>	<b>7,203</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>24,431</b>	<b>24,307</b>	<b>28,099</b>

(1) Financial instruments – assets are presented as a separate line item under assets and are not offset against non-current financial debt.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(In € millions)	Notes	Year ended December 31	
		2009	2010
Net income attributable to owners of the Company		1,361	1,870
Net income attributable to non-controlling interests		160	164
Income (loss) from investments in associates		77	(121)
Depreciation and amortization		549	594
Dividends received from associates		174	52
Other components of net income with a cash impact	26	(157)	(78)
Other components of net income with no cash impact	26	(72)	(82)
<b>Cash flows provided by operating activities, excluding changes in net working capital</b>		<b>2,092</b>	<b>2,399</b>
(Increase) decrease in inventories		37	(63)
(Increase) decrease in trade receivables		(112)	(54)
Increase (decrease) in trade payables		(127)	275
Change in other receivables and payables		110	(81)
Change in working capital requirements		(92)	77
<b>Cash flows provided by (used in) operating activities</b>		<b>2,000</b>	<b>2,476</b>
Capital expenditure		(699)	(832)
Proceeds from disposal of property, plant and equipment		126	44
Net cash outflow on purchases of subsidiaries and financial investments <sup>(3)</sup>	26	(40)	(327)
Net cash inflow on sales of subsidiaries and financial investments	26	899	562
(Increase) decrease in long-term loans and other long-term assets		36	1
<b>Cash flows provided by (used in) investing activities</b>		<b>322</b>	<b>(552)</b>
Increase in share capital and additional paid-in capital <sup>(1)</sup>		2,977	36
Purchases of treasury stock (net of disposals) <sup>(2)</sup>	26	100	(233)
Dividends paid to Danone shareholders	26	(221)	(737)
Transactions with non-controlling interests <sup>(3)</sup>		(338)	(155)
Net cash flows on hedging financial instruments <sup>(4)</sup>		(154)	(47)
Increase (decrease) in non-current financial debt	27	(4,154)	436
Increase (decrease) in current financial debt	27	(427)	(285)
Increase (decrease) in marketable securities and other short-term investments	27	(60)	(601)
<b>Cash flows provided by (used in) financing activities</b>		<b>(2,277)</b>	<b>(1,586)</b>
<b>Effect of exchange rate changes</b>		<b>8</b>	<b>72</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>53</b>	<b>410</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>591</b>	<b>644</b>
<b>Cash and cash equivalents at end of period</b>		<b>644</b>	<b>1,054</b>
<b>Additional disclosures</b>			
Payments during the year of:			
• net interest		272	112
• income tax		413	433

(1) The amount for the year ended December 31, 2009 includes € 2,961 million of capital issued on June 25, 2009.

(2) Includes the purchase of treasury stock of Danone Spain for 48 million euros.

(3) Transactions with non-controlling interests were reclassified to this line item as of December 31, 2009. As of December 31, 2010, the line item comprises dividends paid to non-controlling interests for 110 million euros.

(4) Financial instruments used to hedge debt and net investments in foreign operations.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Number of shares			Equity (In € millions)								
	Issued	Excluding treasury stock	Share capital	Additional paid-in capital	Retained earnings	Cumulative translation adjustments	Accumulated other comprehensive income	Treasury stock	Attributable to owners of the Company	Non-controlling interests	Total equity
<b>As of December 31, 2008</b>	<b>513,802,144</b>	<b>477,807,616</b>	<b>128</b>	<b>297</b>	<b>10,399</b>	<b>(1,121)</b>	<b>166</b>	<b>(1,225)</b>	<b>8,644</b>	<b>56</b>	<b>8,700</b>
Effect of change in accounting principle <sup>(1)</sup>					(2,434)				(2,434)		(2,434)
<b>As of January 1, 2009 – restated</b>	<b>513,802,144</b>	<b>477,807,616</b>	<b>128</b>	<b>297</b>	<b>7,965</b>	<b>(1,121)</b>	<b>166</b>	<b>(1,225)</b>	<b>6,210</b>	<b>56</b>	<b>6,266</b>
Total comprehensive income					1,361	252	90		1,703	168	1,871
Increase in issued capital <sup>(2)</sup>	135,033,148	135,033,148	34	3,392	(61)				3,365	18	3,383
Decrease in issued capital	(1,844,442)			(93)	(14)				(107)		(107)
Changes in treasury stock		858,746						198	198		198
Share purchase options					28				28		28
Dividends paid to Danone shareholders		(215,885)			(576)				(576)		(576)
Transactions with non-controlling interests <sup>(3)</sup>					(266)				(266)	(188)	(454)
<b>As of January 1, 2010 – restated</b>	<b>646,990,850</b>	<b>613,483,625</b>	<b>162</b>	<b>3,596</b>	<b>8,437</b>	<b>(869)</b>	<b>256</b>	<b>(1,027)</b>	<b>10,555</b>	<b>54</b>	<b>10,609</b>
Total comprehensive income					1,870	900	(264)		2,506	185	2,691
Increase in issued capital	930,990	930,990		31					31	5	36
Decrease in issued capital									0		0
Changes in treasury stock		1,815,368						(189)	(189)	4	(185)
Share purchase options					28				28		28
Dividends paid to Danone shareholders					(740)				(740)	3	(737)
Transactions with non-controlling interests <sup>(4)</sup>					(251)				(251)	(204)	(455)
<b>As of December 31, 2010</b>	<b>647,921,840</b>	<b>616,229,983</b>	<b>162</b>	<b>3,627</b>	<b>9,344</b>	<b>31</b>	<b>(8)</b>	<b>(1,216)</b>	<b>11,940</b>	<b>47</b>	<b>11,987</b>

(1) See Note 1.

(2) Includes the increase in capital related to 2008 stock dividends paid in 2009.

(3) Transactions with non-controlling interests include dividends and change in value of put options granted to non-controlling interests (see Note 25 for information related to 2010).

## Notes to the consolidated financial statements

The consolidated financial statements of Danone, its subsidiaries and affiliates (together, the "Group") as of and for the year ended December 31, 2010 were approved by Danone's Board of

Directors on February 14, 2011 and will be submitted for approval to the Shareholders' General Meeting on April 28, 2011.

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## NOTE 1 - Accounting Principles

The consolidated financial statements of Danone have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union, which are available on the web site of the European Commission ([http://ec.europa.eu/internal\\_market/accounting/ias\\_fr.htm#adopted-commission](http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission)).

### 1. FIRST APPLICATION OF NEW ACCOUNTING PRINCIPLES

The following standards and interpretations became applicable to the Group as from January 1, 2010:

- amendments to IFRS 3, *Business Combinations*, and IAS 27, *Consolidated and Separate Financial Statements*. The application of these amended standards is prospective. The impact of these amended standards on the consolidated financial statements as of December 31, 2010 is described below;
- the other standards, amendments and interpretations applicable as of January 1, 2010 do not have a material impact on the consolidated financial statements as of December 31, 2010.

The Group did not exercise the option to adopt in advance the other standards and interpretations issued by the IASB, whose application is not mandatory as of January 1, 2010. The Group does expect that these standards would have a material impact on its results and financial position.

The Group is also closely monitoring the work of the IASB and the IFRIC, which could lead to amendments to certain standards, in particular IAS 32, *Financial Instruments: Presentation* and/or IAS 39, *Financial Instruments: Recognition and Measurement* regarding the recognition of put options granted to holders of non-controlling interests.

#### Impact of new standards on the Group's accounting principles

##### • **Business combinations: acquisitions resulting in control being obtained, partial sales resulting in loss of control**

IFRS 3 R and IAS 27 R, applicable as of January 1, 2010, mainly affect the recognition of transactions in which control is obtained or partial sales resulting with a loss of control, notably:

- when control is obtained, transaction costs are recognized under "Other operating income (expenses)" for the year, with price adjustments initially recorded at fair value in the acquisition price and any subsequent changes in value recognized in profit or loss under "Other operating income (expenses)",

- when control is obtained (or lost), the fair value adjustment of the previously held (or residual) interest is recognized in profit or loss,
- when control is obtained, non-controlling interests are recognized either proportionally in the fair value of the assets and liabilities of the acquired entity or at fair value. In the latter case, goodwill is increased by the relative amount attributable to these non-controlling interests. This choice is made separately for each acquisition transaction.

##### • **Transactions involving interests in controlled companies: acquisitions or sales of interests that do not result in control being obtained or lost**

Purchase or sale transactions involving interests in controlled companies that do not result in control being obtained or lost are recognized in other comprehensive income under "Retained earnings" as transfers between equity attributable to owners of the Company and equity attributable to non-controlling interests within consolidated equity, with no impact on profit or loss. Costs related to these transactions follow the same accounting treatment.

##### • **Put options granted to non-controlling interests**

Pursuant to IAS 32, when non-controlling shareholders hold options to sell their interest in the Group, a financial liability is recognized at the closing date in the amount corresponding to the measurement of the option's strike price.

Up until December 31, 2009, and in the absence of specific IFRS guideline, the counterpart of this liability was:

- on the one hand, the elimination of the carrying amount of the corresponding non-controlling interests;
- on the other, an increase in goodwill. The Group opted to increase goodwill by the difference between the strike price of the options granted and the carrying amount of the corresponding non-controlling interests, with this goodwill adjusted at the end of each reporting period based on changes in the strike price of the options and the carrying amount of the non-controlling interests.

This treatment was consistent with the accounting method used for acquisitions of non-controlling interests. Moreover, it had no impact on the consolidated income statement.

Beginning January 1, 2010, and still in the absence of any specific IFRS guideline, the Group changed the accounting principle applied after this date to put options granted to non-controlling interests in light of changes introduced by the first-time application of IAS 27 R. Consequently, for these put options granted after

January 1, 2010, the counterpart of the liability arising from these commitments is:

- on the one hand, the elimination of the carrying amount of the corresponding non-controlling interests;
- on the other, a reduction in the equity attributable to owners of the Company: the difference between the strike price of the options granted and the carrying amount of the non-controlling interests is offset against "Retained earnings." This item is adjusted at the end of each reporting period based on the change in the options' strike price and the carrying amount of the non-controlling interests, in accordance with the recommendations issued by the French Financial Markets Authority (AMF) in November 2009.

The Group also extended the scope of this change in accounting principle to put options granted before January 1, 2010 and not exercised as of that date, and decided to cancel the goodwill related to these options, with the counterpart entry being to

"Retained earnings – attributable to owners of the Company." This change makes it possible to apply a common accounting treatment to all similar commitments, notably to the options to sell related to the Danone Spain subsidiary (granted before January 1, 2010) and those granted during the acquisition that resulted in control of Unimilk being obtained in 2010. In accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, this change was applied retroactively to all periods presented and provides users of the consolidated financial statements with a clearer picture of its impact on the Group's consolidated financial statements.

The following restatements were made to the consolidated balance sheet: deletion of the item Goodwill attributable to put options granted to non-controlling interests, with the counterpart entry being to "Retained earnings" in equity. The change in accounting principle has no impact on the income statement or on the statement of comprehensive income.

## RESTATEMENT OF INTANGIBLE ASSETS

				Goodwill	Brands	Other	Total
		Consolidated companies	Put options granted to non-controlling interests	Total			
<i>(In € millions)</i>							
<b>Carrying amount</b>							
<b>AS OF JANUARY 1, 2009</b>	<b>Published</b>	<b>9,886</b>	<b>2,434</b>	<b>12,320</b>	<b>3,846</b>	<b>380</b>	<b>16,546</b>
Effect of change in accounting principle			(2,434)	(2,434)			(2,434)
<b>AS OF JANUARY 1, 2009</b>	<b>Restated</b>	<b>9,886</b>	<b>0</b>	<b>9,886</b>	<b>3,846</b>	<b>380</b>	<b>14,112</b>
<b>AS OF DECEMBER 31, 2009</b>	<b>Published</b>	<b>10,227</b>	<b>2,700</b>	<b>12,927</b>	<b>3,903</b>	<b>355</b>	<b>17,185</b>
Effect of change in accounting principle			(2,700)	(2,700)			(2,700)
<b>AS OF DECEMBER 31, 2009</b>	<b>Restated</b>	<b>10,227</b>	<b>0</b>	<b>10,227</b>	<b>3,903</b>	<b>355</b>	<b>14,485</b>



## RESTATEMENT OF CHANGES IN EQUITY

		Number of shares		Equity (In € millions)								
		Issued	Excluding treasury stock	Share capital	Additional paid-in capital	Retained earnings	Cumulative translation adjustments	Accumulated other comprehensive income	Treasury stock	Attributable to owners of the Company	Non-controlling interests	Total equity
<b>As of January 1, 2009</b>	Published	513,802,144	477,807,616	128	297	10,399	(1,121)	166	(1,225)	8,644	56	8,700
Effect of change in accounting principle						(2,434)				(2,434)		(2,434)
<b>As of January 1, 2009</b>	Restated	513,802,144	477,807,616	128	297	7,965	(1,121)	166	(1,225)	6,210	56	6,266
<b>As of December 31, 2009</b>	Published	646,990,850	613,483,625	162	3,596	11,137	(869)	256	(1,027)	13,255	54	13,309
Effect of change in accounting principle						(2,700)				(2,700)		(2,700)
<b>As of December 31, 2009</b>	Restated	646,990,850	613,483,625	162	3,596	8,437	(869)	256	(1,027)	10,555	54	10,609

## RESTATEMENT OF CONSOLIDATED BALANCE SHEET

(In € millions)	As of January 1			As of December 31		
	2009 Published	2009 Restatement	2009 Restated	2009 Published	2009 Restatement	2009 Restated
<b>ASSETS</b>						
Brands	3,846		3,846	3,903		3,903
Other intangible assets	380		380	355		355
Goodwill	12,320	(2,434)	9,886	12,927	(2,700)	10,227
Intangible assets	16,546	(2,434)	14,112	17,185	(2,700)	14,485
Property, plant and equipment	3,083		3,083	3,180		3,180
Investments in associates	1,267		1,267	805		805
Investments in non-consolidated companies	237		237	521		521
Long-term loans	73		73	27		27
Other long-term financial assets	137		137	127		127
Financial instruments – assets <sup>(1)</sup>			0	134		134
Deferred taxes	639		639	621		621
<b>Non-current assets</b>	<b>21,982</b>	<b>(2,434)</b>	<b>19,548</b>	<b>22,600</b>	<b>(2,700)</b>	<b>19,900</b>
<b>Current assets</b>	<b>4,883</b>		<b>4,883</b>	<b>4,407</b>		<b>4,407</b>
<b>TOTAL ASSETS</b>	<b>26,865</b>	<b>(2,434)</b>	<b>24,431</b>	<b>27,007</b>	<b>(2,700)</b>	<b>24,307</b>
<b>LIABILITIES AND EQUITY</b>						
Share capital	128		128	162		162
Additional paid-in capital	297		297	3,596		3,596
Retained earnings	10,399	(2,434)	7,965	11,137	(2,700)	8,437
Cumulative translation adjustments	(1,121)		(1,121)	(869)		(869)
Accumulated other comprehensive income	166		166	256		256
Treasury stock	(1,225)		(1,225)	(1,027)		(1,027)
<b>Equity attributable to owners of the Company</b>	<b>8,644</b>	<b>(2,434)</b>	<b>6,210</b>	<b>13,255</b>	<b>(2,700)</b>	<b>10,555</b>
Non-controlling interests	56		56	54		54
<b>Equity</b>	<b>8,700</b>	<b>(2,434)</b>	<b>6,266</b>	<b>13,309</b>	<b>(2,700)</b>	<b>10,609</b>
<b>Non-current liabilities</b>	<b>13,267</b>		<b>13,267</b>	<b>7,842</b>		<b>7,842</b>
<b>Current liabilities</b>	<b>4,898</b>		<b>4,898</b>	<b>5,856</b>		<b>5,856</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>26,865</b>	<b>(2,434)</b>	<b>24,431</b>	<b>27,007</b>	<b>(2,700)</b>	<b>24,307</b>

(1) Financial instruments – assets are presented as a separate line item under assets and are not offset against non-current financial debt.

## 2. CONSOLIDATION PRINCIPLES

All subsidiaries in which the Group holds, directly or indirectly, a controlling interest are fully consolidated. Control over an entity exists when the Group has the capacity to govern the operating and financial policies of such entity in order to gain economic benefits and regardless of the percentage of its interest in the entity. All assets, liabilities and income statement items relating to the companies concerned are reflected in the Group's consolidated financial statements, after intercompany transactions elimination, the portion of the net income and equity attributable to owners of the Company ("Group share") being distinguished from the

portion relating to other shareholders' interests ("Non-controlling interests"). Intercompany balances and transactions between consolidated entities (including dividends) are eliminated in the consolidated financial statements.

All companies in which the Group exercises, directly or indirectly, a significant influence or joint control are accounted for as associates, using the step consolidation method. Under this method, the Group substitutes the acquisition value of its shares in the associate company adjusted by its proportionate share in the company net assets since its acquisition to the accounting value of the owned shares.

Investments in companies that meet the above-mentioned criteria but are not included in the scope of consolidation are recognized as investments in non-consolidated companies (see the principle presented for investments in non-consolidated companies in Note 1.6). The inclusion of such companies in the scope of consolidation would not have a significant impact on the consolidated financial statements.

The net income of companies acquired or disposed of during the year is included in the consolidated income statement as from the acquisition date or up until the disposal date.

The scope of consolidation is presented in Note 31.

### 3. FOREIGN CURRENCY TRANSLATION

#### Transactions denominated in foreign currencies

When they are not hedged, transactions denominated in foreign currencies are translated using the exchange rate prevailing on the date of the transaction. At period-end, trade receivables and trade payables denominated in foreign currencies are translated using period-end exchange rates. Foreign exchange gains and losses arising from transactions in foreign currencies are recognized under the line item "Other income (expenses)" in the consolidated income statement, except those arising from (i) transactions representing long-term investments in Group companies and (ii) financial liabilities denominated in foreign currencies that are used to hedge long-term investments denominated in the same currencies. Such unrealized gains and losses are recognized in other comprehensive income, under the heading "Cumulative translation adjustments".

When transactions denominated in foreign currencies are hedged, the hedging impact is recognized in profit or loss, in the same item as the underlying element. As a result, such transactions are finally booked at the spot rate of such hedging.

#### Translation of the financial statements of foreign companies

The Group's financial statements are presented in euros. The balance sheets of companies whose functional currency is not the euro are converted into euros using period-end exchange rates, and their income statements are converted using the average exchange rate for the period. The resulting exchange differences are recognized in other comprehensive income under the heading "Cumulative translation adjustments" until the foreign companies to which they relate are sold or liquidated.

### 4. INTANGIBLE ASSETS

#### Goodwill

When control of a company is acquired, the fair value of the consideration given to the seller is allocated to the acquired

identified assets, liabilities and contingent liabilities assumed, which are measured at fair value. The difference between the consideration given to the seller and the Group's share of the fair value of the acquired identified assets, liabilities and contingent liabilities assumed represents goodwill. When the option of recognizing non-controlling interests at fair value is applied, a corresponding premium is allocated to goodwill. Goodwill is recognized in the consolidated balance sheet as an asset under "Goodwill".

Upon acquisition of investments consolidated using the equity method, the acquisition price of the shares is allocated on a fair value basis to the identifiable assets and liabilities acquired. The difference between the acquisition price and the Group's share in the fair value of the assets and liabilities acquired represents goodwill. It is recognized in the consolidated balance sheet as part of "Investments in associates".

Goodwill is not amortized but is tested for impairment at least annually (see below).

It is allocated to the Cash Generating Unit (CGU) or group of CGUs most likely to benefit from the synergies of the business combination.

Goodwill arising from the acquisition of a foreign entity is recognized in the functional currency of the entity acquired and translated at the exchange rates prevailing on the closing date.

#### Brands and other intangible assets

Acquired brands that are distinguishable, offer significant value, are supported by advertising expenses and have an indefinite useful life are recognized under the heading "Brands" in the consolidated balance sheet. The valuation of these brands is generally determined with the assistance of valuation specialists, taking into account various factors, including brand awareness and earnings contribution. These brands, which are legally protected, are not amortized. Brand names that are deemed to have a finite life are presented under the heading "Other intangible assets" in the consolidated balance sheet. They are amortized on a straight-line basis over their estimated useful life, which does not exceed sixty years.

Acquired technologies, which are generally valued with the assistance of specialist consultants and amortized over the average duration of the patents, are presented in the consolidated balance sheet under the heading "Other intangible assets, net". Acquired development costs, meeting the criteria for the recognition of an intangible asset according to IAS 38 – *Intangible assets*, are recognized in the consolidated balance sheet. They are amortized as from the date on which the corresponding products are put on the market. Other acquired intangible assets are recognized at their acquisition cost under the heading "Other intangible assets" in the consolidated balance sheet. They are amortized over their estimated economic life, which does not exceed forty years.

### Impairment reviews

Intangible assets are reviewed for impairment at least annually and whenever events or circumstances indicate that they may be impaired. An impairment is recognized when the recoverable value of an intangible asset becomes durably lower than its carrying value. The recoverable value of an intangible asset corresponds to the higher of market value and value in use.

- Market value corresponds to the net selling price that could be obtained by the Group in an arm's-length transaction, which is generally estimated on the basis of earnings multiples.
- Value in use is assessed with reference to expected future discounted cash flows of the Cash Generating Unit ("CGU") to which the asset belongs. The CGUs or groups of CGUs correspond to subsidiaries or groups of subsidiaries that are included in the same reportable segment and that generate cash flows largely independent from those generated by other CGUs or groups of CGUs.

Impairment tests on goodwill are performed at the level of the CGU or group of CGUs depending on the expected return on investment. The cash flows used to determine value in use are derived from the business plans of the CGUs or groups of CGUs, which cover a period of three years and are generally extended by two years to cover a five-year period on the basis of the most recent forecasts. Future cash flows beyond that period are extrapolated using a long-term growth rate that is specific to each CGU or group of CGUs. Future cash flows are discounted using a weighted average cost of capital that is specific to the countries where the CGU or group of CGUs operate.

## 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized at cost of acquisition or at construction cost.

Leased assets are recognized as property, plant and equipment in the consolidated balance sheet, when, in substance, the terms of the lease transfer to the Group essentially all of the risks and rewards associated with the ownership of the asset. The asset is recognized for an amount that corresponds to the lower of fair value and the discounted value of future lease payments. The assessment of the level of risks and rewards transferred is based on an analysis of the lease agreement. The financial debt associated with the leased asset is recognized as a liability in the consolidated balance sheet under "Non-current financial debt."

Interest on borrowings to finance the installation or construction of property, plant and equipment until such time as they become operational is considered to be an integral part of the cost price of the property, plant and equipment, provided that the criteria of IAS 23 – *Borrowing costs* are met.

### Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated economical useful lives as follows:

- buildings: 15 to 40 years;
- machinery and equipment: 5 to 15 years;
- others: 3 to 10 years.

### Property, plant and equipment impairment reviews

Property, plant and equipment are reviewed for impairment when events or circumstances indicate that the recoverable value of the asset (or group of assets to which it belongs) may be impaired. The recoverable value corresponds to the higher of value in use and market value. Value in use is estimated on the basis of the discounted cash flows that the asset (or group of assets to which it belongs) is expected to generate over its estimated useful life. Market value corresponds to the estimated net selling price that could be obtained by the Group in an arm's-length transaction. An impairment loss is recognized when the recoverable value of a tangible asset is demonstrably lower than its carrying amount.

### Refundable containers

Refundable containers are recognized at acquisition cost. They are depreciated on a straight-line basis, based on available statistics for each company, over the shortest of the following lengths of time:

- physical useful life, taking into account the internal and external breakage rates and wear and tear;
- commercial useful life, taking into account planned or likely modifications of containers.

Liabilities for deposits received are remeasured when refundable rates per container change. Any gain or loss arising from changes in refundable rates is recorded in profit or loss in the year in which it is incurred.

## 6. INVESTMENTS IN NON-CONSOLIDATED COMPANIES

Investments in non-consolidated companies are treated as available-for-sale investments. They are accounted for at fair value in the consolidated balance sheet, with change in fair value recognized in other comprehensive income, except for unrealized losses that are considered to be significant and/or prolonged which are recognized directly in profit or loss in the line item "Other financial income (expenses)". For listed companies, fair value is assessed according to a multi-criteria approach, notably using the stock price as of the end of the period. For unlisted companies, fair value is assessed based on recent transactions entered into with third parties, put and/or call options negotiated with third

parties or external appraisals. When such elements do not exist, the fair value of investments in unlisted companies is deemed to be equivalent to the acquisition cost of the investments. Impairment charges and gains or losses on disposal of non-consolidated investments are recognized under the line item "Other financial income (expenses)" in the consolidated income statement.

## 7. LONG-TERM LOANS AND OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets mainly comprise bond securities that are treated as available-for-sale. They are stated at fair value in the consolidated balance sheet, with change in fair value recognized directly in other comprehensive income, except for unrealized losses that are considered to be sustained, which are recognized directly in the income statement.

Long-term loans are measured at amortized cost using the effective interest rate method.

## 8. INVENTORIES

Inventories and work-in-progress are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method.

## 9. MARKETABLE SECURITIES AND OTHER SHORT-TERM INVESTMENTS

Marketable securities comprise highly liquid instruments with short maturities that are easily convertible into a known amount of cash. They are treated as trading securities and are carried at their fair value, with changes in fair value recognized in profit or loss in the line item "Cost of net debt".

"Other short-term investments" consist of highly liquid investments with a maturity of three months or less at the date of purchase. These investments are carried at their fair value.

## 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits and cash.

## 11. TREASURY STOCK

Danone's share capital held by the Company and its subsidiaries is reflected as a reduction in total equity, under the heading "Treasury stock". Treasury stock is measured at historical cost.

## 12. GRANTS AND SUBSIDIES

Investment subsidies are reflected in the consolidated balance sheet under the heading "Other non-current liabilities". They are released to income (in the line item "Other income expenses") on a straight-line basis over the estimated useful lives of the related non-current assets.

Other grants and subsidies are recognized in the line "Other income (expenses)" of the income statement in the year during which they are earned.

## 13. DEFERRED TAXES

Deferred taxes are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except for the cases specified in IAS 12 *Income Taxes*. Deferred taxes are calculated using the liability method, applying the last enacted income tax rates expected to be applicable when the temporary differences will reverse. Deferred taxes relating to the undistributed retained earnings of subsidiaries and associated companies are recognized when distribution of these retained earnings is expected in the foreseeable future.

Deferred tax assets and liabilities are offset when the tax entity has a legal right to offset.

Deferred tax assets relating to tax-loss carry forwards and temporary differences are recognized in the consolidated balance sheet when it is more likely than not that these taxes will be recovered.

## 14. RETIREMENT AND PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

### Defined contribution plans

Contributions due under defined contribution plans are expensed as incurred. These expenses are allocated to different line items in the consolidated income statement.

### Defined benefit plans

The Group's obligations relating to retirement indemnities and defined benefit retirement plans are calculated using the projected unit credit method and by taking into account several actuarial assumptions, including employee turnover, salary increases and employees' expected active lives. The obligation is discounted using a discount rate that is specific to each country (interest rate for investment grade corporate bonds), with the exception of countries in the euro zone, for which a single rate is applied. The carrying amounts of these plans on the consolidated balance sheet correspond to the actuarial value of the commitments, as defined above, less the fair value of the plan assets (retirement funds to which the Group contributes, for example), adjusted by actuarial gains or losses and the cost of prior services not recognized.

Actuarial gains and losses resulting from adjustments to actual results and changes in the actuarial assumptions that are used to calculate the obligations (including the estimated return on the plan's assets) are recognized only when they exceed 10% of the higher of the present value of the obligation and the fair value of the plan assets. The part exceeding 10% is then spread over the average residual active lives of the employees concerned (corridor method).

The recognized costs of defined benefit plans correspond to the total cost of services provided during the year, the accretion cost relative to the present value of the obligations and the amortization of actuarial gains and losses and cost of prior services, net of the expected return of the plan assets.

## 15. PROVISIONS

Provisions are recognized when the Group has a present obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Group. The net outflow must be at least the equivalent of the provision; the timing or amount of the net outflow may be uncertain, but the amount must be estimated in a reliable manner. Provisions are recognized on the consolidated balance sheet under "Other non-current liabilities," including the portion due in less than one year because it is considered not significant.

## 16. FINANCIAL INSTRUMENTS

### Derivative financial instruments

The Group has applied IAS 39, Financial Instruments – Recognition and Measurement, since January 1, 2004. In accordance with IAS 39, all derivative financial instruments must be recognized in the consolidated balance sheet at their fair value. When derivatives are designated as fair value hedges, changes in the fair value of both the derivatives and the hedged items are recognized in profit or loss in the same period.

When derivatives are designated as net foreign investment hedges, changes in the fair value of the derivatives are recognized in other comprehensive income under "Cumulative translation adjustments."

When derivatives are designated as future cash flow hedges, changes in the value of the effective portion of the derivative are recognized in other comprehensive income under "Net income recognized in other comprehensive income". This effective portion is recycled in the income statement when the hedged item itself is recognized in the profit or loss. However, changes in the value of the ineffective portions of derivatives are directly recognized in the profit or loss. Changes in the fair value of derivative financial instruments that are not classified as hedging instruments are recognized directly in the profit or loss for the period.

### Financial debt instruments

Financial debt instruments that are not hedged by derivative financial instruments are recognized in the consolidated balance sheet under the amortized cost method, using their effective interest rate.

However, when the fair value risk of a financial debt instrument is hedged by a derivative financial instrument, the change in fair value of the hedged debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to profit or loss, which thereby offsets the change in fair value of the derivative instrument.

## 17. PUT OPTIONS GRANTED TO NON-CONTROLLING INTERESTS

In accordance with IAS 32 – *Financial instruments: Disclosure and Presentation*, when non-controlling interests hold put options enabling them to sell their investment in the Group, a financial liability is recognized in an amount corresponding to the option strike price, and the counterpart of the liability arising from these obligations is:

- on the one hand the elimination of the carrying amount of the corresponding non-controlling interests;
- on the other, a reduction in the equity attributable to owners of the Company: the difference between the strike price of the options granted and the carrying amount of non-controlling interests is presented as a reduction of "Retained earnings – attributable to owners of the Company." This item is adjusted at the end of each reporting period to reflect changes in the strike price of the options and the carrying amount of non-controlling interests, in accordance with the recommendations issued by the French Financial Markets Authority (AMF) in November 2009.

## 18. SALES AND TRADE RECEIVABLES

The Group's sales mainly comprise sales of finished products. They are recognized when the risks and benefits incident to ownership are transferred.

Sales are stated net of trade discounts and customer allowances, as well as net of costs relating to joint sales agreements, listing or concerning occasional promotional actions invoiced by distributors.

Trade receivables are recognized at their fair value. Impairment provisions are recognized when their recovery appears unlikely. The methods used for determining such reserves are based on a historical analysis.

## 19. ADVERTISING COSTS

Advertising costs are expensed as incurred.



## 20. RESEARCH AND DEVELOPMENT COSTS

Development costs are only recognized under assets in the consolidated balance sheet if all the recognition criteria set by IAS 38 (*Intangible Assets*) are met before the products are launched on the market. Research and Development costs are generally expensed as incurred due to the very short time between the date on which technical feasibility is demonstrated and the date on which the products are marketed.

## 21. OTHER OPERATING INCOME (EXPENSES)

In accordance with Recommendation 2009-R.03 of the French National Accounting Council (CNC) “relative to the format of financial statements of companies adopting international accounting standards”. Other operating income (expenses) consists of significant items that, because of their unusual nature, cannot be viewed as inherent to the current activities of the Group. They mainly include capital gains and losses on disposals of consolidated equity interests, impairment charges on goodwill, significant costs relating to strategic restructurings and major acquisitions, acquisition-related costs when control is obtained, and estimated or incurred costs linked to major litigations.

## 22. STOCK PURCHASE OPTIONS, PERFORMANCE SHARES

Stock purchase options granted to employees are measured at fair value on the grant date. Fair value is determined using the Black and Scholes valuation model, based on assumptions determined by management. Fair value is accounted for on the “Other income (expense)” line of the income statement and expensed over the vesting period (from two to four years), with a corresponding increase in equity. Expenses incurred in relation to options that are cancelled before they vest are transferred to the income statement during the period in which the options are cancelled.

Performance shares granted to employees are measured at fair value as of the grant date. The fair value of performance shares is calculated on the basis of assumptions made by management and recognized in profit or loss under “Other income (expenses),” and spread over the period during which the rights to shares vest, either two or four years, with a corresponding increase in equity as counterpart. Expenses incurred in relation to performance shares that are cancelled before they can be exercised are transferred to the income statement during the period in which they are cancelled.

## 23. EARNINGS PER SHARE

Earnings per share are calculated by dividing net income by the average number of shares outstanding during the year, after deducting the Danone treasury stock held by the Company and its fully consolidated subsidiaries.

Diluted earnings per share are calculated in a similar manner, except that the weighted average number of shares is increased to take into account shares that could potentially be issued following the exercise of share purchase or subscription options and the vesting of performance shares.

## 24. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets held for sale are those assets whose value will be recovered mainly through a sale considered to be highly likely within the next 12 months, rather than as a result of their continued use.

Assets and liabilities held for sale are presented as separate line items in the consolidated balance sheet of the period during which the decision to sell is made. Consolidated balance sheets of prior periods are not restated.

Discontinued operations are defined in IFRS 5 - *Non-current assets held for sale and discontinued operations* as a component of an entity that (i) generates cash flows that are largely independent from cash flows generated by other components (ii) is held for sale or has been sold, and (iii) represents a separate major line of business or geographic area of operations. The Group has determined that, given the way it is organized, its Business Lines and geographic areas presented in the segment information correspond to the definition of components given in IFRS 5. Net income and cash flows from assets held for sale and discontinued operations are presented separately on the income statement and statement of cash flows, respectively, for all periods presented.

## 25. USE OF ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts in the consolidated balance sheet, income statement and Notes to the consolidated financial statements. These estimates and assumptions pertain in particular to the valuation of intangible assets, investments in associates, deferred tax assets, financial liabilities relating to put options granted to non-controlling interests, provisions for risks and liabilities, provisions for commercial agreements and retirement obligations. Those assumptions, estimates and appraisals, which are presented in detail in each of the notes related to the above-mentioned items, are made on the basis of available information and conditions at the end of the financial period presented. Actual amounts may differ from those estimates, particularly in an economically and financially volatile context.

In addition to the use of estimates, the Group's management uses its judgment to define the accounting treatment for certain activities and transactions when they are not explicitly addressed in IFRS and related interpretations.

## NOTE 2 - Changes in the scope of consolidation

### ACQUISITION OF UNIMILK GROUP

- On November 30, 2010, Danone and Unimilk signed an agreement to combine the Fresh Dairy Products businesses of the two companies in Russia, Ukraine, Kazakhstan and Belarus. Danone acquired control over the new entity, Dairy JV CIS Holdings, with a 50.9% equity interest. The remaining shares are held by Unimilk seller shareholders (42%) and the EBRD (7.1%). Danone's equity interest may increase as of 2014 when put options granted to Unimilk shareholders and the EBRD become exercisable. In 2022, Danone may also exercise a call option on all shares that it does not already own at that time.
- As of November 30, 2010, Danone contributed an approximate 36% equity interest in its Fresh Dairy Products subsidiaries in Russia, Ukraine, Kazakhstan and Belarus with a total value of € 346 million and made a cash payment of € 116 million to obtain the 50.9% equity interest in the activities of Unimilk. The fair value of the assets contributed to the seller totaled € 462 million and were allocated to identifiable acquired assets and liabilities for a net amount of € 154 million and residual goodwill of € 308 million. The acquisition costs, which totaled € 22 million, were recognized in profit or loss under "Other operating income (expenses)." Non-controlling interests were recognized proportionately in the fair value of the assets and liabilities of the acquired entity.

As of November 30, 2010, Unimilk's net assets acquired were as follows:

	Carrying amount	Fair value of net assets and liabilities
	<b>Before acquisition on November 30, 2010</b>	<b>Acquired on November 30, 2010</b>
<i>Intangible assets</i>	86	278
<i>Property, plant and equipment and other non-current assets</i>	487	458
Total non-current assets	573	736
Current assets	227	229
<b>Total assets</b>	<b>800</b>	<b>965</b>
Non-current liabilities	286	366
Current liabilities	294	297
<b>Total liabilities</b>	<b>580</b>	<b>663</b>
Net assets acquired (at 100%)	220	302
Net assets attributable to non-controlling interests		(148)
Partial goodwill		308
<b>Fair value of the assets contributed to the seller</b>		<b>462</b>

- Intangible assets as of November 30, 2010 correspond to the fair value of the Prostokvashino and Tema brands. The first is amortizable over 60 years, given the duration of its legal protection; the latter has an indefinite useful life.
- Non-current liabilities as of November 30, 2010 consist mainly of non-current financial liabilities and deferred taxes.
- Residual goodwill totaling € 308 million represents the expected synergies with respect to the sales and industrial activity along with cost savings.
- The purchase price allocation of this business combination was performed on a provisional basis, as the amounts allocated to assets and liabilities may change during a one-year period as of November 30, 2010.
- Put options granted to shareholders seller of Unimilk exercisable from 2014 amount to € 775 million. These put options are described in Note 15.

Net sales generated by Unimilk over the 12 months of 2010 amounted to € 1,292 million. Its trading operating margin (ie trading operating income over net sales ratio) amounted to 2%. Net sales generated in 2010, since its acquisition, amounted to € 121 million and its trading operating margin amounted to 2.68% over the same period.



## OTHER ACQUISITIONS

### Other acquisitions resulting in control being obtained

In 2010, the Group carried out the following acquisitions of controlling interests:

- acquisition on January 5, 2010 of an additional equity interest in Ferminvest (Waters – France), thereby increasing the Group's equity interest from 57% to 100%. Following this transaction, the Group increased its holding in Damavand (Waters – Iran) from 39.89% to 70%. Damavand is a leading Iranian mineral water company;
- acquisition on May 25, 2010 of a 51% equity interest in Chiquita Fruits (France) and acquisition on July 13, 2010 of 100% of the equity of Immédia (France) by Chiquita. These companies market fruit-juice-based beverages. Their management reports to the Fresh Dairy Products Division;
- acquisition on July 15, 2010 of a 51% equity interest in Narang Beverages (Waters – India), simultaneously with the acquisition of a 30% equity interest in Narang Access (Waters – India) which is consolidated as an associate under the equity method. These companies package and market mineral water in India;
- acquisition on July 22, 2010 of a 100% equity interest in Medical Nutrition USA, Inc. (Medical Nutrition – United States);
- acquisition on September 30, 2010 of 51% of ProViva and Lunnarps Mejeri (Sweden). These companies produce and market fruit-juice-based beverages enriched with probiotics. Their managements report to the Fresh Dairy Products business line;

- acquisition on December 3, 2010 of a 100% equity interest in Womir Spa (Waters – Poland);
- acquisition on December 23, 2010 of a 94.67% equity interest in YoCream (Fresh Dairy Products – United States). This company produces and markets frozen yogurt in the United States.

The purchase price allocation of these business combinations was performed on a provisional basis, as the amounts allocated to assets and liabilities and goodwill may change during a one-year period from the respective dates of each acquisition.

Since these transactions were not individually material, they have been combined for the purpose of preparing the following information.

The main characteristics of the acquisitions made in 2010 are as follows:

- they did not give rise to a contingent payment (earn-out);
- put options were granted to non-controlling interests in these companies, with the options valued at € 78 million as of December 31, 2010 and recognized as non-current financial liabilities (see Note 27 "Structure of net debt and non-current financial liabilities");
- equity interests held prior to control being obtained are measured at fair value as of the date control is obtained, which gives rise to a net loss before taxes of € 0.5 million in 2010, accounted for under "Share of profit of associates";
- transaction costs, other than those attributable to Unimilk and described in the previous section, totaled € 3 million before tax in 2010; they are recognized under "Other operating income (expenses)".

The aggregate net assets acquired, excluding the Unimilk transaction, break down as follows:

<i>(In € millions)</i>	<b>As of December 31, 2010</b>
Net assets acquired at 100% <sup>(1)</sup>	100.0
Net assets attributable to non-controlling interests <sup>(2)</sup>	(27.8)
Partial goodwill <sup>(3)</sup>	150.8
<b>FAIR VALUE OF THE ASSETS CONTRIBUTED TO THE SELLER <sup>(4)</sup></b>	<b>223.0</b>

(1) Including fair value adjustments totaling € 44 million, primarily relating to brands and inventories.

(2) For each of the acquisitions made in 2010, non-controlling interests are accounted for at their share of the fair value of the assets and liabilities acquired.

(3) Residual goodwill primarily represents human capital, the expected synergies in terms of sales and cost reduction, market share and its growth potential.

(4) Including € 211 million in cash, the balance representing the fair value of the interests previously held.

Net sales generated in 2010 by these entities since their acquisition by the Group amount to € 28 million.

### Acquisitions that did not result in control being obtained

The Group acquired

- a 50% equity interest in Murray Goulburn (Fresh Dairy Products – Australia), which was accounted for as an associate;
- a 30% equity interest in Narang Access (Waters – India) which is consolidated as an associate under the equity method on July 15, 2010, simultaneously with the acquisition a 51% equity interest in Narang Beverages (Waters – India) which is fully consolidated. These companies package and market mineral water in India;
- an additional equity interest in Aqua d'Or (Waters – Denmark), thereby bringing the overall equity interest to 90%, with the company already fully consolidated as a subsidiary.

Neither of these three transactions had a material impact on the consolidated financial statements as of December 31, 2010.

The main acquisitions in 2009 involved:

- the acquisition of an additional equity interest in Danone Clover (Fresh Dairy Products – South Africa), bringing the

Group's ownership interest from 55% to 100%. Following this add-on acquisition, the equity interest in Mayo Dairy (Proprietary) Ltd., itself a subsidiary of Danone Clover, rose from 38.5% to 70%;

- the acquisition of a 26.85% equity interest in Micropharma (Fresh Dairy Products – Canada).

### DISPOSALS

The main disposals in 2010 involved:

- the equity interest in China Hui Yuan Juice Group Limited, which is listed on the Hong Kong Stock Exchange, and certain companies in the Waters Division (see Note 3);
- the non-consolidated 18.36% equity interest in Russia-based Wimm-Bill-Dann, a company listed in Moscow and New York (see Note 7).

The main disposals in 2009 involved the 100% equity interest in Frucor (Waters – New Zealand and Australia), the 100% equity interest in Danone Naya (Waters – Canada) and the 51% equity interest in the Wahaha joint ventures (Waters – China).

## NOTE 3 - Discontinued operations and assets and liabilities held for sale

### DISPOSALS DURING THE YEAR

In 2010, the Group made the following disposals:

1. On July 28, 2010, the Group announced that it had agreed to sell its 22.98% equity interest in China Hui Yuan Juice Group Limited, a leading fruit-based drinks producer which is listed on the Hong Kong Stock Exchange, and which was presented under assets held for sale as of December 31, 2009. The transaction took effect on September 6, 2010 and generated a net capital gain of € 42 million, which was recognized under "Share of profits of associates" and consisted mainly of cumulative translation adjustments recycled through profit or loss.
2. The Group also sold its equity interests in the following companies belonging to the Waters Division and which were presented as held for sale as of December 31, 2009: Polska Woda (Waters – Poland), Magyarviz (Waters – Hungary), Dasanbe (Waters – Spain).

### ASSETS AND LIABILITIES HELD FOR SALE

As of December 31, 2010, the Group is in the process of selling part or all of its equity interests of certain companies in the Fresh Dairy Products and Waters Divisions. The Group believes that it is highly likely these transactions will be completed within the next 12 months. Consequently, the assets and liabilities of these companies, which amount to € 39 million and € 18 million, respectively, were classified as assets and liabilities held for sale as of December 31, 2010.

As of December 31, 2009, assets held for sale included mainly the Group's equity interest in China Hui Yuan Juice Group Limited.

In neither 2010 nor 2009, no business activity was classified as a discontinued operation.

## NOTE 4 - Intangible assets

### CHANGE IN THE CARRYING AMOUNT OF INTANGIBLE ASSETS

Changes in the carrying amount of intangible assets can be detailed as follows:

<i>(In € millions)</i>	<b>Goodwill</b>	<b>Brands</b>	<b>Other</b>	<b>Total</b>
<b>Gross value</b>				
<b>AS OF JANUARY 1, 2009</b>	<b>9,886</b>	<b>3,846</b>	<b>640</b>	<b>14,372</b>
Capital expenditure	–	–	27	27
Disposals	–	–	(1)	(1)
Changes in consolidation scope	115	–	–	115
Translation adjustments	226	57	3	286
Other	–	–	5	5
<b>AS OF DECEMBER 31, 2009</b>	<b>10,227</b>	<b>3,903</b>	<b>674</b>	<b>14,804</b>
<b>Amortization</b>				
<b>AS OF JANUARY 1, 2009</b>		–	<b>(260)</b>	<b>(260)</b>
Charge for the year (net of disposals)		–	(72)	(72)
Translation adjustments		–	(2)	(2)
Other		–	15	15
<b>AS OF DECEMBER 31, 2009</b>		–	<b>(319)</b>	<b>(319)</b>
<b>Carrying amount</b>				
<b>AS OF DECEMBER 31, 2009</b>	<b>10,227</b>	<b>3,903</b>	<b>355</b>	<b>14,485</b>
<b>(In € millions)</b>				
	<b>Goodwill</b>	<b>Brands</b>	<b>Other</b>	<b>Total</b>
<b>Gross value</b>				
<b>AS OF JANUARY 1, 2010</b>	<b>10,227</b>	<b>3,903</b>	<b>674</b>	<b>14,804</b>
Capital expenditure	–	–	34	34
Disposals	–	–	(33)	(33)
Changes in consolidation scope	459	131	222	812
Changes in consolidation method	–	2	–	2
Translation adjustments	556	219	14	789
Reclassification to assets held for sale	(14)	–	(1)	(15)
Impairment	(12)	–	–	(12)
Other	(3)	–	28	25
<b>AS OF DECEMBER 31, 2010</b>	<b>11,213</b>	<b>4,255</b>	<b>938</b>	<b>16,406</b>
<b>Amortization</b>				
<b>AS OF JANUARY 1, 2010</b>		–	<b>(319)</b>	<b>(319)</b>
Charge for the year (net of disposals)		–	(66)	(66)
Changes in consolidation scope		–	(6)	(6)
Translation adjustments		–	(8)	(8)
Other		–	25	25
<b>AS OF DECEMBER 31, 2010</b>		–	<b>(373)</b>	<b>(373)</b>
<b>Carrying amount</b>				
<b>AS OF DECEMBER 31, 2010</b>	<b>11,213</b>	<b>4,255</b>	<b>565</b>	<b>16,033</b>

The amortization charge for other intangible assets amounted to € 66 million in 2010 (€ 72 million in 2009). It is allocated to different line items in the income statement consistent with the nature and utilization of the underlying assets.

## GOODWILL

Net goodwill increased by € 986 million in 2010, an increase driven mainly by:

- positive cumulative translation adjustments totaling € 479 million on the goodwill of companies in the Baby Nutrition and Medical Nutrition Divisions;
- acquisitions resulting in control being obtained in 2010, notably that of Unimilk for € 308 million.

In 2009, the main changes were related to the € 222 million positive cumulative translation adjustments on goodwill for companies in the Baby Nutrition and Medical Nutrition Divisions and the recognition of € 74 million in goodwill from the acquisition of non-controlling interests in Danone Clover (Fresh Dairy Products – South Africa).

## BRANDS WITH AN INDEFINITE USEFUL LIFE

This item corresponds to non-amortized brands recognized in connection with business combinations since 1989. Brand names include, among others, *Nutricia*, *Milupa*, *Dumex*, *Cow&Gate*, *Mellin*, *SHS*, *Volvic* and *Danone* in Spain.

Aside from movements due to changes in scope (see Note 2 “Changes in the scope of consolidation”), the movement in 2010 can be attributed primarily to cumulative translation adjustments on the brands held by the Baby Nutrition and Medical Nutrition Divisions in the respective amounts of € 178 million and € 35 million.

The movements in 2009 involved primarily cumulative translation adjustments on brands held by the Baby Nutrition and Medical Nutrition Divisions following the Numico acquisition, with respective amounts of € 20 million and € 37 million.

## OTHER INTANGIBLE ASSETS

The line “Capital expenditure” amounts to € 34 million and applies to the Medical Nutrition and Fresh Dairy Products Divisions for € 15 million and € 9 million, respectively. The line “Changes in consolidation scope” corresponds to the amortized brand Prostokvashino, which was acquired through the Unimilk transaction (see Note 2).

## IMPAIRMENT REVIEWS FOR INTANGIBLE ASSETS

The carrying amount of goodwill, brands and other non-amortized intangible assets is reviewed at least annually and when certain events or circumstances indicate that their value may be impaired. These events or circumstances are linked to significant, unfavorable and durable changes that have an impact on the economic environment and the assumptions or targets set at the time of acquisition.

As of December 31, 2010, the Group reviewed the carrying amount of all its intangible assets with indefinite useful lives. As stated in Note 1.4, the CGUs or groups of CGUs’ value in use is determined based on multiples of earnings or, if applicable, the expected discounted cash flows, for CGUs or groups of CGUs.

As of December 31, 2010, the CGUs or groups of CGUs for which the carrying amount of the goodwill or intangible assets with indefinite useful lives is significant are as follows:

(In € millions)	Carrying amount of goodwill and brands with indefinite useful lives		Sector multiples of operating income before amortization and impairment	Long-term growth rate		Discount rate after tax	
	2009	2010		2009	2010	2009	2010
<b>Fresh Dairy Products</b>							
<i>Southern Europe CGU <sup>(1)</sup></i>	376	376		1.0%	0.5%	8.0%	7.9%
<i>Other CGUs <sup>(2)</sup></i>	612	1,176		1 to 2.5%	0.5% to 2%	7 to 17%	7 to 11%
<b>Total Fresh Dairy Products</b>	<b>988</b>	<b>1,552</b>	<b>× 11 on average</b>				
<b>Waters</b>							
<i>Danone Eaux France</i>	428	428		0%	0%	7.9%	7.9%
<i>Other CGUs <sup>(2)</sup></i>	299	342		1 to 2.5%	1 to 2.5%	7 to 17%	8 to 10%
<b>Total Waters</b>	<b>727</b>	<b>770</b>	<b>× 11 on average</b>				
<b>Baby Nutrition</b>							
<i>Baby Nutrition Asia</i>	2,724	3,099		2.5%	2.5%	8.5%	8.1%
<i>Baby Nutrition Rest of the World</i>	5,655	5,817		2.5%	2.5%	8.0%	8.2%
<b>Total Baby Nutrition</b>	<b>8,379</b>	<b>8,916</b>					
<b>Total Medical Nutrition</b>	<b>4,036</b>	<b>4,231</b>		<b>2.5%</b>	<b>2.5%</b>	<b>7.3%</b>	<b>7.5%</b>
<b>GROUP TOTAL, EXCLUDING ASSOCIATES</b>	<b>14,130</b>	<b>15,469</b>					

(1) Southern Europe CGU includes Spain, Italy, Portugal and Canary Islands.

(2) The Fresh Dairy Products and Waters Divisions include about 40 other CGUs.

When value in use is determined based on expected discounted cash flows, the long-term growth rate and the discount rate vary depending on the geographical area where the CGU or groups of CGUs operate, and in particular on the maturity of the markets.

Following this review, the Group recorded an impairment charge of € 12 million to reflect the restructuring at Tikvesli (Fresh Dairy Products – Turkey) as of December 31, 2010. No impairment charge was recorded as of December 31, 2009.

As of December 31, 2010, value in use exceeded the carrying amount by € 4.5 billion for the Baby Nutrition Asia CGU, € 0.7 billion for the Baby Nutrition Rest of the World CGU, and € 0.6 billion for the Medical Nutrition CGU.

As of December 31, 2010, a sensitivity analysis of the value in use within the three groups of CGUs (Baby Nutrition Asia, Baby Nutrition Rest of the World and Medical Nutrition) shows the following impact:

- a 0.5% increase in the discount rate would lower the aggregate recoverable value of the three CGUs by € 1.6 billion;
- the recoverable value would equal the carrying amount for a 1.1% increase in the discount rate for the Medical Nutrition group of CGUs, for a 1.4% increase in the discount rate for the Baby Nutrition Rest of the World group of CGUs, and for a 20.0% increase in the discount rate for the Baby Nutrition Asia group of CGUs;

- a 0.5% decrease in the long-term growth rate would lower the aggregate recoverable value of the three CGUs by € 1.3 billion; the recoverable value of each CGU would continue to exceed the carrying amount;

The recoverable value would equal the carrying amount for a long-term growth rate of 1.6% for the Medical Nutrition group of CGUs and of 1.6% for the Baby Nutrition Rest of the World group of CGUs, and a negative long-term growth rate for the Baby Nutrition Asia group of CGUs;

- a 100-basis-point reduction in the margin would lower the aggregate recoverable value of the three CGUs by € 0.9 billion.

The recoverable value would equal the carrying amount for a 280-basis-point margin decrease for the Medical Nutrition group of CGUs, for a 240-basis-point decrease for the Baby Nutrition Rest of the World group of CGUs, and for a 1,450-basis-point decrease for the Baby Nutrition Asia group of CGUs.

## NOTE 5 - Property, plant and equipment

Changes in the carrying amount of property, plant and equipment can be detailed as follows:

<i>(In € millions)</i>	<b>Land</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Refundable containers</b>	<b>Other</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Gross amount</b>							
<b>AS OF JANUARY 1, 2009</b>	<b>237</b>	<b>1,394</b>	<b>3,817</b>	<b>175</b>	<b>511</b>	<b>404</b>	<b>6,538</b>
Capital expenditure <sup>(1)</sup>	8	47	120	26	38	360	599
Disposals	(1)	(16)	(117)	(40)	(43)	(4)	(221)
Translation adjustments	1	2	14	9	6	2	34
Other	4	145	342	2	(8)	(452)	33
<b>AS OF DECEMBER 31, 2009</b>	<b>249</b>	<b>1,572</b>	<b>4,176</b>	<b>172</b>	<b>504</b>	<b>310</b>	<b>6,983</b>
<b>Depreciation</b>							
<b>AS OF JANUARY 1, 2009</b>	<b>(29)</b>	<b>(618)</b>	<b>(2,379)</b>	<b>(110)</b>	<b>(317)</b>	<b>(2)</b>	<b>(3,455)</b>
Charge for the year	(3)	(75)	(308)	(25)	(67)	–	(478)
Disposals	–	12	101	37	37	–	187
Changes in consolidation scope	–	–	1	–	–	–	1
Translation adjustments	–	–	(8)	(5)	(3)	–	(16)
Other	–	(41)	(28)	–	27	–	(42)
<b>AS OF DECEMBER 31, 2009</b>	<b>(32)</b>	<b>(722)</b>	<b>(2,621)</b>	<b>(103)</b>	<b>(323)</b>	<b>(2)</b>	<b>(3,803)</b>
<b>Carrying amount</b>							
<b>AS OF DECEMBER 31, 2009</b>	<b>217</b>	<b>850</b>	<b>1,555</b>	<b>69</b>	<b>181</b>	<b>308</b>	<b>3,180</b>

(1) Includes assets acquired under finance leases.

<i>(In € millions)</i>	<b>Land</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Refundable containers</b>	<b>Other</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Gross amount</b>							
<b>AS OF JANUARY 1, 2010</b>	<b>249</b>	<b>1,572</b>	<b>4,176</b>	<b>172</b>	<b>504</b>	<b>310</b>	<b>6,983</b>
Capital expenditure <sup>(1)</sup>	4	42	164	49	37	516	812
Disposals	(13)	(87)	(185)	(29)	(42)	(4)	(360)
Translation adjustments	10	66	186	15	33	19	329
Reclassification to assets held for sale	(3)	(10)	(9)	–	–	–	(22)
Changes in consolidation scope	3	151	265	–	9	72	500
Other	8	74	268	27	66	(386)	57
<b>AS OF DECEMBER 31, 2010</b>	<b>258</b>	<b>1,808</b>	<b>4,865</b>	<b>234</b>	<b>607</b>	<b>527</b>	<b>8,299</b>
<b>Depreciation</b>							
<b>AS OF JANUARY 1, 2010</b>	<b>(32)</b>	<b>(722)</b>	<b>(2,621)</b>	<b>(103)</b>	<b>(323)</b>	<b>(2)</b>	<b>(3,803)</b>
Charge for the year	(3)	(83)	(328)	(41)	(69)	(7)	(531)
Disposals	4	50	144	27	39	–	264
Translation adjustments	–	(20)	(93)	(9)	(21)	–	(143)
Reclassification of assets held for sale	–	1	1	–	–	–	2
Changes in consolidation scope	–	(1)	(6)	–	(1)	–	(8)
Other	–	(5)	–	(3)	(40)	–	(48)
<b>AS OF DECEMBER 31, 2010</b>	<b>(31)</b>	<b>(780)</b>	<b>(2,903)</b>	<b>(129)</b>	<b>(415)</b>	<b>(9)</b>	<b>(4,267)</b>
<b>Carrying amount</b>							
<b>AS OF DECEMBER 31, 2010</b>	<b>227</b>	<b>1,028</b>	<b>1,962</b>	<b>105</b>	<b>192</b>	<b>518</b>	<b>4,032</b>

(1) Includes assets acquired under finance leases.

The line “changes in consolidation scope” corresponds mainly to the Unimilk acquisition.

As of December 31, 2010, gross and net amounts of assets acquired under finance leases amounted to € 174 million and € 102 million respectively (€ 25 million and € 14 million respectively as of December 31, 2009).

The depreciation charge for property, plant and equipment amounted to € 531 million in 2010 (€ 478 million in 2009). It is allocated to different lines in the income statement consistent with the nature and utilization of the underlying assets.

## NOTE 6 - Investments in associates

The carrying amount of investments in associates is as follows:

<i>(In € millions)</i>	<b>Goodwill</b>	<b>Group's share in net assets and results</b>	<b>Total</b>
<b>AS OF JANUARY 1, 2009</b>	<b>413</b>	<b>854</b>	<b>1,267</b>
Acquisitions	4	1	5
Disposals (including Wahaha, see Note 2) and other changes in consolidation scope	(123)	(202)	(325)
Reclassification to assets held for sale	–	(7)	(7)
Share of profit of associates	–	110	110
Dividends paid	–	(175)	(175)
Other movements	(3)	3	–
Translation adjustments	(11)	(59)	(70)
<b>AS OF DECEMBER 31, 2009</b>	<b>280</b>	<b>525</b>	<b>805</b>
Acquisitions	10	4	14
Disposals and other changes in consolidation scope	(10)	(3)	(13)
Reclassification to assets held for sale	–	–	–
Share of profit of associates	–	82	82
Dividends paid	–	(56)	(56)
Other movements	–	(4)	(4)
Translation adjustments	48	71	119
<b>AS OF DECEMBER 31, 2010</b>	<b>328</b>	<b>619</b>	<b>947</b>

As of December 31, 2010, investments in associates mainly comprised the holdings in Yakult. The net assets of associates include the identifiable intangible assets and residual goodwill resulting from the consolidation of their own subsidiaries.

The change in value of investments in associates in 2010 mainly reflects the share of profits attributable to owners of the Company, dividends paid and cumulative translation adjustments on investments in associates retained as of December 31, 2010.

Disposals and changes in scope correspond mainly to the sale of the Group's equity interest in China Hui Yuan Juice Group Limited (see Note 3), which had previously been reclassified under assets held for sale, as well as the change in consolidation method applied to Damavand following the acquisition of an additional

equity interest, which led to the Company's full consolidation as of January 1, 2010 after it had previously been accounted for as an associate (see Note 2). Acquisitions made during the year correspond to the acquisitions of equity interests in Narang Access and Murray Goulburn (see Note 2).

As of December 31, 2009, investments in associates consisted mainly of the equity interest in Yakult, following the disposal of the 51% equity interest in the Wahaha joint ventures in December 2009. The change in their recognized value was mainly due to the disposal of the Group's equity interest in the Wahaha joint ventures, dividends paid and cumulative translation adjustments.



## INCOME (LOSS) FROM INVESTMENTS IN ASSOCIATES

The line item “Share of profit of associates” breaks down as follows:

<i>(In € millions)</i>	Year ended December 31	
	2009	2010
Share of profit of associates	110	82
Impairment charges	(63)	(1)
Gains (losses) on disposal and other	(124)	40
<b>TOTAL</b>	<b>(77)</b>	<b>121</b>

The line item “Gains (losses) on disposals and other” includes the capital gain on disposal of shares of China Hui Yuan Juice Group Limited, made up primarily of cumulative translation adjustments recycled through profit or loss.

As of December 31, 2009, the line item “Impairment charges” mainly concerned the shares in China Hui Yuan Juice Group Limited, classified as assets held for sale. The losses on disposal correspond mainly to the € 98 million net capital loss on the sale of Wahaha (Waters – China) shares.

## SIGNIFICANT FINANCIAL INFORMATION PERTAINING TO ASSOCIATES

Significant financial information, as it relates to the main investments in associates as of December 31, 2010, is as follows (at 100% and for a full year):

<i>(In € millions)</i>	2009				2010			
	Net sales	Net income	Shareholders' equity	Balance sheet total	Net sales	Net income	Shareholders' equity	Balance sheet total
Yakult <sup>(1)</sup>	1,123	61	1,650	2,869	1,345	83	2,301	3,636

(1) Figures in Japanese GAAP.

As Yakult is a listed company, the amounts shown in the table above correspond to the last financial statements published (2009: half-yearly financial statements; 2010: half-yearly financial statements).

## IMPAIRMENT REVIEWS

The Group reviews the carrying value of its investments in associates whenever events or circumstances indicate that they may be impaired. An impairment charge is recognized when their recoverable value becomes durably lower than their net carrying amount.

The fair value of investments in associates amounted to € 1,234 million as of December 31, 2010 (€ 1,216 million as of December 31, 2009). It was determined as follows:

- for listed companies, according to a multi-criteria approach based on the stock price as of December 31, the financial health of the company and analysts' reports;
- for unlisted companies, by reference where applicable to the value resulting from recent transactions entered into by third parties or put and/or call options negotiated with third parties and/or external appraisals. When such elements do not exist, the fair value is determined to be equivalent to the carrying value.

No significant impairment charge was recognized in 2010.

## NOTE 7 - Investments in non-consolidated companies

### CARRYING AMOUNT AND CHANGES IN INVESTMENTS IN NON-CONSOLIDATED COMPANIES

The following table presents the carrying amount of the main investments in non-consolidated companies held by the Group:

<i>(In € millions)</i>	<b>% interest in 2009</b>	<b>2009</b>	<b>% interest in 2010</b>	<b>2010</b>
Wimm-Bill-Dann	18.4%	406	–	–
ONA/SNI	2.7%	54	2.7%	66
Other	–	61	–	59
<b>TOTAL</b>		<b>521</b>		<b>125</b>

As indicated in Note 1.6, investments in non-consolidated companies are treated as available-for-sale investments. They are accounted for at fair value, with changes in fair value recognized in other comprehensive income, except for unrealized losses that are considered to be significant and/or prolonged, which are recognized directly in profit or loss.

The change in investments in non-consolidated companies in 2010 corresponds mainly to the disposal of the Wimm-Bill-Dann shares, which generated a net gain before taxes of € 237 million.

The ONA shares became SNI shares as of December 31, 2010. The previously held ONA shares were de-listed from the Rabat Stock Exchange in 2010. ONA then merged with SNI. As of December 31, 2010, the value of the SNI shares is based on the partner's share purchase commitment.

As of December 31, 2010, the unrealized losses recognized in other comprehensive income amounted to € 68 million (gains of € 348 million as of December 31, 2009).

## NOTE 8 - Long-term loans

As of December 31, 2010, long-term loans amounted to € 42 million, compared to € 27 million as of December 31, 2009. This change was mainly due to the Unimilk acquisition.

The fair value of long-term loans is considered to be equal to their carrying amount.

## NOTE 9 - Other long-term financial assets

As of December 31, 2010, other long-term financial assets amounted to € 138 million, compared to € 127 million as of December 31, 2009.

As of December 31, 2010, this item included investments held as the counterpart to certain "damage and healthcare" provisions,

amounting to € 98 million. These investments are treated as available-for-sale in accordance with IAS 39 and recognized on the consolidated balance sheet at fair value, with fair value adjustments recorded in other comprehensive income.

## NOTE 10 - Inventories

Inventories can be detailed as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
Goods purchased for resale	25	14
Raw materials and supplies	304	433
Semi-finished goods and work in progress	52	54
Finished goods	439	483
Non-refundable containers	39	47
Impairment	(94)	(57)
<b>INVENTORIES, NET</b>	<b>765</b>	<b>975</b>

The increase in inventory in 2010 is mainly due to the increase in the activity of the Group and to the changes in consolidation scope (of which Unimilk for € 125 million).

## NOTE 11 - Trade receivables – other receivables

### TRADE RECEIVABLES

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
Trade account receivables	1,686	1,936
Notes receivable	47	51
Impairment	(51)	(63)
<b>TRADE ACCOUNT RECEIVABLES, NET</b>	<b>1,682</b>	<b>1,924</b>

The increase of trade receivables in 2010 is mainly due to the increase in the activity of the Group and to the changes in consolidation scope (of which Unimilk for € 69 million).

Changes in the valuation allowance are as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
<b>AS OF JANUARY 1</b>	<b>59</b>	<b>51</b>
Charges (net of reversals)	16	7
Utilization	(25)	(1)
Translation adjustments and other changes	1	6
<b>AS OF DECEMBER 31</b>	<b>51</b>	<b>63</b>

The Group believes its exposure to concentration of credit risk is limited due to the number of customers located in diverse geographic areas and the fact that its main customers are in the mass retail sector. Despite the current economic environment, the Group believes that it is not exposed to significant credit risk, nor is it dependent on one single customer. In 2010, sales to the Group's largest customer represented approximately 6% of the Group's total sales (7% in 2009).

The fair value of trade receivables is considered to be equivalent to their carrying amount due to their short-term maturity.

As of December 31, 2010, the amount of overdue trade receivables for which no impairment charge had been recorded represented 3% and 2% of total trade receivables for the respective overdue periods of less than 90 days and more than 90 days.

**OTHER ACCOUNTS RECEIVABLE**

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
State and local authorities	381	398
Social securities and non-operating receivables	104	176
Prepaid expenses	57	86
Financial instruments	-	-
Others	103	108
<b>TOTAL</b>	<b>645</b>	<b>768</b>

The fair value of other accounts receivable is considered to be equal to their carrying amount due to the high degree of liquidity of these items.

**NOTE 12 - Marketable securities and other short-term investments**

Marketable securities consist of negotiable debt instruments and mutual fund (SICAV) shares. They break down as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
<i>Money market funds</i>	166	765
<i>Negotiable debt securities</i>	115	76
<i>Other short-term instruments</i>	173	270
<b>TOTAL</b>	<b>454</b>	<b>1,111</b>

Marketable securities are bought from leading financial institutions.

**NOTE 13 - Earnings per share****DISTRIBUTABLE RESERVES**

The distributable reserves of subsidiaries and associated companies may differ from their reported retained earnings as a consequence of consolidation adjustments applied to their separate financial statements and laws applicable in the countries where these entities operate.

In accordance with French law, dividends can only be paid out of the net income for the year and the accumulated distributable reserves of the parent company. As of December 31, 2010, tax-free distributable earnings amounted to € 1,699 million (€ 1,895 million as of December 31, 2009).

## EARNINGS PER SHARE

The reconciliation between basic and diluted earnings per share is as follows:

	<b>Net income attributable to owners of the Company (In €)</b>	<b>Weighted average number of shares outstanding</b>	<b>Earnings per share attributable to owners of the Company (In €)</b>
<b>2009</b>			
Before dilution	1,361	565,508,159	2.41
Stock-based compensation		90,317	-
<b>After dilution</b>	<b>1,361</b>	<b>565,598,476</b>	<b>2.41</b>
<b>2010</b>			
Before dilution	1,870	614,433,216	3.04
Stock-based compensation		1,557,368	-
<b>After dilution</b>	<b>1,870</b>	<b>615,990,584</b>	<b>3.04</b>

Pursuant to IAS 33 – *Earnings per share*, the dilutive effect of the capital increase with preferential subscription rights carried out on June 25, 2009, has been taken into account retrospectively for the 2009 fiscal year.

## NOTE 14 - Share-based compensation, performance shares and Employee share ownership Plan

### PERFORMANCE SHARES

#### Plan characteristics

Since the Shareholders' Combined Ordinary and Extraordinary General Meeting of April 22, 2010, the Board of Directors is authorized to grant Danone shares to certain Group executives and senior managers. These grants are subject to performance conditions adapted to the specific nature of the Group's activity being achieved, namely consolidated sales and free cash flow growth over two consecutive years at constant scope and exchange rates. The share allocations now replace the stock purchase options that the Board of Directors was authorized to grant before.

If the performance conditions are satisfied, the share allocations become definitive and are delivered in the form of Company shares following a vesting period of three to four years, to which a holding period of two years may be added during which the acquired shares may not be sold.

Under the authorization granted by the Shareholders' Combined Ordinary and Extraordinary General Meeting of April 22, 2010, the Board of Directors of July 26, 2010, granted 644,565 performance shares.

As of December 31, 2010, the main characteristics of the performance share plans are presented in the table below:

Date of Shareholders' General Meeting	Number of authorized performance shares <sup>(1)</sup>	Number of performance shares granted	Initial grant		Acquired shares
			Number of performance shares lapsed or forfeited as of December 31, 2010	Number of performance shares potentially acquired <sup>(2)</sup> as of December 31, 2010	Number of performance shares actually acquired as of December 31, 2010
April 22, 2010	2,587,963	644,565	(3,359)	641,206	-

(1) Authorized as a % of statutory capital.

(2) Performance shares not yet vested for which the performance conditions were satisfied on December 31 (their acquisition will only occur after the vesting period expires).

As of December 31, 2010, a total of 1,943,398 performance shares were still eligible for allocation under the authorization granted by the Shareholders' General Meeting of April 22, 2010.

## CHANGE IN THE NUMBER OF SHARES IN ISSUE

Changes during the year were as follows:

(Number of shares)	2009	2010
<b>Balance as of January 1</b>	-	-
Performance shares granted	-	644,565
Performance shares vested	-	0
Performance shares forfeited/lapsed	-	(3,359)
<b>BALANCE AS OF DECEMBER 31</b>	-	<b>641,206</b>

As indicated in Note 1.22, performance shares granted to employees are measured at fair value as of the plan allocation date, based on assumptions determined by management. Performance shares allocated in 2010 were valued on the basis of the following assumptions:

<b>French plan</b>	<b>2010</b>
Risk-free interest rate	1.35%
Expected life	3 years
Expected resale restriction period	2 years
Refinancing rate	4.8%
Expected dividend (increase per year)	increase by 10%
<b>International plan</b>	<b>2010</b>
Risk-free interest rate	1.35%
Expected life	4 years
Expected resale restriction period	-
Refinancing rate	4.8%
Expected dividend (increase per year)	increase by 10%

The risk-free interest rate corresponds to the iBoxx index for maturities of 1 to 3 years in the euro zone. The refinancing rate corresponds to the employees' borrowing rate during the period.

The weighted average value of the shares allocated in 2010 was € 39.61 per share.

## STOCK PURCHASE OPTIONS

### Plan characteristics

Up until the Shareholders' Combined Ordinary and Extraordinary General Meeting of April 22, 2010, the Board of Directors was authorized to grant Danone stock purchase options to certain Group executives and senior managers. These options were granted with an exercise price that could not be lower than the minimum price authorized under French law, they vested after a period of between two and four years and expired no later than eight years from the grant date.

The main characteristics of the option plans as of December 31, 2010 are as follows, after taking into account:

- the two-for-one stock splits that occurred in June 2000, June 2004 and June 2007;
- adjustments made (subsequent to the capital increase on June 25, 2009) on the one hand retrospectively, to the number of purchase options, and on the other hand, to the exercise prices of the plans in existence at that date. The adjustment coefficient was determined (in accordance with Article L. 225-149-1 of the French Commercial Code) by comparing Danone's stock price of € 46.33 before detachment of the preferential subscription rights attached to the capital increase with the price of € 43.71 after detachment of this right.

Date of Shareholders' General Meeting	Number of authorized options <sup>(1)</sup>	Number of options granted	Adjusted exercise price (In €)	Number of options lapsed or forfeited as of December 31, 2010	Number of options exercised as of December 31, 2010	Number of outstanding options as of December 31, 2010
May 29, 2001	8,000,000	7,850,678	27.9 – 33.4	1,024,716	6,152,828	673,134
April 11, 2003	8,000,000	6,612,085	30.2 – 35.4	660,688	2,007,334	3,944,063
April 22, 2005	6,000,000	4,772,226	39.0 – 57.5	455,164	2,120	4,314,942
April 26, 2007	6,000,000	5,854,441	34.9 – 56.6	626,253	-	5,228,188
April 23, 2009	6,000,000	20,400	40.9	1,200	-	19,200

(1) The number of options authorized has not been adjusted by the coefficient mentioned above.

The capital increase on June 25, 2009 and changes made to the stock option plans in existence at that date had no impact on the expense determined according to IFRS 2 *Share-based Payments* for these plans.

The Shareholders' General Meeting decided that the authorization to grant performance shares (see above) cancelled, with respect to the currently unused portion, the authorization given by the Shareholders' General Meeting of April 23, 2009 in its 30<sup>th</sup> resolution to grant stock purchase and/or subscription options.

As of December 31, 2010, outstanding options can be detailed as follows:

Range of exercise price	Number of options	Average remaining life (In number of years)	Outstanding		Exercisable	
			Weighted average exercise price (In €)	Number of options	Weighted average exercise price (In €)	Number of options
€ 27 to € 32	2,812,869	1.1	30.8	2,812,869	30.8	
€ 33 to € 39	4,346,339	4.6	35.1	4,346,339	35.1	
€ 40 to € 48	1,919,390	3.4	46.8	70,009	42.6	
€ 49 to € 58	5,100,929	4.8	55.7	-	-	
	<b>14,179,527</b>			<b>7,229,217</b>		

The average price of DANONE shares in 2010 was € 44.09.

## CHANGE IN OUTSTANDING OPTIONS

Changes in outstanding options were as follows:

<i>(Number of options)</i>	<b>2009</b>	<b>2010</b>
<b>Balance as of January 1</b>	<b>14,939,198</b>	<b>16,562,462</b>
Options granted	2,571,920	-
New options granted following capital increase	1,049,443	-
Options exercised	(863,324)	(1,815,368)
Options forfeited/lapsed	(1,134,775)	(567,567)
<b>Balance as of December 31</b>	<b>16,562,462</b>	<b>14,179,527</b>

## VALUATION OF STOCK OPTION PLANS

The 2010 expense for stock purchase option plans was € 25 million (€ 28 million in 2009), and the 2010 expense with respect to performance shares was € 3 million. These expenses are recorded on the consolidated income statement under "Other income (expenses)" and as a counterpart of the "Retained earnings" line on the consolidated balance sheet.

## COMPANY SHARE SAVINGS PLAN

Employees of the Group's French entities can, on an annual basis, purchase new shares of the Company as part of a company share savings plan. The purchase price of the shares corresponds

to 80% of the average Danone stock price over the 20 days preceding the meeting of the Board of Directors that approves the plan. The benefit granted to the employees is calculated based on the grant date fair value of the shares, taking into account the restriction on these shares over a 5-year period and the market parameters that are applicable to employees, in particular the borrowing rate. In 2010, 930,990 new shares were issued through a share capital increase, the fair value of the shares was calculated based on a Danone stock price of € 42.11, a 2.47% risk-free interest rate and a 4.8% employees' 5-year borrowing rate. This accounting treatment is compliant with the notice issued by the French National Accounting Council (*Conseil National de la Comptabilité* – CNC) on December 21, 2004.

## NOTE 15 - Financial market risks and derivatives

In the course of its business activities, the Group is more or less exposed to foreign exchange risks, financing and liquidity risks, and interest rate risks, on certain operations as well as counterparty and credit risks (the nature of the impact of these risks is described in the management report). The Group has set up a risk management policy covering these risks for which the implementation is described below. The Group is also exposed to price volatility and a potential shortage of commodities that it purchases, mainly to produce its finished products. To manage this exposure, the Group has implemented a commodity purchasing policy, "*Market Risk Management*". The impact of a price change in the main category of commodities on the Group's annual cost of purchases is presented below in the section headed, "Commodities risk."

### FOREIGN EXCHANGE RISK

#### Risk exposure related to operations

Sales and operating expenses of the Group's Fresh Dairy Products and Waters subsidiaries are mainly denominated

in the local currency of each subsidiary's country. However, some imports, notably raw materials and finished goods, and some exports may be denominated in another currency and are subject to hedging. Moreover, due to the limited number of units of production in the world, the subsidiaries of the Medical Nutrition and Baby Nutrition business lines frequently make use of intra-group imports denominated in currencies other than their functional currencies. These other currencies are also subject to hedging. The Group's policy consists of significantly reducing the foreign currency exposure caused by its commercial operations that are highly probable and denominated in foreign currencies, whose impact is mainly limited to a single fiscal year.

To reduce its exposure to exchange rate risk related to operations, the Group also makes use of forward currency contracts and *plain vanilla* options on currencies. As of December 31, 2010, the main currencies involved are the U.S. dollar, British pound, Japanese yen, Mexican peso, Russian ruble and Turkish lira.

Based on pending transactions as of December 31, 2010, the Group's residual exposure (after hedging of exchange risks on its highly probable commercial operating transactions) is significantly reduced for 2011.



**Portfolio of foreign exchange derivative financial instruments related to operations**

The following table shows the net notional amount of the derivative financial instruments set up to manage the foreign exchange risk related to operations for the Group's main currencies outstanding as of the end of 2010 and 2009. As of December 31, 2010 and 2009, the majority of these instruments qualified as cash flow hedges according to IAS 39.

(In € millions)	Year ended December 31											
	2009						2010					
(Sales)/Purchases of currencies	USD <sup>(3)</sup>	GBP	JPY	MXN <sup>(3)</sup>	RUB <sup>(3)</sup>	TRY <sup>(3)</sup>	USD <sup>(3)</sup>	GBP	JPY	MXN <sup>(3)</sup>	RUB <sup>(3)</sup>	TRY <sup>(3)</sup>
Net forward contracts <sup>(1)</sup>	346	(224)	(5)	(118)	(152)	(92)	280	(189)	(7)	(140)	(115)	(95)
Currency options, net <sup>(2)</sup>	–	(185)	(288)	–	–	–	(15)	(263)	(179)	–	–	–
<b>TOTAL</b>	<b>346</b>	<b>(409)</b>	<b>(293)</b>	<b>(118)</b>	<b>(152)</b>	<b>(92)</b>	<b>265</b>	<b>(453)</b>	<b>(186)</b>	<b>(140)</b>	<b>(115)</b>	<b>(95)</b>

(1) Notional amount based on closing spot rates.

(2) Notional amount based on the strike price. Includes in- and out-of-the-money options.

(3) Transactions denominated with the euro or other currencies as counterpart.

**Sensitivity of equity and net income to changes in the fair value of derivative financial instruments related to operations**

A change in the fair value of the derivative financial instruments hedging the operating foreign exchange risk, induced by a change

in foreign exchange rates, could impact the Group's equity and net income: the impact recognized in profit or loss relate to the time value and swap point variations when they are excluded from the hedging relation, as well as to transactions to which hedge accounting is not applied.

A 10% fluctuation of the euro against the following currencies as of the closing date, applied to outstanding transactions, would have resulted in an increase (decrease) in equity and net income of the Group by the following amounts (at constant volatility and interest rates):

(In € millions)	Equity		Gain (loss)	
	10% increase in euro	10% decrease in euro	10% increase in euro	10% decrease in euro
<b>As of December 31, 2010</b>				
USD <sup>(1) (2)</sup>	15	(15)	(1)	(1)
GBP	41	(29)	(5)	(3)
JPY	12	(17)	2	0
MXN <sup>(1) (2)</sup>	2	(2)	0	(0)
RUB <sup>(1) (2)</sup>	9	(11)	0	(0)
TRY <sup>(1) (2)</sup>	8	(9)	0	(0)
<b>As of December 31, 2009</b>				
USD <sup>(1) (2)</sup>	3	(3)	(1)	1
GBP	35	(29)	(2)	(5)
JPY	23	(25)	(0)	(3)
MXN <sup>(1) (2)</sup>	1	(1)	0	(0)
RUB <sup>(1) (2)</sup>	12	(15)	1	(1)
TRY <sup>(1) (2)</sup>	7	(9)	0	(0)

(1) In the case of transactions denominated in currencies other than the euro, the increase or decrease in the euro is applied simultaneously to the base currency and the secondary currency.

(2) Transactions denominated with the euro or other currencies as counterpart.

These instruments and the hedged items typically have maturities of less than 1 year. Consequently the cash flows will for the most part be reflected in the income statement in 2011.

### Exchange rate risk exposure related to financings

The Group's policy consists of maintaining the debt and/or surplus cash of Danone and its subsidiaries in their respective functional currencies. Furthermore, in compliance with its policy of managing risks centrally, the Group may manage multi-currency borrowings and surplus cash. Certain loans denominated in foreign currencies are therefore hedged through cross-currency swaps.

As of December 31, 2010 and 2009, the notional amount of these instruments totaled € 501 million and € 590 million, respectively. The majority of them qualified as fair value hedges under IAS 39.

A change in the fair value of the derivative financial instruments hedging the foreign exchange risk related to financings, induced by a change in foreign exchange rates, would not have a significant impact on the Group's equity or net income (changes in the fair value of such financial instruments are offset by changes in the fair value of the loans in hedged currencies).

### Exposure to foreign exchange translation risk and foreign exchange risk on assets

#### Foreign exchange translation risk on assets

The Group's policy consists in hedging the net equity of certain subsidiaries whose functional currency is not the euro. The Group hedges primarily through local borrowings but also through cross-currency swaps. The main currencies are the Chinese yuan and the Japanese yen.

The total nominal amounts outstanding as of December 31, 2010 and 2009 were € 585 million and € 665 million, respectively. These outstanding transactions qualified as net foreign investment hedges under IAS 39.

A change in the fair value of the derivative financial instruments hedging the net foreign investments, induced by a change in

foreign exchange rates at the closing date, would not have a significant impact on the Group's equity or net income (changes in the foreign exchange rates of the financial instruments are offset by changes in the foreign exchange rates on net foreign investments).

### INTEREST RATE RISK

#### Interest rate risk exposure

The interest rate risk is notably induced by the Group's interest-bearing debt. After the foreign exchange risk has been managed, it is mainly denominated in euros and managed centrally. The interest rate risk management policy is determined by the Group's General Management based on indicators and expected interest rate trends, with the aim of minimizing volatility of the Group's financial result. The Group uses derivative financial instruments in addition to loans occasionally maintained at fixed rates to reduce its exposure to short-term interest rate fluctuations. These derivatives are mainly interest rate swaps and caps and sometimes collars. All these instruments are plain vanilla.

#### Sensitivity of net income to changes in the cost of net debt resulting from changes in short-term interest rates

As of December 31, 2010, 74% of the Group's consolidated gross debt, or 122% of the consolidated net debt <sup>(1)</sup> after taking into account interest rate hedges in effect and active <sup>(2)</sup>, is hedged against an increase in short-term interest rates. The impact on the cost of debt, calculated over a full year, of a change in the short-term interest rate applied to the net debt at year-end, after taking into account the interest rate hedges at that date, is presented in the table below:

(In € millions)	Gain (loss)	
	Increase of 50 bp	Decrease of 50 bp
<b>AS OF DECEMBER 31, 2010</b>	<b>3</b>	<b>(3)</b>
<b>AS OF DECEMBER 31, 2009</b>	<b>(5)</b>	<b>5</b>

(1) The net debt used to measure the Group's exposure to changes in interest rates corresponds to financial debt net of marketable securities and cash and cash equivalents. It excludes financial liabilities linked to put options granted to non-controlling interests.

(2) Includes (i) fixed-rate borrowings, (ii) interest rate swaps (net) as well as (iii) active option hedges. An option hedge is considered to be active when it is in the money if the increase in the short-term rates does not exceed 50 bp compared to interest rates as of closing date.

### Sensitivity of equity and net income to changes in fair value of interest rate derivatives

As of December 31, 2010 and 2009, interest rate derivatives were all contracted for the purpose of managing interest rate risk and either qualify as hedges or not under IAS 39.

A change in the fair value of interest rate derivatives induced by a change in the yield curve recognized as of the reporting date

would have the following impact on the Group's equity and net income:

- impacts recognized in other comprehensive income relate to the effective portion of the instruments qualifying as hedges of future cash flows;
- impacts recognized in profit or loss relate to the ineffective portion of the instruments qualifying as hedges of future cash flows, as well as to the impact of the change in fair value of the instruments not qualifying as hedges.

A change of 50 basis points in interest rates applied to the entire yield curve as of the reporting date and applied to outstanding transactions as of December 31, 2010 and 2009 would have resulted in an increase (decrease) in equity and net income of the following amounts (at constant foreign exchange rates and volatility):

(In € millions)	Equity		Gain (loss)	
	Increase of 50 bp	Decrease of 50 bp	Increase of 50 bp	Decrease of 50 bp
<b>AS OF DECEMBER 31, 2010</b>				
Interest rate options <sup>(1)</sup>	–	–	–	–
Interest rate swaps <sup>(2)</sup> , other	6	(4)	–	–
<b>Sensitivity, net</b>	6	(4)	–	–

(1) Caps and Capspreads.

(2) Fixed-rate payer and receiver swaps.

(In € millions)	Equity		Gain (loss)	
	Increase of 50 bp	Decrease of 50 bp	Increase of 50 bp	Decrease of 50 bp
<b>AS OF DECEMBER 31, 2009 <sup>(1)</sup></b>				
Interest rate options <sup>(2)</sup>	–	–	–	–
Interest rate swaps <sup>(3)</sup> , other	6	(7)	1	(2)
<b>Sensitivity, net</b>	6	(7)	1	(2)

(1) A change of 50 bp in short-term interest rates was applied to the current year because short-term interest rates were below 100 bp.

(2) Caps.

(3) Fixed-rate payer and receiver swaps.

As of December 31, 2010, these derivative financial instruments had a negative fair value of € 6 million, compared with a positive fair value of € 42 million as of December 31, 2009.

## LIQUIDITY RISK

### Liquidity risk exposure

The Group's liquidity risk is mainly induced by the maturity of its (i) interest-bearing debt (bonds, bank borrowings, etc.) and (ii) non-interest-bearing debt (liabilities linked to the put options granted to non-controlling interests), as well as by payment flows relating to derivative financial instruments.

The Group's financing policy consists of reducing its liquidity risk exposure by (i) borrowing from diversified financing sources, (ii) arranging a significant portion of its financing as medium-term financing, (iii) maintaining financing sources available at any time, and (iv) ensuring that it is not subject to any covenants related to the maintenance of financial ratios. Exceptionally and temporarily, these rules cannot always be fully applied in countries where centralized or medium-term financing are not available or, in some cases, when the existing financing agreements at a company predate the control obtained by the Group.

The Group's financing structure and financial security are mainly comprised of:

- bank financing:
  - a committed syndicated revolving credit facility entered into in December 2007 in order to finance the acquisition of Numico, for a principal amount of € 4 billion consisting of two tranches: a first tranche, with a principal amount of € 2.3 billion that expired in December 2010 and a second tranche for a principal amount of € 1.7 billion expiring in December 2012. As of December 31, 2010, the Group had not drawn any amount of this remaining tranche,
- available committed credit facilities: a portfolio of back-up facilities entered into with major credit institutions, with maturity dates between one and five years, amounting to € 3 billion in principal. As of December 31, 2010 and 2009, the Group had not drawn any amount under these credit facilities. Overall, the Group had committed credit facilities totaling € 4.7 billion as of December 31, 2010, which were unused as of that date;
- debt and capital markets financing:
  - EMTN (*Euro Medium Term Note*) bond financing: a program with a principal amount of € 7 billion (of which € 3,196 million had been drawn as of December 31, 2010),
  - French Commercial Paper : a program with a principal amount of € 3 billion (of which € 657 million had been drawn as of December 31, 2010);
  - cash and marketable securities (mainly negotiable debt instruments) amounting to € 2.2 billion as of December 31, 2010, compared with € 1.1 billion as of December 31, 2009.

The aforementioned syndicated credit facility, certain bond issues under the EMTN program (as of its renewal in 2007) and certain available unused credit facilities include a change of control provision.

None of the financing sources are subject to any covenants relating to the maintenance of financial ratios.

In addition, as of December 31, 2010, debt issues by the Company, with a maturity of more than one year are rated as A3/Stable by Moody's and A-/Stable by Standard & Poor's. Issuances of French commercial paper are rated A2 by Standard & Poor's.

### Liquidity risk measurement

Projected cash outflows linked to the contractual repayment of the principal amount and contractual interest payments on the financial assets and liabilities, including premiums to be paid on derivative financial instruments, recognized in the Group's consolidated balance sheet as of December 31, 2010, are presented below with their contractual maturity dates and based on the assumption of non-renewal:

<i>(In € millions)</i>	<b>Carrying amount on consolidated balance sheet at December 31, 2010</b>	<b>Contractual cash flows 2011</b>	<b>Contractual cash flows 2012</b>	<b>Contractual cash flows 2013</b>	<b>Contractual cash flows 2014</b>	<b>Contractual cash flows 2015 and after</b>	<b>Contractual cash flows of which the date is unknown<sup>(6)</sup></b>
Bonds <sup>(1)</sup>	3,373	(894)	(210)	(267)	(719)	(1,283)	–
Derivative financial instruments – liabilities (fair value) <sup>(3) (4)</sup>	147	(147)		–	–	–	–
Accrued interest	84	(84)	–	–	–	–	–
Bank financing – subsidiaries and others <sup>(2)</sup>	1,296	(1,296)	–	–	–	–	–
Commercial Paper <sup>(1) (5)</sup>	657	(657)	–	–	–	–	–
Finance lease commitments <sup>(2) (3)</sup>	60	(15)	(29)	(5)	(3)	(8)	–
<b>Total financing (before flows of financial instruments other than accrued interest)</b>	<b>5,617</b>	<b>(3,093)</b>	<b>(239)</b>	<b>(272)</b>	<b>(722)</b>	<b>(1,291)</b>	<b>–</b>
Liabilities related to put options granted to non-controlling interests <sup>(6)</sup>	3,858	–	–	–	–	–	(3,858)
<b>Total debt (before flows of financial instruments other than accrued interest)</b>	<b>9,475</b>	<b>(3,093)</b>	<b>(239)</b>	<b>(272)</b>	<b>(722)</b>	<b>(1,291)</b>	<b>(3,858)</b>
Interest on above-mentioned debt <sup>(3) (7)</sup>		(139)	(99)	(96)	(94)	(91)	–
Flows on derivative financial instruments <sup>(3) (4) (6) (7)</sup>		(106)	(59)	(8)	–	1	–

(1) Contractual nominal flows.

(2) Contractual nominal and interest flows.

(3) The floating interest rate is calculated on the basis of the rates applicable as of December 31, 2010.

(4) Net contractual flows, including premiums payable, net flows payable or receivable relating to the exercise of options in the money at the year-end.

(5) The Commercial Paper issuances are backed-up by available confirmed credit lines. See table below.

(6) These options can be exercised at dates specified in section "Financial liabilities linked to put options granted to non-controlling interests".

(7) Interest flows are net of accrued interest taken into account in the subtotals above.

The sources of financing available at any time established by the Group are mainly composed of back-up facilities. Changes in the amount available on the basis of outstanding transactions as of December 31, 2010 are shown in the table below:

<i>(In € millions)</i>	<b>Amount available as of December 31, 2010</b>	<b>Amount available as of December 31, 2011</b>	<b>Amount available as of December 31, 2012</b>	<b>Amount available as of December 31, 2013</b>	<b>Amount available as of December 31, 2014</b>	<b>Amount available as of December 31, 2015 and after</b>
Bank financing lines <sup>(1)</sup>	4,724	4,350	1,600	650	650	–
Other bank financing lines <sup>(2)</sup>	433	–	–	–	–	–

(1) Nominal amount of the portion of the syndicated facility and back-up credit lines not drawn as of December 31, 2010.

(2) Nominal amount of the portion not drawn as of December 31, 2010.

## COUNTERPARTY AND CREDIT RISK

### Exposure to counterparty risk

The Group's overall exposure to counterparty risk has been significantly reduced through the centralization of financial risks and implementation of centralization applications as well as its cash management policy of minimizing and managing surpluses.

The Group's banking policy aims to give greater importance to its counterparties' credit rating quality by concentrating its transactions among counterparties that (i) are first class: their credit ratings as of December 31, 2010 and 2009 were at least in the Single A category; (ii) possess international networks and (iii) provide financing. Nevertheless, in certain countries, the Group may be obliged to conduct transactions with local banks that have lower credit ratings, although the amount concerned is not significant in terms of the Group's limits.

The Group's exposure with regard to its bank counterparties and arising from the interest rate derivatives and cross currency swaps (net exposure, for each of the banks, in relation to the interest rate derivatives and cross currency swaps) as of December 31, 2010 can be broken down by credit rating category as follows:

(% of total fair value as of December 31) <sup>(1)</sup>	2009	2010
Counterparty's rating (Standard & Poor's)		
AAA	–	–
AA	29%	31%
A	71%	69%

(1) Net amount, when positive, of the positive and negative fair values by counterparty, of the outstanding interest rate derivatives and currency swaps as of December 31.

The Group's exposure with regard to its bank counterparties and arising from the exchange rate derivatives hedging operational foreign exchange risk (net exposure, for each of the banks, in relation to exchange rate derivatives) as of December 31, 2010 can be broken down by credit rating category as follows:

(% of total fair value as of December 31) <sup>(1)</sup>	2009	2010
Counterparty's rating (Standard & Poor's)		
AAA	–	–
AA	–	9%
A	100%	91%

(1) Net amount when positive, of the positive and negative fair values by counterparty, of the outstanding foreign exchange rate derivatives as of December 31.

### Exposure to credit risk

Credit risk represents the risk of financial loss for the Group if a customer or counterparty should fail to meet its contractual payment obligations. The customer payment time is generally 30 days and the main customers are essentially in the mass retail sector where the credit risk is considered low. The percentage of overdue trade receivables for which no impairment charge has been recorded is listed in Note 11.

## RISK ON SHARES

### Risk on Treasury Shares

As of December 31, 2010, the Company held directly or indirectly 35,994,528 treasury shares for a total value of € 1,225 million. The comparable 2009 figures were 33,507,225 treasury shares and € 1,027 million. The treasury shares are shown as a deduction from consolidated equity for the amount of their cost price.

**Risk on other shares**

As of December 31, 2010, investments in non-consolidated companies included listed shares with a market value reflected in the consolidated balance sheet of € 125 million. These shares mainly include the Group's holdings in SNI (formerly ONA), following the disposal of its 18.4% holding in Wimm-Bill-Dann announced on October 28, 2010 (see Note 7 to the consolidated financial statements).

**COMMODITIES RISK**

Sensitivity of net income to changes in prices of the main category of commodities: milk and milk-based ingredients. The table below measures the impact of changes in the annual cost of purchases of milk and milk-based ingredients (1) on the Group's operating income for 2009 and 2010, assuming a 5% increase or decrease in the prices for these items, simultaneously in all countries where the Group has production activities.

<i>(In € millions)</i>	Gains (losses)	
	<b>Increase of 5%</b>	<b>Decrease of 5%</b>
<b>As of December 31, 2010</b>		
Fluid milk, powdered milk and other milk-based ingredients	(107)	107
<b>As of December 31, 2009</b>		
Fluid milk, powdered milk and other milk-based ingredients	(90)	90

(1) Based on the quantities effectively purchased during the fiscal year and average prices during the fiscal year.

## RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET BY CLASS AND ACCOUNTING CATEGORY

<i>(In € millions)</i>	Assets recorded at fair value	Assets held for sale	Loans and financial assets	Liabilities recorded at fair value	Liabilities recorded at amortized cost	Carrying amount in consolidated balance sheet	Fair value	Fair value level
<b>As of December 31, 2010</b>								
Equity interests	–	125	–	–	–	125	125	1
Long-term loans	–	–	42	–	–	42	42	–
Derivative financial instruments – assets	236	–	–	–	–	236	236	2
Trade receivables <sup>(2)</sup>	–	–	1,924	–	–	1,924	1,924	–
Other receivables <sup>(2)</sup>	–	–	768	–	–	768	768	–
Short-term loans <sup>(2)</sup>	–	–	24	–	–	24	24	–
Marketable securities	–	1,111	–	–	–	1,111	1,111	1
Cash and cash equivalents	1,054	–	–	–	–	1,054	1,054	1
<i>Financing</i>	–	–	–	(678)	(4,792)	(5,470)	(5,658)	2
<i>Derivative financial instruments – liabilities</i>	–	–	–	(147)	–	(147)	(147)	2
Financial debt <sup>(1)</sup>	–	–	–	(825)	(4,792)	(5,617)	(5,805)	–
Liabilities related to put options granted to non-controlling interests	–	–	–	(3,858)	–	(3,858)	(3,858)	3
Trade payables <sup>(2)</sup>	–	–	–	–	(2,417)	(2,417)	(2,417)	–
Other current liabilities <sup>(2)</sup>	–	–	–	–	(2,239)	(2,239)	(2,239)	–
<b>Carrying amount of the categories</b>	<b>1,290</b>	<b>1,236</b>	<b>2,758</b>	<b>(4,683)</b>	<b>(9,448)</b>	<b>(8,847)</b>	<b>(9,035)</b>	
<b>As of December 31, 2009</b>								
Equity interests	–	521	–	–	–	521	521	1
Long-term loans	–	–	27	–	–	27	27	–
Derivative financial instruments – assets	134	–	–	–	–	134	134	2
Trade receivables <sup>(2)</sup>	–	–	1,682	–	–	1,682	1,682	–
Other receivables <sup>(2)</sup>	–	–	645	–	–	645	645	–
Short-term loans <sup>(2)</sup>	–	–	41	–	–	41	41	–
Marketable securities	–	454	–	–	–	454	454	1
Cash and cash equivalents	644	–	–	–	–	644	644	1
<i>Financing</i>	–	–	–	(1,024)	(3,645)	(4,669)	(4,669)	2
<i>Derivative financial instruments – liabilities</i>	–	–	–	(57)	–	(57)	(57)	2
Financial debt <sup>(1)</sup>	–	–	–	(1,081)	(3,645)	(4,726)	(4,726)	–
Liabilities related to put options granted to non-controlling interests	–	–	–	(3,068)	–	(3,068)	(3,068)	3
Trade payables <sup>(2)</sup>	–	–	–	–	(1,981)	(1,981)	(1,981)	–
Other current liabilities <sup>(2)</sup>	–	–	–	–	(2,173)	(2,173)	(2,173)	–
<b>Carrying amount of the categories</b>	<b>778</b>	<b>975</b>	<b>2,395</b>	<b>(4,149)</b>	<b>(7,799)</b>	<b>(7,800)</b>	<b>(7,800)</b>	

(1) Including finance lease liabilities.

(2) Fair value corresponds to book value as those elements are short term.



In accordance with IFRS 7 *Financial Instruments: Disclosures*, valuation levels shown in this table can be defined as follows :

- level 1: fair value based on (non-adjusted) quotations on active markets relating to identical assets and liabilities;

- level 2: fair value based on other data than quotations as per level 1, which is observable for the concerned asset or liability, directly or indirectly;
- level 3: fair value based on data relating to the asset or liability which is not based on observable data on active markets.

## INCOME AND EXPENSES RELATING TO DERIVATIVE FINANCIAL INSTRUMENTS HEDGING FUTURE CASH FLOWS

The recognition of the fair value of derivative financial instruments qualifying as future cash flow hedges has the following impact on the Group's income statement:

(In € millions)	Year ended December 31	
	2009	2010
Change in fair value of instruments classified as cash flow hedges - ineffective portion <sup>(1) (2)</sup>	(25)	(4)
Cash flow hedges – effective portion deferred to equity in prior period and recognized in profit or loss during current period <sup>(3) (4)</sup>	157	(98)

(1) Effect on financial income.

(2) Includes changes in (i) the time value of currency options and interest rate options and (ii) the deferral/recognition of currency swaps excluded from hedging.

(3) Effect on operating income or financial income.

(4) Includes (i) the effective portion of forward foreign exchange transactions and interest rate hedges and (ii) the intrinsic value of currency options and interest rate options.

## FINANCIAL LIABILITIES LINKED TO PUT OPTIONS GRANTED TO NON-CONTROLLING INTERESTS

As stated in Note 1.17, the exercise price of the put options granted to non-controlling interests is reflected as a non-current financial liability in the consolidated balance sheet. As of December 31, 2010, the non-current financial liabilities relating to these options amounted to € 3,858 million (€ 3,068 million as of December 31, 2009). These financial liabilities do not bear interest.

- The main commitment concerns Danone Spain, for € 2,309 million as of December 31, 2010 (€ 2,401 million as of December 31, 2009). This put option applies to nearly all of the 42.19% equity interest held by the non-controlling interests of Danone Spain.

The formula used to calculate the amount of this commitment is fixed contractually, based on an average of the Spanish subsidiary's earnings over several years, to which a multiple is then applied. In 2010, this commitment decreased by € 48 million due to the purchase of 0.88% of Danone Spain from its non-controlling interests, and by € 44 million following a fair value adjustment as of December 31, 2010, thereby reducing this commitment to € 2,309 million.

This put option was granted for an initial contractual period of 25 years (expiring between November 2016 and February 2017) and may be tacitly renewed for successive five-year periods. Those options are exercisable at any time. In July 2010, the beneficiaries of these put options representing more than 70% of the shares of this subsidiary covered by the option agreed to amended terms under which they pledged to exercise their options only after a one-year prior notification period.

- As part of the acquisition of Unimilk, Danone granted put options to former Unimilk shareholders. Contractually, these put options may be exercised during a period that begins in 2014 and expires on December 31, 2022. They are valued based on an earnings multiple. As of December 31, 2010, the commitment relative to these put options totaled € 754 million.
- Other put options granted to non-controlling interests are exercisable (i) at any time for a cumulative amount of € 592 million and (ii) from 2013, on different dates, for a cumulative amount of € 203 million.

No significant cash outflow is considered probable in the short term with respect to all put options granted to non-controlling interests.

## NOTE 16 - Provisions for retirement obligations

The Group contributes to retirement benefit schemes in conformity with the laws and usual practices of countries where the subsidiaries operate. As a result of contributions paid under such schemes to private or state sponsored pension funds, the Group has no actuarial liability in that respect.

The Group is also responsible for supplementary retirement plans, contractual commitments for termination and retirement indemnities and post-retirement healthcare. The related actuarial commitments are taken into account either through the payment of contributions to externally managed funds or through provisions.

### ACTUARIAL ASSUMPTIONS

To perform the actuarial estimates, basic assumptions have been determined for each country and assumptions specific to the entities have been taken into account, in particular relating to staff turnover. The main actuarial assumptions adopted for the calculation of the commitments are as follows:

	Europe (excluding United Kingdom)		United Kingdom		North America		Asia Pacific		Rest of the World	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Discount rate	1.5% - 11%	3.5% - 10%	5.7%	5.40%	6.15% - 7%	5.65% - 5.8%	1.5% - 11%	1% - 9.25%	6% - 9%	6% - 7.5%
Expected return on plan assets <sup>(1)</sup>	3% - 6.6%	3% - 6.4%	6.26%	6.23%	8.25%	8.25%	9%	9%	8.75%	8.40%
Salary growth rate	2% - 5%	2.8% - 5%	4.4% - 4.8%	3% - 3.9%	4.5%	4.5%	2% - 9%	3% - 9%	4.5%	4% - 4.5%
Retirement age	57- 67 years	55- 67 years	65 years	65 years	62- 63 years	62- 63 years	55- 60 years	55- 60 years	60- 65 years	60- 65 years

(1) The expected rate of return on plan assets is determined using the historical rates of return on the investment portfolio.

For the subsidiaries located in the euro zone, the 2010 discount rate was determined by reference to the iBoxx euro zone index. The iBoxx index used was 4.75% for long-term commitments and 3.50% for short-term commitments. A 0.50% decrease in the discount rate would increase the Group's gross commitment by approximately € 87 million and the expense for the year by approximately € 8 million. Conversely, a 0.50% increase in the discount rate would reduce the Group's gross commitment by

approximately € 59 million and would have no material impact on the annual expense.

The following table reconciles the funded status of the companies' plans with the provision recognized in the consolidated balance sheet as of December 31, 2010 and 2009. The commitments relating to the French subsidiaries are presented separately from the foreign subsidiaries due to their materiality.

(In € millions)	2009		2010	
	France	Other countries	France	Other countries
Defined benefit obligation	321	422	374	488
Fair value of plan assets	(219)	(221)	(222)	(242)
<b>Defined benefit obligation in excess of plan assets</b>	<b>102</b>	<b>201</b>	<b>152</b>	<b>246</b>
Actuarial gains and losses and past service costs	(61)	(23)	(105)	(46)
<b>Net accrued obligation</b>	<b>41</b>	<b>178</b>	<b>47</b>	<b>200</b>

As of December 31, 2010, the projected benefit obligation relating to partially or fully funded plans amounted to € 678 million (€ 591 million as of December 31, 2009). The projected benefit obligation related to the French subsidiaries took into account the

impact of new taxes applicable as of 2010, as provided in the *Loi de Financement de la Sécurité Sociale 2010* (LFSS) (2010 Social Security Funding Act). This impact was treated as a change in the actuarial assumptions.

Changes in provisions for defined benefit plans can be detailed as follows:

<i>(In € millions)</i>	<b>Defined benefit obligation</b>	<b>Fair value of plan assets</b>	<b>Actuarial gains and losses and past service costs</b>	<b>Net accrued obligation</b>
<b>As of January 1, 2009</b>	<b>635</b>	<b>(404)</b>	<b>(23)</b>	<b>208</b>
Net periodic pension cost <sup>(1)</sup> :				
• Service cost	18	–	–	18
• Interest cost	41	–	–	41
• Return on plan assets	–	(22)	–	(22)
• Amortization of actuarial gains and losses and past service costs	–	–	1	1
Payments made to retirees	(40)	24	–	(16)
Contributions to plan assets	–	(24)	–	(24)
Actuarial gains and losses	74	(3)	(63)	8
Translation adjustments	5	(2)	–	3
Others	10	(9)	1	2
<b>As of December 31, 2009</b>	<b>743</b>	<b>(440)</b>	<b>(84)</b>	<b>219</b>

(1) The net periodic cost of retirement plans is recognized under "Other income (expenses)".

<i>(In € millions)</i>	<b>Defined benefit obligation</b>	<b>Fair value of plan assets</b>	<b>Actuarial gains and losses and past service costs</b>	<b>Net accrued obligation</b>
<b>As of January 1, 2010</b>	<b>743</b>	<b>(440)</b>	<b>(84)</b>	<b>219</b>
Net periodic pension cost <sup>(1)</sup> :				
• Service cost	23	–	–	23
• Interest cost	40	–	–	40
• Return on plan assets	–	(23)	–	(23)
• Amortization of actuarial gains and losses and past service costs	0	–	6	6
Payments made to retirees	(50)	32	–	(18)
Contributions to plan assets	–	(18)	–	(18)
Actuarial gains and losses	91	(7)	(72)	12
Translation adjustments	11	(4)	(1)	6
Other	5	(4)	–	1
<b>As of December 31, 2010</b>	<b>863</b>	<b>(464)</b>	<b>(151)</b>	<b>248</b>

(1) The net periodic cost of retirement plans is recognized under "Other income (expenses)".

The Group's investment policy for plan assets depends, for each company, upon the employees' age structure and the expected return on the different categories of assets. As of December 31, 2010, plan assets comprised of approximately

58% of debt securities and 24% of equity securities. The plan assets do not comprise any financial instruments issued by the Group. In addition, the actual average return on plan assets in France was 5.05% in 2010.

Changes in the commitments provisioned on the consolidated balance sheet since 2006 were as follows:

<i>(In € millions)</i>	<b>December 31, 2006</b>	<b>December 31, 2007</b>	<b>December 31, 2008</b>	<b>December 31, 2009</b>	<b>December 31, 2010</b>
Defined benefit obligation	552	684	635	743	863
Fair value of plan assets	(339)	(443)	(404)	(440)	(464)
Actuarial gains and losses and past service costs	(66)	(51)	(23)	(84)	(151)
<b>Net accrued obligation</b>	<b>147</b>	<b>190</b>	<b>208</b>	<b>219</b>	<b>248</b>

The amount of contributions to be made to plan assets in 2011 is estimated to be around € 14 million.

Moreover, the total amount of contributions paid into defined contribution plans in 2010 was € 21 million (compared with € 23 million as of December 31, 2009).

## NOTE 17 - Other non-current liabilities

<i>(In € millions)</i>	<b>2009</b>	<b>Increase</b>	<b>Decrease (utilized)</b>	<b>Decrease (not utilized)</b>	<b>Others</b>	<b>Translation adjustment</b>	<b>2010</b>
Restructuring provisions	34	22	(26)	(6)	–	1	25
Other provisions for risks and charges	552	135	(119)	(108)	38	11	509
Investment subsidies	8	4	(3)	–	–	–	9
<b>TOTAL</b>	<b>594</b>	<b>161</b>	<b>(148)</b>	<b>(114)</b>	<b>38</b>	<b>12</b>	<b>543</b>

Other provisions for risks and charges mainly include financial and tax liabilities, as well as certain “damage and healthcare” provisions.

Provisions are recorded when a loss appears probable and quantifiable, in particular when legal proceedings are instituted against the Company or its subsidiaries in the normal course of business. Provisions are reversed when payments are made in respect of them or the risk is deemed to no longer exist.

Decrease in provisions not utilized related mainly to re-estimated tax risks or risks that have ceased to exist.

The other changes reflect changes in scope, including Unimilk for € 30 million.

As of December 31, 2010, the short-term portion of other non-current liabilities amounted to € 30 million (compared with € 34 million as of December 31, 2009).

## NOTE 18 - Trade payables – Other current liabilities

### TRADE PAYABLES

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
Trade account payables	1,945	2,372
Notes payable	36	45
<b>TOTAL</b>	<b>1,981</b>	<b>2,417</b>

The fair value of trade payables is considered to be close to their carrying amount given their short-term maturities.

The increase in trade payables in 2010 is mainly explained by the increase in activity and by changes in scope (including Unimilk impact of € 52 million).

**OTHER CURRENT LIABILITIES**

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
Personnel, including social charges	433	471
Year-end rebates payable to customers	831	862
State and local authorities	169	157
Refundable containers	78	86
Taxes payable	180	175
Prepayments from customers	3	5
Financial instruments	53	44
Others	426	439
<b>TOTAL</b>	<b>2,173</b>	<b>2,239</b>

The line item "Financial instruments" represents derivative financial instruments hedging foreign exchange risk.

The fair value of other current liabilities is considered to be equal to their carrying amount given their short-term maturities.

**NOTE 19 - Personnel and compensation**

Group personnel costs (including payroll taxes and related charges) amounted to € 2,506 million in 2010 (€ 2,253 million in 2009).

As of December 31, 2010 and 2009, the number of employees of the consolidated entities could be broken down as follows:

	<b>2009</b>	<b>2010</b>
Europe	29,710	45,985
Asia	23,136	24,638
Rest of the World	28,130	30,371
<b>TOTAL</b>	<b>80,976</b>	<b>100,995</b>

The increased number of employees in 2010 is mainly attributable to changes in scope following the integration of Unimilk (15,922 additional employees).

## NOTE 20 - Other income (expenses)

Other income (expenses) can be broken down as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
Employee profit-sharing <sup>(1)</sup>	(98)	(105)
Stock-based compensation	(28)	(28)
Capital gains on disposal of property, plant and equipment and intangible assets	52	28
Restructuring costs	(51)	(31)
Others	(40)	29
<b>TOTAL</b>	<b>(165)</b>	<b>(107)</b>

(1) For French companies only. Various company functions are entitled to such compensation.

In 2010, capital gains on the disposal of intangible assets and property, plant and equipment resulted mainly from the sale of buildings.

In 2009, capital gains on the disposal of intangible assets and property, plant and equipment resulted from the sale of the

international brands *V* and *Mizone* (except in China and Indonesia) in connection with the sale of Frucor (€ 45 million net).

The line "Others" mainly comprises the scrapping of property, plant and equipment, translation adjustments (refer to Note 1.3) and other non-significant items.

## NOTE 21 - Other operating income (expenses)

In 2010, other operating expenses of €(80) million corresponded mainly to (i) restructuring costs for Tikvesli (Fresh Dairy Products – Turkey) in the amount of €(50) million and (ii) acquisition- and integration-related expenses for Unimilk in the amount of €(28) million.

In 2009, net other operating income totaling € 217 million corresponded mainly to (i) capital gains on the sale of Frucor (Waters – New Zealand and Australia) and Danone Naya (Waters – Canada) for € 325 million and € 3 million respectively and (ii) the payment of the free and irrevocable capital contribution of €(100) million in connection with the creation of the "Danone Ecosystem Fund."

## NOTE 22 - Net financial expenses

Net financial expenses can be detailed as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
<i>Financial income on net debt</i>	76	87
<i>Financial expenses on net debt</i>	(340)	(230)
Cost of net debt	(264)	(143)
Other financial income	69	252
Other financial expenses	(294)	(118)
<b>TOTAL</b>	<b>(489)</b>	<b>(9)</b>

In 2010, the Group's net interest expenses decreased relative to 2009 primarily as a result of (i) the full-year impact of the capital increase carried out in June 2009 and the resulting decrease in net debt and (ii) the reduction in the Group's net debt in 2010 (excluding changes in consolidation scope – see Note 27).

The increase in other financial income in 2010 was mainly due to the capital gain realized through the sale of the equity interest in Wimm-Bill-Dann.

In 2010 other financial expenses resulted from hedges on foreign exchange risk related to operations and the ineffective part of such hedges in accordance with IAS 39, as well as other recurring items including banking commissions. The decrease in these other financial expenses in 2010 relative to 2009 was due to (i) the lower cost to hedge exchange rate risk and (ii) non-recurring costs in 2009 related to the capital increase (€ 121 million) and the debt restructuring.

In 2009, other financial expenses arose from:

- derivative financial instruments hedging foreign exchange risk related to operations and the ineffective part of such hedges in accordance with IAS 39, as well as other recurring items. In 2009, the cost of derivative financial instruments hedging foreign exchange risk relating to operations was higher than in 2008 due to (i) the rise in interest rates in certain countries because of the financial crisis and the generalization of the use of hedging in all the subsidiaries in the Baby Nutrition and Medical Nutrition Divisions and (ii) the negative effect of the ineffective part of said hedges as compared with 2008;
- financial transactions carried out following the June 25, 2009 capital increase, for a total of € 121 million and related mainly to the partial redemption of certain of the Company's bonds.

The net amount of interest paid and received in 2010 was € 112 million, compared with € 272 million in 2009.

## NOTE 23 - Income tax expenses

### INCOME TAX EXPENSES

In 2010, income before tax and the income tax expenses were as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
<b>Income before tax:</b>		
• French companies	(284)	386
• Foreign companies	2,306	2,103
<b>Subtotal</b>	<b>2,022</b>	<b>2,489</b>
<b>Income tax expenses (income)</b>		
Current taxes		
• French companies	(13)	18
• Foreign companies	(454)	(519)
<b>Subtotal</b>	<b>(467)</b>	<b>(501)</b>
<b>Deferred taxes</b>		
• French companies	33	(56)
• Foreign companies	10	(19)
<b>Subtotal</b>	<b>43</b>	<b>(75)</b>
<b>TOTAL</b>	<b>(424)</b>	<b>(576)</b>

Danone forms a fiscal unity with most of its French subsidiaries in which it owns, directly or indirectly, more than 95% of the share capital enabling taxable profits and losses to be offset subject to certain limits and conditions. Some of the subsidiaries that elected to participate in the French tax group have signed a tax sharing

agreement with Danone, in conformity with French regulations. Similar tax grouping schemes exist in other countries, in particular in the United States, the Netherlands and Germany.

Payments in relation to income taxes amounted to € 433 million in 2010 and € 413 million in 2009.

### EFFECTIVE INCOME TAX RATE

The effective income tax rate was 23.15% in 2010 (20.95% in 2009). The difference between the effective tax rate and the statutory tax rate in France (34.43% in 2010 and 2009) can be detailed as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
Statutory tax rate in France	34.4%	34.4%
Effect of foreign tax rate differential	(12.9%)	(8.3%)
Effect of gains/losses on disposal and impairment charges	(4.7%)	2.8%
Effect of tax corrections – taxes without basis	2.3%	(0.2%)
Effect of permanent differences	1.2%	1.3%
Effect of other differences, including the recognition of loss carryforwards	0.7%	(6.9%)
<b>Effective income tax rate</b>	<b>21.0%</b>	<b>23.1%</b>



## DEFERRED TAXES

As explained in Note 1.13, deferred taxes mainly arise from the differences between the carrying amount and tax bases of assets and liabilities. The significant components of deferred tax assets and liabilities are as follows:

<i>(In € millions)</i>	2009	2010
Retirement benefit provisions	39	45
Employee profit-sharing provisions	13	19
Restructuring provisions	6	4
Tax loss carryforwards	401	424
Non-current assets	(946)	(1,167)
Others	171	154
<b>Net deferred taxes</b>	<b>(316)</b>	<b>(521)</b>
Deferred tax assets	621	651
Deferred tax liabilities	(937)	(1,172)
<b>Net deferred taxes</b>	<b>(316)</b>	<b>(521)</b>

As of December 31, 2010, the deferred taxes recorded in respect of tax losses mainly related to France and to the United States.

The change in net deferred taxes recorded in the consolidated balance sheet can be detailed as follows:

<i>(In € millions)</i>	2009	2010
<b>As of January 1</b>	<b>(470)</b>	<b>(316)</b>
Changes recognized in other comprehensive income	109	0
Changes recognized in profit or loss	43	(75)
Effect of changes in consolidation scope	(1)	(78)
Translation adjustments and movements	3	(52)
<b>TOTAL</b>	<b>(316)</b>	<b>(521)</b>

Effect of changes in consolidation scope mainly corresponds to Unimilk in the amount of € 59 million and ProViva for € 13 million.

## TAX LOSSES CARRIED FORWARD

As of December 31, 2010, tax losses carried forward amounted to € 1,545 million (€ 1,947 million as of December 31, 2009) and the corresponding deferred tax assets amounted to € 491 million (€ 648 million as of December 31, 2009). They mainly resulted from the tax deductibility of goodwill amortization in certain countries, losses on disposal, and the losses of the tax fiscal unity in France.

As of December 31, 2010, based on the expected taxable income of the entities and tax fiscal unities that have generated tax losses, the Group believes that it is more likely than not that € 180 million (€ 732 million as of December 31, 2009), will not be used. The Group reviews the unutilized tax losses and the recognized deferred tax assets at each closing date.

The Company and its subsidiaries may be subject to tax audits. A provision is recognized in the financial statements whenever it is probable that a tax reassessment will be made.

## TERRITORIAL ECONOMIC CONTRIBUTION

In accordance with the provisions of the press release issued by the French National Accounting Board (*Conseil National de la Comptabilité: CNC*) on January 14, 2010, the Group has exercised its judgment regarding the classification of the Business Value-Added Contribution (*Contribution sur la valeur ajoutée des entreprises: CVAE*) component. The Group considered that since the base of the CVAE is the difference between revenue and expenses, it comes within the scope of IAS 12. The CVAE component is therefore recognized within income tax since January 1, 2010. In 2010, the amount totaled € 12 million.

As of December 31, 2009, a deferred tax liability with a net amount of € 5.7 million had been recognized in respect of the temporary differences on assets and liabilities representing future deductible expenses or revenue liable to the CVAE.

## NOTE 24 - Related party transactions

The main related parties are the associated companies, the members of the Executive Committee and the members of the Board of Directors. Associated companies are those companies over which the Group exercises significant influence and that are accounted for using the equity method.

Transactions with associated companies are usually performed at arm's length.

The table below analyzes the amount of receivables and payables with associated companies as of December 31, 2009 and 2010:

<i>(In € millions)</i>	2009	2010
Short-term and long-term loans	1	–
Operating receivables	19	11
Operating payables	–	–

### MEMBERS OF THE EXECUTIVE COMMITTEE AND OF THE BOARD OF DIRECTORS

Total compensation paid to the members of the Executive Committee and Board of Directors amounted to € 22.7 million in 2010 (€ 21.7 million in 2009), including € 0.5 million of attendance fees (€ 0.4 million in 2009). In addition, as of December 31, 2010,

amount related to stock purchase options granted to members of the Executive Committee was 3,461,834. The number of performance shares granted during the year to members of the Executive Committee amounted to 166,750.

As of December 31, 2010, the amount of retirement provisions relating to the members of the Executive Committee was € 41.8 million (€ 61.3 million as of December 31, 2009).

## NOTE 25 - Transactions with non-controlling interests

In 2010, transactions with non-controlling interests reduced retained earnings attributable to owners of the Company by € 251 million and non-controlling interests by € 204 million. These variances are analyzed below:

<b>Effects of transactions with non-controlling interests recorded in other comprehensive income</b> <i>(In € millions)</i>	<b>Retained earnings attributable to owners of the Company</b>	<b>Non-controlling interests</b>	<b>Total equity</b>
Acquisition of controlling interests in Unimilk <sup>(1)</sup>	256	239	495
Effects of changes in value of liabilities related to put options granted to non-controlling interests <sup>(2)</sup>	(506)	(336)	(842)
Dividends paid to non-controlling interests	-	(110)	(110)
Others	(1)	3	2
<b>TOTAL</b>	<b>(251)</b>	<b>(204)</b>	<b>(455)</b>

(1) The acquisition of a controlling interest in Unimilk is described in Note 2. The effect on equity reflects the contribution to shareholders seller of Unimilk of a share of equity interests in Danone's subsidiaries in Russia, Ukraine, Kazakhstan and Belarus (about 36%) and recognition of non-controlling interests relating to the acquisition of controlling interests in the Unimilk Group's companies (representing approximately 49.1% of Unimilk and 36% of Danone's subsidiaries in Russia, Ukraine, Kazakhstan and Belarus). The accounting principles applied in recording these effects are described in Note 1.1.

(2) Liabilities related to put options granted to non-controlling interests increased by € 790 million in 2010 (as indicated in Note 27), of which € 842 million relates to the revaluation of these liabilities. The difference represents payments made during the year. Of the € 842 million, € 754 million relates to the recognition of options granted to former shareholders of Unimilk. The accounting principles applied in recording these effects are described in Note 1.17.

## NOTE 26 - Information on the statement of cash flows

### CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES

Other components of net income with an impact on cash, which amounted to an outflow of (€ 78) million in 2010, represent interest expense accrued as of December 31, 2009 and paid in 2010. Interest expense accrued as of December 31, 2008 and paid in 2009 totaled an outflow of (€ 147) million.

Other components of net income with no cash impact can be broken down as follows:

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>
(Gains) losses on disposal of non-current assets	(44)	20
(Gains) losses on disposal of financial assets	(370)	(239)
Increase in (reversals of) provisions and deferred taxes	(10)	(7)
Share-based compensation	28	28
Others	324	116
<b>TOTAL</b>	<b>(72)</b>	<b>(82)</b>

In 2010, the line item "Other" primarily reflected the neutralization of the impact of interest not yet paid (€ 105 million) on cash flows provided by operating activities, excluding changes in net working capital.

In 2009, the line item "Other" included the neutralization of the impact of interest not yet paid (€ 140 million) and the settlement of debt hedge financial instruments (€ 160 million) on cash flows provided by operating activities, excluding changes in net working capital. Amounts paid in the context of settling financial instruments are presented under financing activities in the line item "Net cash flows on hedging financial instruments".

### CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES

In 2010, the net cash outflow on purchases of subsidiaries and financial investments primarily relates to the acquisition of shares in the joint venture created with Unimilk (€ 116 million) and in several other companies in the Fresh Dairy Products (YoCream in the USA), Medical Nutrition (Medical Nutrition Inc. USA), and fruit drinks (Chiquita and Immédia) divisions. The net cash inflow on sales of subsidiaries and financial investments essentially relates to sales of shares held in Wimm-Bill-Dann and China Hui Yuan (refer to Note 7 and Note 3).

In 2009, the net cash outflow on purchases of subsidiaries and financial investments mainly included a payment of € 99 million to buy out the non-controlling interests in Danone Clover. The net cash inflow on sales of subsidiaries and financial investments included the proceeds from the sale of equity interests described in Notes 2.1 and 3 to the consolidated financial statements.

### CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES

In 2010, cash flows used in financing activities primarily include the payment of dividends to Danone shareholders and to non-controlling interests for amounts of € 737 million and € 110 million, respectively, and purchases of marketable securities for an amount of € 601 million. Furthermore, the Group repurchased shares of Danone SA and Danone Spain for € 250 million and € 48 million, respectively.

In 2009, cash flows provided by financing activities included the proceeds of the € 3 billion capital increase and the subsequent debt repayments.

## NOTE 27 - Structure of net debt and non-current financial debt

The change in the structure of the Group's net debt from 2009 to 2010 is analyzed below:

<i>(In € millions)</i>	<b>As of December 31, 2009</b>	<b>Reclassification of derivative financial instruments – assets at beginning of year</b>	<b>Restated as of January 1, 2010</b>	<b>Changes for the year</b>	<b>Transfer to current portion</b>	<b>Translation adjustments</b>	<b>Others</b>	<b>As of December 31, 2010</b>
<b>Derivative financial instruments – assets (I)</b>	<b>0</b>	<b>134</b>	<b>134</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>102</b>	<b>236</b>
Cash and cash equivalents	644	–	644	317	–	72	21	1,054
Marketable securities and other short-term investments	454	–	454	601	–	32	24	1,111
<b>Total cash, marketable securities and other short term investments (II)</b>	<b>1,098</b>	<b>–</b>	<b>1,098</b>	<b>918</b>	<b>–</b>	<b>104</b>	<b>45</b>	<b>2,165</b>
Current financial debt	1,702	–	1,702	(285)	884	107	121	2,529
<i>Financing</i>	2,890	134	3,024	436	(884)	100	412	3,088
<i>Liabilities related to put options granted to non-controlling interests</i>	3,068	–	3,068	–	–	–	790	3,858
Total non-current financial debt	5,958	134	6,092	436	(884)	100	1,202	6,946
<b>Total (III)</b>	<b>7,660</b>	<b>134</b>	<b>7,794</b>	<b>151</b>	<b>–</b>	<b>207</b>	<b>1,323</b>	<b>9,475</b>
<b>NET DEBT (III) – (II) – (I)</b>	<b>6,562</b>	<b>–</b>	<b>6,562</b>	<b>(767)</b>	<b>–</b>	<b>103</b>	<b>1,176</b>	<b>7,074</b>

In order to increase the average maturity of its debt and to benefit from historically low long-term interest rates, the Group launched the following two-fold operation in the Euro bond markets in November 2010: the issuance of new bonds maturing in 2020 and the offer to exchange these newly issued securities for previously issued securities maturing in 2014 and 2015.

As a result, the Group raised a nominal net amount of € 344 million in new debt, increased the average maturity of its bonds by 1.4 years and refinanced in anticipation the majority of the outstanding bonds maturing in May 2011.

In total, the Group's net debt, which includes liabilities related to put options granted to non-controlling interests (€ 3,858 million as of December 31, 2010), increased by € 512 million, primarily due to:

- changes in the consolidation scope amounting to € 1,308 million, essentially related to the acquisition of Unimilk that generated, on November 30, 2010 (the acquisition date), € 576 million of financial debt and € 775 million of debt regarding the put options granted to non-controlling interests;

- a reduction in net debt totaling € 767 million, derived mainly from cash flows provided by operating activities and the sale of interests in Wimm-Bill-Dann and China Hui Yuan Juice, net of dividends paid in cash and the acquisition of treasury stock;
- the revaluation of put options granted to non-controlling interests for a negative amount of € 66 million;
- adjustments to the fair value of debt hedging financial instruments for a negative amount of € 25 million, respectively;
- translation adjustments of € 103 million.

In 2009, the Group repaid all drawings on the syndicated facility – a total of € 2,490 million – and reduced its outstanding commercial paper by € 423 million. In addition, it restructured its bond borrowing by partially repurchasing the outstanding bonds maturing in 2011, 2014, and 2015, for a total nominal amount of € 1,175 million.

## NOTE 28 - Contractual obligations and off-balance sheet commitments

As of December 31, the Group's contractual obligations arising from its operating, financing, and investing activities were as follows:

Commitments given	Total	Amount of financial flows for the year				
		2011	2012	2013	2014	2015 and after
Operating lease commitments <sup>(1)</sup>	(568)	(165)	(100)	(83)	(61)	(159)
Commitments to purchase goods and services <sup>(1)</sup>	(1,257)	(752)	(218)	(122)	(85)	(80)
Capital expenditure commitments <sup>(1)</sup>	(65)	(49)	(6)	(5)	(5)	-
Guarantees and pledges given	(86)	(66)	(1)	(1)	(2)	(16)
Others	(135)	(64)	(24)	(12)	(7)	(28)
<b>TOTAL</b>	<b>(2,111)</b>	<b>(1,096)</b>	<b>(349)</b>	<b>(223)</b>	<b>(160)</b>	<b>(283)</b>

Commitments received	Commitments as of December 31 of each year					
	2010	2011	2012	2013	2014	2015
Credit lines <sup>(2)</sup>	4,724	4,350	1,600	650	650	-
Other credit lines <sup>(3)</sup>	433	-	-	-	-	-
Guarantees and pledges received	73	67	1	-	-	5
Others	30	26	1	1	-	2
<b>TOTAL</b>	<b>5,260</b>	<b>4,443</b>	<b>1,602</b>	<b>651</b>	<b>650</b>	<b>7</b>

(1) Related to the Group's operations.

(2) Related to the Group's financial investments and to financing the Group's activities. Nominal amount of the undrawn portion of the syndicated facility and back-up credit lines as of December 31, 2010.

(3) Related to the Group's operational activities. Nominal amount of the undrawn portion of the syndicated facility and back-up credit lines as of December 31, 2010.

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business, notably as a result of guarantees given on disposals between 1997 and 2010.

In some cases, damages are sought. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

## NOTE 29 - Operating Segments

The Group adopted IFRS 8 *Operating Segments* on January 1, 2009.

Adoption of this new standard had no impact on the structure of the Group's operating segments as previously presented by the Group. The internal information reviewed and used by its primary operational decision-makers (Chairman and Chief Executive Officer Franck RIBOUD, the two Deputy General Managers, Bernard HOURS and Emmanuel FABER, and the Chief Financial

Officer, Pierre-André Terisse) is based on its four divisions and three geographic areas: Europe (Western Europe, Central Europe, and Eastern Europe), Asia (including the Pacific Region), and Rest of World (North and South America, Africa, and the Middle East).

However, geographic data is only available for two key indicators tracked by the primary operational decision-makers internally: sales and trading operating income, as shown below

							2010
<i>(In € millions)</i>	<b>Fresh Dairy Products</b>	<b>Waters</b>	<b>Baby Nutrition</b>	<b>Medical Nutrition</b>	<b>Divisions total</b>	<b>Other items <sup>(1)</sup></b>	<b>Group total</b>
Sales to third parties	9,732	2,868	3,355	1,055	17,010	–	17,010
Trading operating income	1,366	371	634	207	2,578	–	2,578
Operating income	1,284	369	640	191	2,484	14	2,498
Share of profit of associates	59	51	–	–	110	11	121
Impairment	(12)	–	–	–	(12)	–	(12)
Capital expenditure	447	228	102	46	823	17	840
Financial investments	263	33	–	49	345	3	348
Depreciation and amortization	294	148	94	41	577	17	594
Cash flows provided by operating activities, excluding changes in net working capital	1,178	401	567	180	2,326	73	2,399
Investments in associates	818	27	–	–	845	102	947
Total assets on consolidated balance sheet	7,355	2,759	10,778	5,035	25,927	2,172	28,099

(1) Assets reflected in the "Other items" column include assets held for sale and current and deferred tax assets. The income and expenses reflected in the "Other items" column cannot be directly allocated to the divisions.

							2009
<i>(In € millions)</i>	<b>Fresh Dairy Products</b>	<b>Waters</b>	<b>Baby Nutrition</b>	<b>Medical Nutrition</b>	<b>Divisions total</b>	<b>Other items <sup>(1)</sup></b>	<b>Group total</b>
Sales to third parties	8,555	2,578	2,924	925	14,982	–	14,982
Trading operating income	1,244	324	536	190	2,294	–	2,294
Operating income	1,240	646	547	190	2,623	(112)	2,511
Share of profit of associates	26	(121)	–	–	(95)	18	(77)
Impairment	–	–	–	–	–	–	–
Capital expenditure	329	134	99	36	598	19	617
Financial investments	142	2	2	–	146	1	147
Depreciation and amortization	272	131	87	41	531	18	549
Cash flows provided by operating activities, excluding changes in net working capital	1,083	337	454	189	2,063	29	2,092
Investments in associates	670	28	–	–	698	107	805
Total assets on consolidated balance sheet	7,843	2,773	10,203	4,781	25,600	1,273	26,873

(1) Assets reflected in the "Other items" column include assets held for sale and current and deferred tax assets. The income and expense reflected in the "Other items" column cannot be directly allocated to the divisions.

	2010			
<i>(In € millions)</i>	<b>Europe</b>	<b>Asia</b>	<b>Rest of the World</b>	<b>Total</b>
Net sales	9,449	2,386	5,175	17,010
Trading operating income	1,484	445	649	2,578

	2009			
<i>(In € millions)</i>	<b>Europe</b>	<b>Asia</b>	<b>Rest of the World</b>	<b>Total</b>
Net sales	8,960	1,877	4,145	14,982
Trading operating income	1,437	333	524	2,294

In 2010, the amount of net sales generated in France was € 2,026 million.

## NOTE 30 - Legal and arbitration proceedings

Class actions filed in 2008 in the United States against The Dannon Company Inc., one of the Group's U.S. subsidiaries, criticizing certain allegations related to Activia and DanActive products were settled out-of-court in 2010. Under the terms of this settlement, the U.S. subsidiary has agreed to create a \$35 million fund to compensate consumers and to cover legal and publication fees, the rest being allocated to donations of products to charities.

Moreover, in early 2010, Attorney Generals from 39 states initiated investigations into allegations related to Activia and DanActive. These investigations were settled and The Dannon Company Inc. paid a total of \$21 million under these settlements.

Finally, an investigation conducted by the Federal Trade Commission, the competition regulator in the U.S. market, was also settled, with no financial obligation for The Dannon Company Inc.

Under these agreements, certain allegations were modified without changing the positioning of DanActive and Activia in the U.S.

The impact of the legal proceedings described above was provided for in the consolidated balance sheet of the Group as of December 21, 2009.

In October 2009, a class action against Danone Inc. and The Dannon Company Inc. was filed by an individual plaintiff with the Quebec Superior Court, to obtain restitution for consumers from the alleged false advertising of the health benefits of probiotic cultures in Danone's Activia and DanActive products. This action is based on the Quebec Civil Code and the Consumer Protection Law. The plaintiff filed a request for authorization to institute a class action lawsuit. No hearing has been held by the court. As of December 31, 2010, the Group cannot obtain a reliable assessment of the scope of this action and its impact on the Group's earnings and financial position. Therefore, no provision has been recognized in the financial statements as of December 31, 2010.

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated (see Note 17).

To the best of the Group's knowledge, no other state legal or arbitration proceedings are currently underway, which are likely to have or have had over the last twelve month, a material impact on the Group's financial position or profitability.

## NOTE 31 - Consolidation scope as of December 31, 2010

As of December 31, 2010, 242 entities were included in the scope of consolidation (234 in 2009), of which 226 were fully consolidated (214 in 2009) and 16 were consolidated as associates (20 in 2009).

### MAIN ENTITIES FULLY CONSOLIDATED FOR THE FIRST TIME IN 2010

- ProViva AB (Fresh Dairy Products – Sweden)
- Lunnarps AB (Fresh Dairy Products – Sweden)
- Unimilk and its subsidiaries (Fresh Dairy Products – Russia)
- YoCream (Fresh Dairy Products – United States)
- Chiquita JV (Fresh Dairy Products – France)
- Immédia (Fresh Dairy Products – France)
- Damavand (Waters – Iran)
- Womir SPA (Waters – Poland)
- Danone Narang Beverages (Waters – India)
- Danone Baby Nutrition Colombia (Baby Nutrition – Colombia)
- Advanced Medical Nutrition (Medical Nutrition – Argentina)
- Medical Nutrition USA, Inc. (Medical Nutrition – United States)

### ENTITIES CONSOLIDATED AS ASSOCIATES FOR THE FIRST TIME IN 2010

- Danone Murray Goulburn Australia (Fresh Dairy Products – Australia)
- Narang Access (Waters – India)

### ENTITIES THAT WERE EXCLUDED FROM THE SCOPE OF CONSOLIDATION AS OF DECEMBER 31, 2010

- Magyarviz (Waters – Hungary) sold in March 2010
- Polskawoda (Waters – Poland) sold in March 2010
- Dasanbe (Waters – Spain) sold in March 2010
- King Silver Investment Ltd (Asia) sold in May 2010
- China Hui Yuan Juice (Asia – China) sold in August 2010
- HealthSpan Solutions (Medical Nutrition – United States) sold in December 2010



## FULLY CONSOLIDATED ENTITIES

<b>Main entities fully consolidated</b>	<b>Country</b>	<b>Group's control</b>	<b>Percent Interest</b>
DANONE	France	Parent company	
<b>FRESH DAIRY PRODUCTS</b>			
Danone GMBH	Germany	100.00	100.00
DANONE GESMBH	Austria	100.00	100.00
N.V DANONE SA	Belgium	100.00	100.00
DANONE SERDIKA	Bulgaria	100.00	100.00
DANONE	Croatia	100.00	100.00
DANONE SA	Spain	57.81	57.81
DANONE CANARIES (ILTESA)	Spain	78.51	45.38
DANONE FINLAND	Finland	100.00	100.00
DANONE PRODUITS FRAIS	France	100.00	100.00
DANSOURCE	France	100.00	100.00
STONYFIELD FRANCE	France	100.00	100.00
DANONE CHIQUITA JV	France	51.00	51.00
IMMEDIA	France	100.00	51.00
DANONE GREECE	Greece	100.00	100.00
DANONE KFT	Hungary	100.00	100.00
DANONE LTD	Ireland	100.00	100.00
DANONE SPA	Italy	100.00	100.00
DANONE	Kazakhstan	100.00	50.94
DANONE BERKUT LLP	Kazakhstan	90.00	45.85
DANONE NEDERLAND BV	Netherlands	100.00	100.00
DANONE SP Z.O.O	Poland	100.00	100.00
DANONE PORTUGAL SA	Portugal	97.61	55.80
DANONE A.S	Czech Republic	100.00	100.00
DANONE SRL	Romania	100.00	100.00
DANONE LTD	United Kingdom	100.00	100.00
DANONE INDUSTRIA	Russia	100.00	50.94
DANONE VOLGA	Russia	90.78	46.25
DANONE ADRIATIC	Serbia	100.00	100.00
DANONE SPOL S.RO	Slovakia	100.00	100.00
DANONE	Slovenia	100.00	100.00
DANONE AB	Sweden	100.00	100.00
DANONE	Switzerland	100.00	100.00
DANONE TIKVESLI	Turkey	100.00	100.00
DANONE	Ukraine	100.00	50.94
DANONE DNIPRO (Ex RODICH)	Ukraine	100.00	50.94
DANONE ARGENTINA	Argentina	99.45	99.45
DANONE LTDA	Brazil	100.00	100.00
DANONE CANADA DELISLE	Canada	100.00	100.00
DANONE CHILE	Chile	90.00	90.00
DANONE ALQUERIA	Colombia	93.00	93.00
DANNON COMPANY	United States	100.00	100.00
STONYFIELD FARM	United States	85.99	84.96
DANONE GUATEMALA	Guatemala	100.00	100.00
DANONE DE MEXICO	Mexico	100.00	100.00
DERIVADOS LACTEOS	Mexico	60.00	60.00
DANONE (FORT MASSIS)	Uruguay	100.00	100.00
DANONE SOUTHERN AFRICA LTD	South Africa	100.00	100.00

			Percent
<b>Main entities fully consolidated</b>	<b>Country</b>	<b>Group's control</b>	<b>Interest</b>
MAYO	South Africa	70.00	70.00
DANONE DJURDJURA ALGERIE	Algeria	100.00	100.00
ALSAFI DANONE COMPANY	Saudi Arabia	50.10	50.10
DANONE DAIRY EGYPT	Egypt	100.00	100.00
DANONE DAIRY FARM	Egypt	100.00	100.00
DANONE SAHAR	Iran	70.00	70.00
DANONE CHINA	China	100.00	100.00
DANONE KOREA	South Korea	100.00	100.00
DANONE INDIA	India	100.00	100.00
PT DANONE DAIRY INDONESIA	Indonesia	100.00	100.00
DANONE	Indonesia	100.00	100.00
DANONE JAPAN (Ex CALPIS AJINOMOTO DANONE)	Japan	100.00	100.00
DANONE DAIRY THAILAND	Thailand	100.00	100.00
DANONEBEL	Belarus	99.99	50.94
PROVIVA AB	Sweden	51.00	50.99
LUNNARPS AB	Sweden	100.00	50.99
DANONE MOZAMBIQUE LIMITADA	Mozambique	100.00	99.00
SWIRL CO	United States	94.67	94.67
YOCREAM	United States	100.00	94.67
DANONE CIS HOLDINGS BV	Netherlands	87.79	87.79
DAIRY JV (CIS) HOLDINGS (CYPRUS) LIMITED	Cyprus	58.03	50.94
UNIMILK <sup>(1)</sup>	Russia	98.20	50.03

(1) Includes several legal entities.

<b>Main entities fully consolidated</b>	<b>Country</b>	<b>Group's control</b>	<b>Percent Interest</b>
<b>WATERS</b>			
DANONE TESSALA BOISSONS	Algeria	100.00	100.00
AGUAS DANONE DE ARGENTINA	Argentina	100.00	100.00
DANONE WATER BRESIL (Ex ICOARA)	Brazil	100.00	100.00
DANONE WATERS OF AMERICA	United States	100.00	100.00
BONAFONT	Mexico	100.00	100.00
AGA PUREZA <sup>(1)</sup>	Mexico	50.00	50.00
CGA	Mexico	100.00	100.00
SALUS	Uruguay	94.11	94.11
AQUARIUS	China	50.00	50.00
DANONE PREMIUM BRANDS	China	100.00	100.00
ROBUST DRINKING WATER <sup>(1)</sup>	China	92.00	92.00
ROBUST <sup>(1)</sup>	China	92.00	92.00
SHENZHEN HEALTH DRINKS <sup>(1)</sup>	China	100.00	100.00
AQUA (PT TIRTA INVESTAMA) <sup>(1)</sup>	Indonesia	74.00	74.00
DANONE WATERS DEUTSCHLAND	Germany	100.00	100.00
DANONE WATER BENELUX	Belgium	100.00	100.00
AQUA D'OR	Denmark	90.00	90.00
AGUAS FONT VELLA Y LANJARON	Spain	94.42	78.71
SA DES EAUX MINÉRALES D'ÉVIAN	France	100.00	100.00
SEAT (SOCIETE D'EXPLOITATION D'ACTIVITES TOURISTIQUES) <sup>(2)</sup>	France	100.00	100.00
VOLVIC	France	100.00	100.00
ZYWIEC ZDROJ	Poland	100.00	100.00
DANONE WATERS (UK & IRELAND)	United Kingdom	100.00	100.00
ÉVIAN VOLVIC SUISSE	Switzerland	99.67	100.00
DANONE HAYAT	Turkey	100.00	100.00
WOMIR SPA	Poland	100.00	100.00
DANONE NARANG BEVERAGES	India	51.00	51.00
DAMAVAND	Iran	69.98	70.00

(1) The consolidated company consists of several legal entities

(2) SEAT operates the Evian casino. It is subject to the supervision of the French Ministry of the Interior and the regulations applicable to gaming activities in casinos.

<b>Main entities fully consolidated</b>	<b>Country</b>	<b>Group's control</b>	<b>Percent Interest</b>
<b>BABY NUTRITION</b>			
MILUPA GMBH <sup>(1)</sup>	Germany	100.00	100.00
NUTRICIA GRUNDSTUCKSVERWALTUNGS GMBH	Germany	100.00	100.00
CENTRAL LABORATORIES FRIEDRICHSDORF GMBH	Germany	100.00	100.00
MILUPA GMBH	Austria	100.00	100.00
N.V. NUTRICIA BELGIË <sup>(1)</sup>	Belgium	100.00	100.00
NUMIL NUTRICIÓN S.R.L.	Spain	100.00	100.00
NUTRICIA BABY OY LTD	Finland	100.00	100.00
BLEDINA	France	100.00	100.00
NUMIL HELLAS S.A. <sup>(1)</sup>	Greece	100.00	100.00
NUMIL HUNGARY TÁP SZERKERESKEDELNI KFT. <sup>(1)</sup>	Hungary	100.00	100.00
NUTRICIA IRELAND LTD. <sup>(1)</sup>	Ireland	100.00	100.00
MELLIN S.P.A.	Italy	100.00	100.00
NUTRICIA KAZAKHSTAN LLP	Kazakhstan	100.00	100.00
NUTRITIA SIA AMAIJA LATVIA <sup>(1)</sup>	Latvia	100.00	100.00
UAB NUTRICIA BALTICS <sup>(1)</sup>	Lithuania	100.00	100.00
NUTRICIA NEDERLAND B.V. <sup>(1)</sup>	Netherlands	100.00	100.00
NUTRICIA CUIJK B.V.	Netherlands	100.00	100.00
NUTRICIA EXPORT B.V.	Netherlands	100.00	100.00
DANONE BEHEER B.V.	Netherlands	100.00	100.00
DANONE RESEARCH B.V.	Netherlands	100.00	100.00
DANONE TRADING BV <sup>(1)</sup>	Netherlands	100.00	100.00
NUTRICIA POLSKA SP. Z.O.O. <sup>(1)</sup>	Poland	100.00	50.00
NUTRICIA ZAKLADY PRODUKCYNE SP. Z.O.O.	Poland	99.96	49.98
MILUPA COMERCIAL S.A. <sup>(1)</sup>	Portugal	100.00	100.00
NUTRICIA DEVA A.S.	Czech Republic	100.00	100.00
NUTRICIA A.S. <sup>(1)</sup>	Czech Republic	100.00	100.00
MILUPA S.R.L.	Romania	100.00	100.00
NUTRICIA LTD. <sup>(1)</sup>	United Kingdom	100.00	100.00
OJSC ISTRA NUTRICIA BABY FOOD	Russia	99.69	99.69
MILUPA S.A.	Switzerland	100.00	100.00
NUTRICIA SLOVAKIA S.R.O. <sup>(1)</sup>	Slovakia	100.00	100.00
NUMIL TURKEY TRY <sup>(1)</sup>	Turkey	100.00	100.00
NUTRICIA UKRAINE LLC	Ukraine	100.00	100.00
KASDORF SA	Argentina	100.00	100.00
NUTRICIA BAGO SA <sup>(1)</sup>	Argentina	51.00	51.00
SUPPORT PRODUTOS NUTRICIONAIS LTDA. <sup>(1)</sup>	Brazil	100.00	100.00
MASHHAD MILK POWDER INDUSTRIES COMPAGNY	Iran	60.00	60.00
NUTRICIA AUSTRALIA PTY LTD. <sup>(1)</sup>	Australia	100.00	100.00
NUTRICIA LTD. (NEW ZEALAND) <sup>(1)</sup>	New Zeland	100.00	100.00
INTERNATIONAL NUTRITION CO. LTD. SHANGHAI	China	100.00	100.00
PT SARI HUSADA	Indonesia	99.97	99.97
PT NUTRICIA INDONESIA SEJAHTERA	Indonesia	100.00	100.00
PT SUGIZINDO	Indonesia	100.00	99.97
DUMEX (MALAYSIA) SDN. BHD.	Malaysia	100.00	100.00
DUMEX LTD. THAILAND <sup>(1)</sup>	Thailand	98.91	98.91
DANONE VIETNAM COMPAGNY LTD	Vietnam	100.00	100.00
DANONE BABY NUTRITION AFRICA & OVERSEAS (ex Heldinvest 4)	France	100.00	100.00
DANONE FINANCIAL SERVICES SA	Switzerland	100.00	100.00

(1) Belong to the Baby Nutrition and Medical Nutrition Divisions.

			Percent
<b>Main entities fully consolidated</b>	<b>Country</b>	<b>Group's control</b>	<b>Interest</b>
LLC NUTRICIA RUSSIA <sup>(1)</sup>	Russia	100.00	99.91
DANONE BABY NUTRITION COLOMBIA	Colombia	100.00	100.00
<b>MEDICAL NUTRITION</b>			
PFRIMMER NUTRICIA GMBH	Germany	100.00	100.00
NUTRICIA NAHRUNGSMITTEL GMBH & CO AG	Austria	100.00	100.00
NUTRICIA A/S	Denmark	100.00	100.00
NUTRICIA SRL	Spain	100.00	100.00
NUTRICIA CLINICAL OY LTD.	Finland	100.00	100.00
NUTRICIA NUTRITION CLINIQUE S.A.S.	France	100.00	100.00
NUTRICIA ITALIA S.P.A.	Italy	100.00	100.00
NUTRICIA NORGE AS	Norway	100.00	100.00
NV NUTRICIA	Netherlands	100.00	100.00
SCIENTIFIC HOSPITAL SUPPLIES INTERNATIONAL LTD	United Kingdom	100.00	100.00
NUTRICIA NORDICA AB	Sweden	100.00	100.00
NUTRICIA SA	Switzerland	100.00	100.00
NUTRICIA COLOMBIA LTDA	Colombia	100.00	100.00
NUTRICIA PHARMACEUTICAL COMPANY WUXI	China	100.00	100.00
NUTRICIA NORTH AMERICA INC.	United States	100.00	100.00
DANONE MEDICAL NUTRITION NORTH AMERICA, INC	United States	100.00	100.00
NUTRICIA CLINICAL LIMITED	Hong Kong	100.00	100.00
NUTRICIA CLINICAL LIMITED EXPORT	Hong Kong	100.00	100.00
PT NUTRICIA MEDICAL NUTRITION	Indonesia	100.00	100.00
DANONE MEDICAL NUTRITION MEXICO S.A. de C.V.	Mexico	100.00	100.00
ADVANCED MEDICAL NUTRITION	Argentina	100.00	100.00

(1) *Belong to the Baby Nutrition and Medical Nutrition Divisions.*

<b>Main entities fully consolidated</b>	<b>Country</b>	<b>Group's control</b>	<b>Percent Interest</b>
<b>HOLDING AND FINANCIAL COMPANIES</b>			
DANONE AND CORPORATE FINANCE SERVICES	France	100.00	100.00
CIE GERVAIS DANONE	France	100.00	100.00
DANONE RESEARCH	France	100.00	100.00
HOLDING INTERNATIONALE DE BOISSONS	France	100.00	100.00
DANONE DAIRY AMERICAS	France	100.00	100.00
DANONE DAIRY ASIA	France	100.00	100.00
PRODUITS LAITIERS FRAIS EST EUROPE	France	100.00	100.00
PRODUITS LAITIERS FRAIS NORD EUROPE	France	100.00	100.00
PRODUITS LAITIERS FRAIS SUD EUROPE	France	100.00	100.00
DANONE PENSIONS MANAGEMENT	Germany	100.00	100.00
BIALIM BELGIQUE	Belgium	100.00	100.00
DANONE SERVICES BENELUX	Belgium	100.00	100.00
DANONE FINANCE INTERNATIONAL	Belgium	100.00	100.00
DANONE DANEMARK	Denmark	100.00	100.00
TRICAMP LACTEOS	Spain	100.00	100.00
STONYFIELD EUROPE	Ireland	100.00	96.99
DANONE RE	Luxemburg	100.00	100.00
DANONE FINANCE NETHERLANDS	Netherlands	100.00	100.00
DANONE HOLDINGS UK	United Kingdom	100.00	100.00
DANONE FOODS	United States	100.00	100.00
DANONE HOLDINGS	United States	100.00	100.00
DANONE WATER HOLDINGS INC.	United States	100.00	100.00
DANONE HOLDING DE MEXICO	Mexico	100.00	100.00
ASIA HOST	China	100.00	100.00
DANONE ASIA PACIFIC MANAGEMENT	China	100.00	100.00
CALVON	Singapore	100.00	100.00
DANONE ASIA	Singapore	100.00	100.00
DANONE ASIA HOLDINGS (Ex FEDDIAN)	Singapore	100.00	100.00
DANONE DAIRY INVESTMENTS INDONESIA	Singapore	100.00	100.00
DANONE PROBIOTICS	Singapore	100.00	100.00
FESTINE	Singapore	100.00	100.00
JINJA INVESTMENTS	Singapore	100.00	100.00
MYEN	Singapore	100.00	100.00
NOVALC	Singapore	100.00	100.00
INTERNATIONAL NUTRITION CO. LTD. A/S	Denmark	100.00	100.00
INC SHANGHAI (HOLDING) LTD. A/S COPENHAGEN	Denmark	100.00	100.00
DUMEX NUTRITION LTD. A/S	Denmark	100.00	100.00
NUTRICIA INFANT NUTRITION LTD.	Ireland	100.00	100.00
NUTRICIA INTERNATIONAL B.V.	Netherlands	100.00	100.00
NUTRICIA POLAND B.V.	Netherlands	50.00	50.00
DANONE BABY AND MEDICAL NUTRITION BV	Netherlands	100.00	100.00
DANONE MEDICAL NUTRITION INTERNATIONAL BV	Netherlands	100.00	100.00
DANONE MEDICAL NUTRITION HOLDING BV	Netherlands	100.00	100.00
DANONE BABY AND MEDICAL NUTRITION NEDERLAND BV	Netherlands	100.00	100.00
INFANT NUTRITION MANAGEMENT 1 BV	Netherlands	100.00	100.00

			Percent
<b>Main entities fully consolidated</b>	<b>Country</b>	<b>Group's control</b>	<b>Interest</b>
INFANT NUTRITION MANAGEMENT 2 BV	Netherlands	100.00	100.00
INFANT NUTRITION MANAGEMENT 3 BV	Netherlands	100.00	100.00
UK HOLDINGS CAP LTD.	United Kingdom	100.00	100.00
NUTRICIA (COW & GATE, MILUPA) HOLDINGS LTD.	United Kingdom	100.00	100.00
INTERNATIONAL NUTRITION CO PTE. LTD.	Singapore	100.00	100.00
NUTRICIA AMERICAS N.V.	Netherlands Antilles	100.00	100.00
HELDINVEST 7	France	100.00	100.00
FERMINVEST IG	France	100.00	100.00
DAIRY LATAM	Spain	100.00	100.00
WATER LATAM	Spain	100.00	100.00
PLF LICENSING SARL	Luxemburg	100.00	100.00
DANONE BABY AND MEDICAL HOLDING	France	100.00	100.00
WINSTON HOLDINGS	Singapore	100.00	100.00

## ENTITIES CONSOLIDATED AS ASSOCIATES

			Percent
<b>Entities</b>	<b>Country</b>	<b>Group's control</b>	<b>Interest</b>
<b>FRESH DAIRY PRODUCTS</b>			
GLENISK	Ireland	36.90	35.79
TOECA INTERNATIONAL COMPANY	Netherlands	49.00	49.00
STRAUSS DAIRY	Israel	20.00	20.00
CENTRALE LAITIÈRE	Morocco	84.32	30.71
STIAL/SOCOGES	Tunisia	50.00	50.00
MICROPHARMA LIMITED	Canada	26.85	26.85
GRAMEEN DANONE FOODS	Bangladesh	21.43	21.43
WEIGHT WATCHERS JV	Hong Kong	49.00	49.00
YAKULT DANONE INDIA	India	50.00	50.00
YAKULT HONSHA	Japan	20.02	20.02
YAKULT VIETNAM	Vietnam	20.00	20.00
DANONE MURRAY GOULBURN PTY LIMITED	Australia	50.00	50.00
<b>WATERS</b>			
SOTHERMA	Morocco	29.99	29.99
KIRIN MC DANONE WATERS	Japan	25.00	25.00
NARANG ACCESS	India	29.99	29.99
<b>BISCUITS</b>			
BAGLEY LATINO AMERICA	Spain	49.00	49.00

## 4.2 Statutory Auditors' report on the consolidated financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying consolidated financial statements of Danone;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2010 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in the Note 1.1 to the consolidated financial statements regarding the change of accounting treatment relating to options granted to non-controlling interests.

### II. JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- your Company is committed to acquiring the shares held by shareholders of certain consolidated subsidiaries, should the latter wish to exercise their put options. As mentioned above, the Note 1.1 to the consolidated financial statements sets out the change of accounting treatment that occurred during the year regarding the presentation of these options. In the absence of any specific provision under IFRS as adopted by the European Union on this subject, we have verified that the accounting treatment applied was compliant with the general principles of these standards.

Balance sheet corresponding information presented has been restated to take into account retrospectively the application of this new treatment. Consequently, corresponding information differs from the consolidated financial statements published for the year 2009. As part of our assessment of accounting principles applied by your Company, we have reviewed the proper restatement of opening and closing balance sheets for the year 2009 and related information provided in the Note 1.1 to the consolidated financial statements.

We also reviewed the methods adopted by your Company for the valuation of the debt recorded in connection with these put options based on the information available to date. We have verified that Note 15 to the consolidated financial statements contains appropriate information on these put options and the assumptions used by your Company;



- your Company performed at the closing date an impairment test on assets with an indefinite useful life, and also assessed whether there was any indication of impairment of other long-term assets according to the conditions described in Notes 1.4 and 1.5 to the consolidated financial statements. We have reviewed the conditions of implementation of this impairment test and of indication of impaired value, and verified that Notes 4 and 5 to the consolidated financial statements give appropriate information, in particular in relation to sensitivity analysis.

As indicated in Note 1.25 to the consolidated financial statements, this impairment test is based on estimates that are by nature uncertain, and the realization of which is likely to postpone, possibly in a significant way, forward-looking data that is used, notably in a context of economic and financial volatility.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. SPECIFIC VERIFICATION

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, March 16, 2011

#### The Statutory Auditors

##### PricewaterhouseCoopers Audit

Étienne BORIS

Philippe VOGT

##### Ernst & Young et Autres

Jeanne BOILLET

Gilles COHEN

### 4.3 Fees paid by the Group to the Statutory Auditors and members of their networks

Analysis of fees (before tax) paid to the Group's Statutory Auditors for services performed in 2009 and 2010:

	2009				2010			
	Pricewaterhouse Coopers		Mazars		Pricewaterhouse Coopers		Ernst & Young et Autres	
<i>(in € millions, except %)</i>	Amount	%	Amount	%	Amount	%	Amount	%
<b>Audit</b>								
<b>Statutory audit, certification, review of individual and consolidated financial statements</b>	<b>4.8</b>	<b>76</b>	<b>2.8</b>	<b>97</b>	<b>3.9</b>	<b>56</b>	<b>2.7</b>	<b>91</b>
<i>Issuer</i>	0.8	13	0.6	21	0.7	10	0.5	17
<i>Fully-consolidated subsidiaries</i>	4.0	63	2.2	76	3.2	46	2.2	74
<b>Other reviews and services directly related to the Statutory Auditors' assignment <sup>(1)</sup></b>	<b>0.9</b>	<b>14</b>	<b>0.1</b>	<b>3</b>	<b>2.5</b>	<b>35</b>	<b>0.2</b>	<b>6</b>
<i>Issuer</i>	0.5	8	0.1	3	1.7	24	0.0	0
<i>Fully-consolidated subsidiaries</i>	0.4	6	–	–	0.8	11	0.2	6
<b>Other services rendered by the networks to the fully-consolidated subsidiaries</b>	<b>0.6</b>	<b>10</b>	<b>–</b>	<b>–</b>	<b>0.6</b>	<b>9</b>	<b>0.1</b>	<b>3</b>
<i>Tax</i>	0.6	10	–	–	–	0	–	0
<b>Total fees</b>	<b>6.3</b>	<b>100</b>	<b>2.9</b>	<b>100</b>	<b>7.0</b>	<b>100</b>	<b>2.9</b>	<b>100</b>

(1) These reviews and services include due diligence services related to auditors' mission related to business combinations for 0.15 million euros for Ernst & Young and 1.9 million euros for Pricewaterhouse Coopers.

# FINANCIAL STATEMENTS OF THE PARENT COMPANY DANONE AND OTHER CORPORATE DOCUMENTS

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## 5.1 Financial Statements of the parent company, Danone

### Income Statement

<i>(In € millions)</i>	Notes	2009	2010
Net sales		294	347
Other income		–	1
<b>Total operating income</b>	<b>9</b>	<b>294</b>	<b>348</b>
Personnel costs	11	(181)	(183)
Other operating expenses		(355)	(307)
<b>Total operating expenses</b>	<b>10</b>	<b>(536)</b>	<b>(490)</b>
<b>Net operating expenses</b>		<b>(242)</b>	<b>(142)</b>
Income from equity interests	12	1,222	925
Interest and similar income		11	21
Interest and similar expenses		(286)	(231)
Other financial income (expenses)		(4)	143
<b>Net financial income</b>	<b>12</b>	<b>943</b>	<b>858</b>
<b>Income before non-recurring items and tax</b>		<b>701</b>	<b>716</b>
<b>Net non-recurring income (expenses)</b>	<b>13</b>	<b>(250)</b>	<b>67</b>
Income tax	14	113	127
<b>NET INCOME</b>		<b>564</b>	<b>910</b>

## Balance sheet

### ASSETS

<i>(In € millions)</i>	Notes	2009		2010	
		Net amount	Gross amount	Depreciation, amortization and provisions	Net amount
Intangible assets		18	48	(27)	21
Tangible assets		6	24	(18)	6
Equity interests		16,234	17,300	(30)	17,270
Other long-term financial assets		1,037	1,963		1,963
<b>Financial assets</b>	<b>3</b>	<b>17,271</b>	<b>19,263</b>	<b>(30)</b>	<b>19,233</b>
<b>Non-current assets</b>		<b>17,295</b>	<b>19,335</b>	<b>(75)</b>	<b>19,260</b>
Receivables	4	1,065	140		140
Marketable securities	5	133	513		513
Cash and cash equivalents		1			
<b>Current assets</b>		<b>1,199</b>	<b>653</b>		<b>653</b>
Deferrals and prepaid expenses		21	66		66
<b>TOTAL ASSETS</b>		<b>18,515</b>	<b>20,054</b>	<b>(75)</b>	<b>19,979</b>

### EQUITY AND LIABILITIES

<i>(In € millions)</i>	Notes	2009		2010	
		(after allocation)	(before allocation)	(after allocation)	(after allocation)
Share capital		162	162		162
Additional paid-in capital		3,392	3,424		3,424
Revaluation reserve		4	4		4
Reserves		3,781	3,781		3,781
Retained earnings		3,713	3,745		3,812
Net income for the year			910		
Regulated provisions		18			
<b>Equity</b>	<b>6</b>	<b>11,070</b>	<b>12,026</b>		<b>11,183</b>
Provisions for risks and liabilities		6			
Bonds	7	2,924	3,281		3,281
Other financial debt	7	2,006	2,680		2,680
Other liabilities	8	2,507	1,963		2,806
Deferrals and prepaid expenses		2	29		29
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,515</b>	<b>19,979</b>		<b>19,979</b>

## 5.2 Notes to the Financial Statements of the parent company, Danone

### ● ● ● SOMMAIRE DES NOTES ANNEXES

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## NOTE 1 - Highlights of the year

In 2010 Danone continued the debt restructuring program it began in 2009:

- the commercial paper program previously carried by Danone Finance and guaranteed by Danone is now carried by Danone;
- in order to extend the average maturity of its debt and benefit from the current historically low long-term interest rates, Danone carried out the following two-fold transaction on the euro bond markets in November 2010:
  - an issue of new bonds maturing in 2020,
  - an exchange offer of these newly-issued bonds for bonds previously issued and maturing in 2014 and 2015 (these tranches had already been the subject of a tender offer in 2009).

Following this two-fold transaction, a net nominal amount of € 344 million of new debt was raised, the average maturity of the Company's bonds was increased by 1.4 year and a major portion of the tranche maturing in May 2011 was pre-financed.

Following its assumption of the bond program in 2009 and the commercial paper program in 2010, both of which were previously undertaken by Danone Finance and guaranteed by the Company, Danone Finance transferred all its assets and liabilities to Danone on December 1, 2010. This global transfer of assets and liabilities was carried out on the basis of the carrying amounts of said assets and liabilities (see Note 12).

In addition, under the terms of the authorization given by the Shareholders' General Meeting of April 22, 2010, the Company repurchased 5,362,100 treasury shares.

## NOTE 2 - Accounting principles

The Company's financial statements are prepared in accordance with French statutory and regulatory provisions and generally accepted accounting principles.

The main methods used are as follows:

### TANGIBLE AND INTANGIBLE ASSETS

Tangible and intangible assets are valued at acquisition cost (including acquisition-related costs) and are amortized or depreciated on a straight-line basis according to their estimated use duration as follows:

Buildings	15 to 20 years
Fixtures and fittings	8 to 10 years
Other property, plant and equipment	4 to 10 years
Software	1 to 3 years

### FINANCIAL ASSETS

These are comprised of equity interests, the long-term possession of which is deemed to be useful for the Company's activity, notably because it enables the Company to exercise an influence on or control over the issuing company. Investments that do not meet this definition are classified as other long-term financial assets.

Equity interests are recognized at acquisition cost, including acquisition-related costs, which are amortized over five years as of the date of acquisition. For tax purposes, these assets are subject to accelerated tax amortization rates. An impairment is recognized when the value in use of equity interests falls

below their carrying value on a permanent basis. Value in use is determined on the basis of various criterias, including market value, expected profitability and revalued equity.

Impairments are recognized as other financial income (expenses), with the exception of reversals of impairments in connection with investment disposals, which are recognized as non-recurring items. Results on the disposals of equity interests are recognized as non-recurring income (expenses).

Other long-term financial assets include the Danone shares held in connection with the authorizations given by the Shareholders' General Meeting.

## DANONE TREASURY STOCK

Repurchased DANONE shares are recognized at acquisition cost, excluding acquisition-related costs.

Repurchased shares are recognized as financial assets (when repurchased to be cancelled or in connection with corporate acquisitions) or as marketable securities (when repurchased to provide the shares required under stock option plans).

An impairment provision is recorded for shares recognized as financial assets that are not to be cancelled when their recoverable amount (assessed at the average rate for the last month of the fiscal year) falls below their carrying amount.

In the case of treasury stock allocated to stock option plans, a provision for risks is recognized if the exercise price of the option set in the plan is lower than the acquisition price, to reflect the expense related to the likely exercise of the option. This provision is recalculated at every balance sheet date, based on the probability of the exercise of the option determined by the market price of Danone shares at that date.

## RECEIVABLES

Receivables are stated at their nominal value. An impairment provision is recorded when the recoverable amount is less than the carrying amount.

## TRANSACTIONS IN FOREIGN CURRENCIES

Expenses and income in foreign currencies are recorded at their exchange value in euros at the date of the transaction. Liabilities, receivables and cash denominated in foreign currencies are recorded in the balance sheet at their exchange value in euros at the year-end rate. The differences resulting from the translation of foreign currency liabilities and receivables at this latter rate are recorded in the balance sheet in the line items "Deferrals and prepaid expenses" and "Deferrals and accrued expenses." A provision for risk is recognized for non-hedged unrealized exchange losses.

## MARKETABLE SECURITIES

The gross value of marketable securities corresponds to the acquisition cost excluding acquisition-related costs. When the market value of each category of securities of the same nature is lower than the acquisition cost, a provision for impairment is recognized equal to the difference.

## BONDS

Bonds constitute amounts borrowed by Danone under the terms of its EMTN (Euro medium Term Note) program from the capital markets via public issuances and private placements, denominated in euros or foreign currencies. Bonds denominated in foreign currencies may be maintained in those currencies or swapped into euros. Bonds are recognized at their nominal value. Foreign currency bonds that are not swapped are converted at the closing exchange rate whereas foreign currency bonds that have been swapped continue to be converted at their historical exchange rate.

## DERIVATIVES

Danone hedges part of its bonds denominated in foreign currencies by "cross currency swaps". For each bond hedged, Danone applies hedge accounting, which involves recognizing at the historical rate (hedged rate resulting from the implementation of the cross currency swap) the interest relating to the bond and the cross currency swap. Since Danone is not ultimately exposed to foreign exchange risk on repayment of the bonds, said bonds are not revalued at the closing rate.

Conversely, unhedged bonds are revalued at the closing rate at each balance sheet date.

In addition, Danone Corporate Finance Services, a wholly-owned subsidiary, also carries out interest rate hedging transactions in respect of certain borrowings and commercial paper held by Danone SA.

## PROVISIONS FOR RISKS AND LIABILITIES

Provisions are recognized for identified risks and liabilities of uncertain timing or amount, when the Company has an obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Company.

Please refer to the paragraph headed "Danone treasury stock" for information concerning provisions against treasury stock.

## RETIREMENT COMMITMENTS

Supplementary retirement commitments and gratuity payments borne by the Company are included in off-balance sheet commitments.



### NOTE 3 - Financial assets

<i>in € millions</i>	<b>As of December 31, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Reclassifications</b>	<b>As of December 31, 2010</b>
Equity interests	16,264	14,525	(13,489)		17,300
Loans	131	1,241	(131)		1,241
Treasury stock	900	250		(434)	716
Other	6				6
Provisions	(30)				(30)
<b>TOTAL (NET)</b>	<b>17,271</b>	<b>16,016</b>	<b>(13,620)</b>	<b>(434)</b>	<b>19,233</b>

Detailed information about equity interests is provided under "Securities held in portfolio as of December 31, 2010" in Note 19.

The main increases in equity interests were the acquisition of the Danone Finance International shares for € 2,012 million following the Danone Finance universal transfer of assets and liabilities, and the Danone Baby and Medical Holding shares for € 12,366 million, which represented remuneration for the contribution of the Danone Baby Medical and Nutrition BV shares to that same company.

The main decreases in equity interests were the disposal of the Danone Finance shares for € 875 million following the Danone Finance universal transfer of assets and liabilities and the Danone

Baby Medical and Nutrition BV shares contributed to Danone Baby and Medical Holdings for € 12,325 million.

The main increase in loans relates to loans totaling € 1,013 million resulting from the Danone Finance universal transfer of assets and liabilities.

The change in the treasury stock held by the Company corresponds to the repurchase of € 250 million of treasury stock under the terms of the authorization given by the Shareholders' General Meeting of April 22, 2010 and the reclassification as marketable securities of € 434 million of treasury stock covering stock option plans.

### NOTE 4 - Receivables

This item includes mainly € 103 million of receivables (due within less than one year) owed by the Company's subsidiaries and equity interests.

The main change since 2009 corresponds to the cancellation of the € 967 million short-term intercompany loan attributed to Danone Finance in 2009, following the Danone Finance universal transfer of assets and liabilities on December 1, 2010.

### NOTE 5 - Marketable securities

This item comprises 14,747,094 treasury shares with a value of € 493 million covering stock option plans, and investments made by the Company in the danone.communities fund. Danone.communities is an open-ended investment company, the aim of which is to finance certain social projects through an investment with a return that is very close to the money-market rate.

The change in the value of treasury stock classified as marketable securities was due to the reclassification from financial assets of € 434 million of treasury stock allocated to stock option plans and a € 53 million reduction following the exercise of stock purchase options.

## NOTE 6 - Equity

<i>(In € millions)</i>	<b>As of December 31, 2009</b>	<b>2010 net income</b>	<b>Other movements</b>	<b>As of December 31, 2010</b>
Issued capital	162			162
Additional paid-in capital	3,392		32	3,424
Legal reserve	16			16
Other reserves	3,769			3,769
Retained earnings	3,713		32	3,745
Net income for the year		910		910
Regulated provisions	18		(18)	
<b>TOTAL EQUITY</b>	<b>11,070</b>	<b>910</b>	<b>46</b>	<b>12,026</b>

As of December 31, 2010, the Company's issued capital consisted of 647,921,840 ordinary shares with a par value of € 0.25

## NOTE 7 - Bonds and other financial debt

As of December 31, 2010, following the issues and exchanges carried out in 2010, bonds totaled € 3,281 million compared with € 2,924 million in 2009.

Other financial debt consisted mainly of a € 2,000 million medium-term loan from Danone Finance International and commercial paper with a nominal value of € 657 million.

Of these bonds and other financial debt, € 1,635 million matures in less than one year, € 3,587 million in one to five years, and € 739 million in more than five years.

## NOTE 8 - Other liabilities

As of December 31, 2010, this item consisted primarily of the Company's liabilities to subsidiaries and equity interests, including a € 1.7 billion short-term intercompany advance from Danone Finance International. In the balance sheet after allocation, this item also included the € 842 million dividend to be paid in respect of fiscal year 2010.

It also comprised trade payables, which may be analyzed by due date as follows:

<i>(In € millions)</i>	<b>Outstandings</b>	<b>&lt; or equal to 30 days</b>	<b>Between 31 and 60 days</b>	<b>&gt; 60 days</b>
As of December 31, 2010	25.3	10.4	14.9	-

It also comprised the following accrued charges:

<i>(In € millions)</i>	<b>As of December 31, 2009</b>	<b>As of December 31, 2010</b>
Services provided	89	59
Personnel costs	58	64
Social charges	9	11
Tax liabilities	2	3
Financial liabilities	2	2
<b>TOTAL</b>	<b>160</b>	<b>139</b>

The majority of other liabilities have a maturity of less than one year.

## **NOTE 9 - Operating income**

Operating income mainly comprises the billing of direct and indirect subsidiaries for services rendered by the Company to those subsidiaries. It totaled € 348 million for the year ended December 31, 2010, compared with € 294 million for the year ended December 31, 2009.

## **NOTE 10 - Operating expenses**

Operating expenses mainly include personnel costs, rental charges, and fees paid to external service providers, and totaled € 489 million for the year ended December 31, 2010, compared with € 536 million for the year ended December 31, 2009.

## NOTE 11 - Compensation and personnel

### COMPENSATION OF EMPLOYEES

Gross employee compensation and the related social charges totaled € 183 million in 2010 (€ 181 million in 2009).

### COMPENSATION OF MEMBERS OF MANAGEMENT BODIES AND OF THE BOARD OF DIRECTORS

The compensation of members of management and governance bodies amounted to € 16.7 million in 2010.

The attendance fees paid to Directors amounted to € 0.5 million, gross, in 2010 and are recorded in the line item "Other operating expenses."

### AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	2009		2010	
	Number	Percentage	Number	Percentage
Executives	525	79	542	79
Supervisors and technicians	112	17	111	16
Clerical staff	31	4	37	5
<b>TOTAL</b>	<b>668</b>	<b>100</b>	<b>690</b>	<b>100</b>

## NOTE 12 - Net financial income

Financial income mainly comprises the dividends received from the Company's equity interests. In 2010, these dividends amounted to € 925 million as against € 1,222 million in 2009. As a reminder, in 2009 Danone received non-recurring dividends following the disposals of the Wahaha subsidiaries and Frucor.

Financial expenses include primarily interest payments of:

- € 95 million on short- and medium-term loans from Danone Finance International;
- € 134 million on bonds.

Other financial income (expenses) consists mainly of a € 144 million merger surplus following the global transfer of the assets and liabilities of Danone Finance to Danone on December 1, 2010.

Danone Finance's balance sheet, consolidated into Danone SA's financial statements as of December 1, 2010, in consideration for the equity interests held by Danone SA in Danone Finance in the amount of € 875 million, was as follows:

<i>(In € millions)</i>	
<b>Assets</b>	
Equity interests	2,012
Other long-term financial assets	1,013
Receivables	42
Deferrals and prepaid expense	9
<b>TOTAL ASSETS</b>	<b>3,076</b>
<b>Liabilities excluding equity</b>	
Other debts <sup>(1)</sup>	2,057
<b>TOTAL LIABILITIES EXCLUDING EQUITY</b>	<b>2,057</b>

(1) Including € 2,054 million of current account vis a vis Danone SA, which were set off at the time of the transfer.

## NOTE 13 - Net non-recurring income (expenses)

In 2010, net non-recurring income of € 67 million consisted mainly of € 42 million resulting from the recognition of a receivable arising from the carry back of prior year tax losses and of € 23 million relating to the write-back of accelerated tax amortization recognized in respect of the acquisition costs of Danone Baby and Medical Nutrition BV.

The net non-recurring expense in 2009 consisted primarily of € 116 million in charges on the repurchase of bonds and € 100 million for the free and irrevocable capital contribution on creation of the "Danone Ecosystem Fund".

## NOTE 14 - Income tax

### TAX GROUP

Danone forms a tax group with the French subsidiaries in which it holds, directly or indirectly, a stake of more than 95%. The Company has signed an agreement covering the application conditions of the tax consolidation, in compliance with the rules set by the French tax authorities, with some of the companies that have opted for this regime. This agreement does not include the repayment by Danone to its consolidated subsidiaries of tax savings made as a result of the subsidiaries' tax losses, if the latter should subsequently realize a taxable profit or leave the tax group.

Within the tax group, the subsidiaries recognize and pay their tax to Danone as if they were taxed separately. The tax saving is recognized by Danone.

The tax credit recognized in the profit and loss statement in 2010 mainly resulted from the excess tax paid by the profit-making subsidiaries in relation to the tax charge resulting from the tax consolidation, for € 127 million, and adjustments of the tax charge from prior years.

In accordance with the provisions of Article 39.4 of the French Tax Code (*Code Général des Impôts – CGI*), € 484,131 in respect of car depreciation and rental was disallowed for tax purposes in 2010.

The application of Article 39.5 of the CGI did not result in any amounts being disallowed for tax purposes.

The companies belonging to the tax group in 2010 were:

Danone Corporate Finance Services	Danone
Arcil	Holding Internationale de Boissons
Blédina	Menervag
Celaco	Danone Baby and Medical Holding
Compagnie Gervais Danone	Heldinvest 3
Danone Produits Frais France	Produits Laitiers Frais Est Europe
Danone Dairy Asia	Produits Laitiers Frais Nord Europe
Danone Baby Nutrition Africa and Overseas	Produits Laitiers Frais Sud Europe
Danone Research	Société Anonyme des Eaux Minérales d'Evian
Drinkco	Société des Eaux de Volvic
Et Votre Corps Sourit	Step St Just
DanSource	Stonyfield France
Health at Work	Nutricia France
Nutricia Nutrition Clinique sas	

As of December 31, 2010, tax loss carry-forwards generated within the tax group in France amounted to € 539 million, compared to € 1,033 million as of December 31, 2009.

The Company and its subsidiaries may be subject to tax audits. When it becomes apparent that Danone SA risks being the subject of a tax reassessment, the amount of said reassessment is estimated and a provision for risks and liabilities is recognized. Following the notification of an audit received in December 2009,

the French subsidiaries were audited by the tax authorities for the fiscal years 2006, 2007 and 2008. The findings of the audits finalized at the balance sheet date did not have a significant impact on Danone SA's financial statements.

Items likely to result in a reduction of future tax liabilities consist mainly of accrued charges. They totaled € 15 million and would therefore have an impact of € 5.2 million on future tax charges.

## NOTE 15 - Financial situation and net debt

As of December 31, 2010, the Company's net debt totaled approximately € 7.7 billion, corresponding to € 7.7 billion of financial debt. Net debt increased by € 1.3 billion during the 2010

fiscal year, due mainly to the € 1.1 billion increase in a short-term loan from Danone Finance.

## NOTE 16 - Off-balance sheet commitments

The Company or certain of its direct or indirect subsidiaries have undertaken to acquire the shares held by third-party shareholders in certain companies in which the Company has a direct or indirect stake, should such shareholders wish to exercise their put option. The exercise price of these options is generally based on the profitability and financial position of the company concerned at the exercise date of the put option. As of December 31, 2010, the financial commitments given by the Company and all of its consolidated subsidiaries were estimated at € 3.9 billion. No significant cash outflow is considered probable in the short term in respect of these options.

As of December 31, 2010, rental commitments and commitments relating to purchases of services amounted to € 78.2 million and € 12.6 million, respectively. The Company is contractually committed to pay to the Fondation Danone a total of € 6.4 million over two years.

Gross commitments relating to guaranteed supplementary retirement benefits, valued using the actuarial method, amounted to approximately € 300 million as of December 31, 2010 and € 95 million after taking into account the funds' available assets, compared with a net commitment of € 47 million as of December 31, 2009.

The € 48 million increase is attributable primarily to the fall in interest rates used for the actuarial calculations. More specifically, as regards the retirement plan reserved for certain Group executives, the Company's net commitment amounted to € 76 million, i.e. a gross commitment of € 264 million and available assets of the fund totaling € 188 million. In addition, as of December 31, 2010, the total commitment by the Company in respect of executive directors and officers' (*mandataires sociaux*) retirement benefits amounted to € 41.8 million.

In addition, indemnification payments to members of the Executive Committee in certain cases where they cease their terms of office or functions were set at twice the annual gross compensation (fixed, variable, and in-kind) they received over the 12 months preceding the date on which they cease their functions and, in the case of the Company's three executive directors and officers, the Board of Directors decided on February 10, 2010 that the payment of these indemnities would be subject to the achievement of certain performance objectives.

The Company negotiated currency swaps to hedge its bonds denominated in foreign currencies, the currency swaps portfolio is broken down as follows:

	Nominal amount in thousand currency	Nominal amount in thousand euros
Currency swaps EUR/CHF	425,000	260,736
Currency swaps EUR/CZK	1,394,000	47,274
Currency swaps EUR/JPY	31,600,000	192,918

Lastly, commitments received by the Company concern € 5 billion in available committed credit facilities.

The Company and certain of its subsidiaries are parties to a variety of legal and arbitration proceedings arising in the ordinary

course of business. Some of these proceedings involve claims for damages, and liabilities are provided for when a loss is probable and can be reliably estimated.

## NOTE 17 - Related party transactions

<i>(In € millions)</i>	As of December 31	
	2009	2010
Other receivables	1,030	103
Other liabilities	1,515	1,801
Financial liabilities	2,007	2,007
Operating income	280	337
Financial income	1,230	943
<b>TOTAL INCOME</b>	<b>1,510</b>	<b>1,280</b>
Operating expenses	(99)	(80)
Financial expenses	(148)	(95)
<b>TOTAL EXPENSES</b>	<b>(247)</b>	<b>(175)</b>

**NOTE 18 - Subsidiaries and affiliates as of December 31, 2010**

<i>(In € millions)</i>	Capital <sup>(1)</sup>	Other shareholders' Equity <sup>(1) (3)</sup>	Percentage of capital held <i>(In %)</i>	Carrying value of shares held		Guarantees and endorsements given by the Company	Sales for last fiscal year <sup>(2)</sup>	Income or (loss) for last fiscal year <sup>(2)</sup>	Dividends received by the Company during the fiscal year
				Gross	Net				
<b>Subsidiaries (at least 50% of the share capital held by the Company)</b>									
<b>French entities</b>									
DANONE CORPORATE FINANCE SERVICE	142	57	100	179	179			(4)	1
CIE GERVAIS DANONE	843	1,074	100	510	510			1,389	803
DANONE BABY AND MEDICAL HOLDING	12,369	4	100	12,366	12,366			33	
HOLDING INTERNATIONALE DE BOISSONS	908	41	100	929	929			(5)	121
<b>Foreign entities</b>									
DANONE SINGAPORE HOLDINGS	218	23	61	159	159			(2)	
DANONE ASIA	741	(108)	71	651	651			14	
DANONE SERVICES BENELUX	181	270	100	400	400			2	
DANONE FINANCE NETHERLANDS	8	36	100	94	63			(1)	
DANONE FINANCE INTERNATIONAL	836	4,244	38	2,013	2,013			185	
<b>Affiliates (at least 10% to 50% of the capital held by the Company)</b>									
None									

(1) The amounts relating to foreign companies are converted at the year-end rate.

(2) The amounts relating to foreign companies are converted at the average rate for the year.

(3) Excluding results for the year.



**NOTE 19 - Securities held in portfolio as of December 31, 2010**

<i>(In € millions)</i>	<b>Number of shares</b>	<b>Carrying amount as of December 31, 2010</b>
<b>1. French holdings</b>		
Danone Corporate Finance Services	8,874,994	179
Compagnie Gervais Danone	33,440,080	510
Danone Baby and Medical Holding	12,369,171,227	12,366
Holding Internationale de Boissons	57,835,571	929
<b>Total French holdings</b>		<b>13,984</b>
<b>2. Foreign holdings</b>		
Danone Singapore Holdings	144,830,596	159
Danone Asia	701,114,726	651
Danone Services Benelux	72,464	400
Danone Finance Netherlands	800,000	63
Danone Finance International	4,034,154	2,013
<b>Total foreign holdings</b>		<b>3,286</b>
<b>Total equity interests</b>		<b>17,270</b>
<b>3. Long-term investments and other long-term financial assets</b>		
Treasury stock	16,326,858	716
<b>Total long-term investments and other long-term financial assets</b>		<b>716</b>
<b>TOTAL</b>		<b>17,986</b>

## NOTE 20 - Financial results and other significant information relating to the last five years

	2006	2007 <sup>(2)</sup>	2008	2009	2010
<b>Capital at balance sheet date</b>					
Share capital (in €)	130,432,373	128,212,865	128,450,536	161,747,713 <sup>(1)</sup>	161,980,460
Number of shares issued	260,864,746	512,851,460	513,802,144	646,990,850 <sup>(1)</sup>	647,921,840
<b>Operations and results for the year (in € millions)</b>					
Net sales	228	290	305	294	347
Income before taxes, amortization, depreciation and provisions	394	3,843	(501)	472	791
Income tax (profit)	226	230	131	113	126
Income after taxes, amortization, depreciation and provisions	874	4,046	850	564	910
Earnings distributed	522	564	617	776	842
<b>Earnings per share (in €)</b>					
Income after taxes, but before amortization, depreciation and provisions	2.38	7.94	(0.72)	0.90	1.42
Income after taxes, amortization, depreciation and provisions	3.35	7.89	1.65	0.87	1.40
Dividend paid per share	2.00	1.10	1.20	1.20	1.30
<b>Personnel</b>					
Average number of employees for the year	673	692	661	668	690
Payroll expenses (in € millions)	99	131	114	121	123
Benefits paid (social security, social benefit schemes, etc.) (in € millions)	50	55	54	60	60

(1) Includes notably the impact of the capital increase of June 25, 2009.

(2) The stock underwent a 2:1 split in June 2007.

## 5.3 Statutory Auditors' report on the annual financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying financial statements of Danone SA;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

### I. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2010 and of the results of its operations for the year then ended in accordance with French accounting principles.

### II. JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- equity interests are recorded as assets in your Company's balance sheet for a book value of € 17,270 million. Note 2 to the financial statements describes the methods adopted for accounting for these shares as well as the methods used to calculate impairment losses. We performed sample tests to confirm that these methods were applied correctly and we reviewed the methods used to determine the amount of the impairment losses. We have assessed the data and assumptions on which these estimates are based, that are uncertain by nature, and the realization of which is likely to postpone, possibly in a significant way, forward-looking data that are used;
- as stated in Note 16 to the financial statements, your Company or certain of its direct or indirect subsidiaries have undertaken to acquire the shares held by third-party shareholders in certain companies in which your Company has a direct or indirect stake, should such shareholders wish to exercise their put option. We reviewed the methods used by your Company to calculate these financial commitments based on the information currently available. We have assessed the data and assumptions on which these estimates are based and the resulting valuations.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law. We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Regarding the information provided in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits granted to the directors and officers (*mandataires sociaux*) and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine, March 16, 2011

#### The Statutory Auditors

##### PricewaterhouseCoopers Audit

Étienne BORIS

Philippe VOGT

##### Ernst & Young et Autres

Jeanne BOILLET

Gilles COHEN

## 5.4 Related Party Transactions

### Related Party Transactions

**(Pursuant to Article L. 225-38 of the French Commercial Code)**

**The following related party transactions, which the Company entered into during the previous fiscal years, continued to apply during 2010.**

- At its July 21, 2004 meeting, the Board of Directors, pursuant to the Nomination and Compensation Committee's proposal, updated the conditions under which the employment agreements of Franck RIBOUD and Jacques VINCENT would be resumed (it being specified that such employment agreements were suspended on August 26, 1994 when they were appointed as executive directors and officers (*mandataires sociaux*) of the Company) assuming that their term of office had ended, for whatever reason, and established that:
  - the amount of time during which they have exercised their duties as executive directors and officers for the benefit of the Company will be entirely taken into account with respect to seniority and their resulting rights within the framework of their employment agreement;
  - the Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee;
  - the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement;
  - they will benefit from the Company's defined benefit pension plan based on their seniority as a corporate officer and their seniority under the employment agreement.

**Jacques VINCENT exercised his right to receive retirement benefits effective April 1, 2010 as part of his retirement. His employment agreement was therefore terminated as of that date.**

- At its February 14, 2007 meeting, the Board of Directors renewed the € 500 million authorization allowing the Company to act as guarantor for various financial transactions conducted by Danone Finance, one of the Group's specialized finance companies.

Said authorization was amended by the February 10, 2010 Board of Directors' meeting to include financial transactions

carried out by its subsidiary Danone Corporate Finance Services (formerly known as Alfabanque). **This amendment was approved by the Company's Shareholders' General Meeting on April 22, 2010.**

**This guarantee was extinguished on November 30, 2010 with respect to Danone Finance as part of the subsidiary's dissolution without liquidation (through the global transfer of assets and liabilities to the Company) and it was maintained unchanged with respect to Danone Corporate Finance Services. To date, this guarantee has never been used.**

- At its April 26, 2007 meeting, the Board of Directors of the Company, within the framework of the danone.communities project, authorized the signing of a cooperation agreement established between the Company, the danone.communities open-ended investment company (*Société d'Investissement à Capital Variable* – SICAV), the danone.communities venture capital fund (*Fonds Commun de Placements à Risques* – FCPR), and companies of the Crédit Agricole Group (namely Ideam and Crédit Agricole Private Equity, respectively management companies for the SICAV and the FCPR, it being specified that as of the date of this meeting, Jean LAURENT, Director of the Company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole Group). This agreement governs the relations among the Company and other entities that have taken part in the danone.communities project, and in particular provides for the subscription of shares of the SICAV by the Company for a maximum amount of € 20 million, as well as the annual financial contribution by the Company of a maximum amount of € 1.5 million for the first fiscal year, it being specified that this amount must be revised annually by the Board of Directors of the Company.

The Board of Directors' meeting of February 10, 2010 thereby increased the Company's annual financial contribution for 2010 to a maximum of € 4 million (**as the Company's total financial contributions toward projects for 2010 reached € 3.96 million**).

**The Board of Directors' meeting of February 14, 2011 maintained the Company's annual financial contribution at a maximum of € 4 million. Franck RIBOUD and Emmanuel FABER abstained from voting on this matter, as both are Directors of the danone.communities SICAV.**

## Related Party Transactions

4. At its October 19, 2007 meeting, the Board of Directors authorized the Company to grant a collateral security to the benefit of its subsidiaries Danone Finance, Danone Finance International (and all other direct or indirect subsidiaries that would become additional borrowers to the credit agreement entered into by the Company on December 7, 2007) with respect to all of their financial commitments in principal, interest, and accessory payments and, more generally with respect to any payments due in their capacity as additional borrowers, and up to a limit of a maximum principal amount of € 4 billion. This bank credit consists of two tranches, the first of € 2.3 billion having expired in December 2010 and the second for € 1.7 billion that expires in December 2012.

**In 2010, this guarantee was utilized in the average amount of € 11,890,411, which generated interest income for the Company of € 11,890.41. This guarantee was terminated as of October 22, 2010 with respect to Danone Finance (as it was no longer a party to the bank credit) and was maintained unchanged with respect to Danone Finance International.**

5. At its February 10, 2010 meeting, the Company's Board of Directors amended the authorization allowing the Company to guarantee its subsidiary Danone Finance, in connection with the issue of commercial paper, for a total maximum amount of € 3 billion, covering the principal amount and any interest, costs, disbursements and incidental expenses related to said amounts (in 2010, this guarantee was utilized in the average amount of € 918,944,116, providing the Company with interest income totaling € 918,944.12), to include its subsidiary Danone Finance International.

**On October 22, 2010, Danone Finance ended its commercial paper program, with the program taken over exclusively by the Company as of that date. As this guarantee toward Danone Finance no longer served any purpose, it expired as of the same date.**

6. The Board of Directors' meeting of February 13, 2008 confirmed the commitment the Company undertook with respect to each of the four executive directors and officers relative to the payment of a pension under the defined benefit pension plan in the form of an annuity (with a reversion option), calculated based on the following elements:
- the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the last three years of activity within the Group. The length of service taken into account would include the period corresponding to the term of corporate office;
  - in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity;

- the amount of the annuity that would be paid to Franck RIBOUD and Jacques VINCENT would correspond to 2% of this calculation basis per year of seniority (this amount will however be subject to a ceiling of 65% of this calculation basis), minus the full amount of pension rights that Franck RIBOUD and Jacques VINCENT are entitled to and have acquired over the course of their professional careers, including the supplementary pension plan fully funded by the Company;
- the amount of the annuity that would be paid to Emmanuel FABER and Bernard HOURS would correspond to (i) 1.5% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche located between 3 and 8 French Social Security ceiling levels (*3 et 8 plafonds de la Sécurité Sociale*), and (ii) 3% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche that is higher than these 8 ceiling levels (this amount will however be limited on the basis of a maximum seniority of 20 years) minus the full amount of pension rights that Emmanuel FABER and Bernard HOURS have acquired due to the implementation of the supplementary plan fully funded by the Company.

The person concerned is eligible to this pension plan only if he was performing his duties within the Group at the time of retirement (it being specified that in the event the person leaves the Group before reaching the age of 55, all the rights acquired will be lost, and that in the event such officer is laid off after the age of 55, the benefit derived from this plan is preserved, on the condition that the person does not take up a salaried position).

**These agreements were maintained in 2010 and were not utilized, with the exception of the one involving Jacques VINCENT, who exercised his rights to retirement benefits effective April 1, 2010. The annuity which has been paid to him during the 2010 fiscal year with respect to this agreement is included in the total amount (i.e. 1.3 million euros in 2010) paid by the Company to the members of the Board of Directors for their past functions in the Group.**

7. The Board of Directors' meeting of February 13, 2008 authorized an amendment to the employment agreements concluded with Emmanuel FABER and Bernard HOURS, for the purpose of determining the conditions under which their respective employment agreements would be resumed (it being specified that such employment agreements were suspended when they were appointed as executive directors and officers of the Company), assuming that their term of office had ended, for whatever reason. This amendment provides both executives, in an identical way, with the assurance that:
- the amount of time during which they have exercised their duties as executive directors and officers for the benefit of the Company will be entirely taken into account with respect to seniority and to their resulting rights within the framework of their employment agreement;

- the Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee;
  - the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement;
  - they will benefit from the Company's defined benefit pension plan based on their seniority as a corporate officer and their seniority under the employment agreement;
  - the contractual indemnity due in the event of a breach in the employment agreement will be cancelled.
8. The Board of Directors' meeting of February 13, 2008 approved the principle and methods for the rights to an indemnity for each of the Company's four directors and officers.

The Board of Directors' meeting of February 10, 2010 amended the indemnification rights of Franck RIBOUD, Chairman and Chief Executive Officer, Emmanuel FABER, Deputy General Manager, and Bernard HOURS, Deputy General Manager, in certain events involving the termination of their term of office, **it being specified that Jacques VINCENT exercised his rights to retirement benefits effective April 1, 2010 and that for Bernard HOURS, the renewal of these conditions under strictly identical terms has been decided by the Board of Directors of February 14, 2011 and is submitted to the approval of the Shareholders' General Meeting of April 28, 2011.**

These amendments were approved at the Company's April 22, 2010 Shareholders' General Meeting in accordance with the following conditions:

**(i) Amount of the indemnity**

The person concerned will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure

described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the person concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.

**(ii) In the event of payment of the Indemnity**

The Indemnity will be due to the person concerned only in the event that his term of office is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct (*faute grave*), i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence (*faute lourde*), i.e. extremely gross negligence committed by the person with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in the Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly holds more than 50% of the Company's capital or voting rights).

In addition, no payment will be due under the Indemnity if the person concerned, as of the date on which his term of office ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the person concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the person concerned ceases to carry out his duties under said employment agreement or resigns from his salaried position within the three months following the date on which his term of office as an executive director and officer came to an end due to a change of control.

**(iii) Performance conditions governing payment of the Indemnity**

The amount paid under the Indemnity will be based on:

- a) the average organic growth in the Danone group's sales (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the executive director and officer (the "Reference Period"); and
- b) the average organic growth in the sales generated by the Panel members (the "Panel CICA"), over the Reference period.

The Group and Panel CICAs are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.



## Related Party Transactions

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically announce its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the Indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the person concerned will be allocated 50% of the Indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no Indemnity will be paid to the person concerned.

Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

#### (iv) Payment of the Indemnity

The amount of the Indemnity will be paid within 30 days following the date of the Board of Directors' meeting which will decide whether the performance conditions governing payment of the Indemnity have been met.

9. The Board of Directors' meeting of February 10, 2010 amended the suspended employment agreements of Emmanuel FABER, Bernard HOURS and Franck RIBOUD. The changes described below were approved at the

Shareholders' General Meeting of April 22, 2010. These agreements were therefore amended in order that:

- the Indemnity for Breach of the Employment Agreement is (i) subject to a limit of two years' fixed and variable gross compensation and (ii) in the event of the payment of both the Indemnity for Breach of the Employment Agreement and the indemnity due in certain instances of the termination of the term of office of an executive director and officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment agreement;
- the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same performance conditions as the indemnity due in certain instances of the termination of the term of office of the executive director and officer, and
- in the event only of the termination of his term of office caused by a change of control, the person concerned may, provided he is not guilty of serious misconduct or gross negligence, request the cancellation of his employment agreement in the form of lay-off within three months from the date of the termination of his term of office as a executive director and officer (i.e. the date on which his employment agreement is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of an executive director and officer, the performance conditions applicable to the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically amended. It is specified that with respect to Bernard HOURS, the performance conditions applicable to the portion of Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically modified in case of approval by the Shareholders' General Meeting of April 28, 2011 of the indemnification conditions due in certain instances of the termination of the term of office of an executive director and officer, these conditions being renewed on strictly identical terms.

The portion of the Indemnity for Breach of the Employment Agreement which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the agreement of the Board of Directors and the approval of the shareholders on each occasion the term of office is renewed.

In addition, the non-compete clause included in the suspended employment agreements of Emmanuel FABER and Bernard HOURS was amended such that it can only be exercised by the Company and result in the payment of consideration in the event of the resignation of either of the directors concerned.

**Finally, two new related party agreements were entered into or amended by the Company in 2010 (excluding those already approved by the April 22, 2010 Shareholders' General Meeting) or at the February 14, 2011 Board of Directors' meeting.**



10. At its April 22, 2010 meeting, the Board of Directors authorized as part of an internal restructuring transaction the contribution in-kind of the ownership interest held by the Company in its subsidiary Danone Baby and Medical Nutrition BV, representing 99.99% of that subsidiary's capital, to Danone Baby and Medical Holding SAS, based on the net carrying amount of the Danone Baby and Medical Nutrition BV securities as recognized in the Company's own financial statements as of December 31, 2009, i.e. € 12,324,935,533. As consideration for this contribution, Danone Baby and Medical Holding SAS issued and attributed to the Company 12,324,985,533 of its shares with a par value of € 1.
11. At its February 14, 2011 meeting, the Board of Directors decided, concurrent with the renewal of the term of office of Bernard HOURS subject to approval by the April 28, 2011 Shareholders' General Meeting, to renew his right to indemnification in certain cases involving the termination of his term of office (which had been determined by the February 10, 2010 Board of Directors' meeting and approved by the April 22, 2010 Shareholders' General Meeting) on terms strictly identical to those currently in effect, namely:

**(i) Amount of the Indemnity**

The person concerned will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the person concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.

**(ii) In the event of payment of the Indemnity**

The Indemnity will be due to the person concerned only in the event that his term of office is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct (*faute grave*), i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence (*faute lourde*), i.e. extremely gross negligence committed by the person concerned with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in the Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly holds more than 50% of the Company's capital or voting rights).

In addition, no payment will be due under the Indemnity if the person concerned, as of the date on which his term of office ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the person concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the person concerned ceases to carry out his duties under said employment agreement or resigns from his salaried position within the three months following the date on which his term of office as an executive director and officer came to an end due to a change of control.

**(iii) Performance conditions governing payment of the Indemnity**

The amount paid under the Indemnity will be based on:

- a) the average organic growth in the Danone group's sales (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the executive director and officer (the "Reference Period"); and
- b) the average organic growth in the sales generated by the Panel members (the "Panel CICA"), over the Reference period.

The Group and Panel CICAs are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically announce its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

## Related Party Transactions

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the Indemnity;

- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the person concerned will be allocated 50% of the Indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no Indemnity will be paid to the person concerned.

Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

**(iv) Payment of the Indemnity**

The amount of the Indemnity will be paid within 30 days following the date of the Board of Directors' meeting which will decide whether the performance conditions governing payment of the Indemnity have been met.

Under the employment agreement of Bernard HOURS, amended by authorization of the Board of Directors of February 10, 2010, the performance conditions applicable to the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired under his term of office will be automatically modified by the approval of this agreement.

These transactions are described in the Statutory Auditors' special report (see below).

## Other transactions

The Company has entered into intra-group agreements with its subsidiaries and affiliates relative to transactions in the ordinary course of business. Generally speaking, these agreements relate to the sale and purchase of products, the supply of remunerated administrative services pursuant to agreements on management fees, such as treasury and financing management services, as

well as on the licensing of intangible rights. These agreements are still in force and were concluded under normal conditions, in accordance with the Company's commercial practices.

No loans or guarantees have been granted or constituted by the Company or its subsidiaries for the benefit of the members of the Executive Committee.

## Statutory Auditors' report on related party agreements and commitments

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R. 225-31 of the French Commercial Code concerning the implementation, during the year, of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des Commissaires aux Comptes*) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

### 1. AGREEMENTS AND COMMITMENTS SUBMITTED FOR APPROVAL BY THE GENERAL MEETING OF SHAREHOLDERS

#### Agreements and commitments authorized during the year

In accordance with Article L. 225-40 of the French Commercial Code, we have been advised of the following related party agreements and commitments which received prior authorization from your Board of Directors.

##### *1.1 With Danone Baby and Medical Holding S.A.S., held at 100% by your Company*

###### **Nature and purpose**

In-kind contribution, as part of an internal restructuring transaction, of the ownership interest held by your Company in its subsidiary Danone Baby and Medical Nutrition BV to Danone Baby and Medical Holding SAS.

###### **Conditions**

At its April 22, 2010 meeting, the Board of Directors authorized the in-kind contribution of the ownership interest held by your Company in its subsidiary Danone Baby and Medical Nutrition BV, representing 99.99% of that subsidiary's capital, to Danone Baby and Medical Holding SAS, based on the net carrying amount of the Danone Baby and Medical Nutrition BV securities as recognized in your Company's own financial statements as of December 31, 2009, i.e. € 12,324,935,533. As consideration for this contribution, Danone Baby and Medical Holding S.A.S. issued and attributed to your Company 12,324,985,533 of its shares with a par value of € 1.

#### Agreements and commitments authorized after closing

We have been advised of the following related party agreements and commitments which received prior authorization from your Board of Directors after closing.

##### *1.2 With Bernard HOURS, Deputy General Manager of your Company*

###### **Nature and purpose**

Renewal of Bernard HOURS' right to indemnification in certain cases involving the termination of his term of office on terms strictly identical to those currently in effect, as part of the renewal of his term of office subject to approval by the April 28, 2011 Shareholders' General Meeting.

**Conditions**

At its February 14, 2011 meeting, the Board of Directors decided, concurrent with the renewal of Bernard HOURS' term of office subject to approval by the April 28, 2011 Shareholders' General Meeting, to renew his right to indemnification in certain cases involving the termination of his term of office which had been determined by the February 10, 2010 Board of Directors' meeting and approved by the April 22, 2010 Shareholders' General Meeting, on terms strictly identical to those currently in effect, namely:

*(i) Amount of the Indemnity*

The person concerned will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the person concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.

*(ii) In the event of payment of the Indemnity*

The Indemnity will be due to the person concerned only in the event that his term of office as an executive director and officer is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct, i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence, i.e. extremely gross negligence committed by the person concerned with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in the Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly holds more than 50% of the Company's capital or voting rights).

In addition, no payment will be due under the Indemnity if the person concerned, as of the date on which his term of office as an executive director and officer ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the person concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the person concerned ceases to carry out his duties under said employment agreement or asks to be removed from his salaried position within the three months following the date on which his term of office as an executive director and officer came to an end due to a change of control.

*(iii) Performance conditions governing payment of the Indemnity*

The amount paid under the Indemnity will be based on:

- a) the average organic growth in the Danone group's revenue (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the executive director and officer (the "Reference Period"); and
- b) the average organic growth in the revenue generated by the Panel members (the "Panel CICA"), over the Reference period.

The Group and Panel CICAs are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically announce its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the Indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the person concerned will be allocated 50% of the Indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no Indemnity will be paid to the person concerned.

Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

#### *(iv) Payment of the Indemnity*

The amount of the Indemnity will be paid within 30 days following the date of the Board of Directors' meeting which decides whether the performance conditions governing payment of the Indemnity have been met.

Under the employment agreement of Bernard HOURS, amended by authorization of the Board of Directors of February 10, 2010, the performance conditions applicable to the portion of the Indemnity due for Breach of the Employment Agreement corresponding to the seniority acquired under his term of office will be automatically modified by the approval of this agreement (please refer to paragraph 2.2.3).

## **2. AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE GENERAL MEETING OF SHAREHOLDERS**

### **2.1 Agreements and commitments approved in prior years**

#### *2.1.1 Whose implementation continued during the year*

In accordance with Article R. 225-30 of the French Commercial Code, we have been advised that the implementation of the following agreements and commitments which were approved by the General Meeting of Shareholders in prior years continued during the year.

##### **2.1.1.1 Cooperation agreement**

###### *Companies concerned*

Danone, SICAV danone.communities, FCPR danone.communities, companies of the Crédit Agricole Group

###### *Nature, purpose and conditions*

At its April 26, 2007 meeting, the Board of Directors, within the framework of the danone.communities project, authorized the signing of a cooperation agreement established between your Company, the danone.communities open-ended investment company (SICAV), the danone.communities venture capital fund (FCPR), and companies of the Crédit Agricole Group (namely Ideam and Crédit Agricole Private Equity, respectively management companies for the SICAV and the FCPR), it being specified that as of the date of this meeting, Jean LAURENT, Director of your Company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole Group. This agreement governs the relations among your Company and other entities that have taken part in the danone.communities project, and in particular provides for the subscription of shares of the SICAV by your Company for a maximum amount of € 20 million, as well as the annual financial contribution by your Company of a maximum amount of € 1.5 million for the first fiscal year, it being specified that this amount must be revised annually by the Board of Directors of your Company.

## Related Party Transactions

The Board of Directors' meeting of February 10, 2010 thereby authorized your Company's annual financial contribution for 2010 to a maximum of € 4 million. Franck RIBOUD and Emmanuel FABER abstained from voting on this matter, as both are Directors of the danone.communities SICAV.

Your Company's total financial contributions toward projects for 2010 reached € 3.96 million.

The Board of Directors' meeting of February 14, 2011 maintained your Company's annual financial contribution at a maximum of € 4 million. Franck RIBOUD and Emmanuel FABER abstained from voting on this matter, as both are Directors of the danone.communities SICAV.

**2.1.1.2 Guarantees and securities granted***Companies concerned*

Danone Finance and Danone Finance International.

*Nature, purpose and conditions*

At its October 19, 2007 meeting, the Board of Directors authorized your Company to grant a collateral security to the benefit of its subsidiaries Danone Finance, Danone Finance International (and all other direct or indirect subsidiaries that would become additional borrowers to the credit agreement entered into by your Company on December 7, 2007) with respect to all of their financial commitments in principal, interests, and accessory payments and, more generally, with respect to any payments due in their capacity as additional borrowers under the credit agreement of December 7, 2007, and up to a limit of a maximum principal amount of € 4 billion. This bank credit consists of two tranches, the first of € 2.3 billion having expired in December 2010 and the second for € 1.7 billion that expires in December 2012.

In 2010, this guarantee was utilized in the average amount of € 11,890 thousand, which generated interest income for your Company of € 12 thousand.

This guarantee was rescinded as of October 22, 2010 with respect to Danone Finance (as it was no longer a party to the bank credit) and was maintained unchanged with respect to Danone Finance International.

**2.1.1.3 Commitments with respect to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the payment of a pension under the defined benefit pension plan***Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer), Emmanuel FABER (Deputy General Manager), Bernard HOURS (Deputy General Manager) and Jacques VINCENT (Deputy General Manager)

*Nature, purpose and conditions*

The Board of Directors' meeting of February 13, 2008 confirmed the commitment your Company undertook with respect to each of the four executive directors and officers relative to the payment of a pension under the defined benefit pension plan in the form of an annuity (with a reversion option), calculated based on the following elements:

- the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the last three years of activity within the Group. The length of service taken into account would include the period corresponding to the term of corporate office;
- in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity;
- the amount of the annuity that would be paid to Franck RIBOUD and Jacques VINCENT would correspond to 2% of this calculation basis per year of seniority (this amount will however be subject to a ceiling of 65% of this calculation basis), minus the full amount of pension rights that Franck RIBOUD and Jacques VINCENT are entitled to and have acquired over the course of their professional careers, including the supplementary pension plan fully funded by your Company;
- the amount of the annuity that would be paid to Emmanuel FABER and Bernard HOURS would correspond to (i) 1.5% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche located between 3 and 8 French Social Security ceiling levels, and (ii) 3% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche that is higher than these 8 ceiling levels (this amount will however be limited on the basis of a maximum seniority of 20 years), minus the full amount of pension rights that Emmanuel FABER and Bernard HOURS have acquired due to the implementation of the supplementary plan fully funded by your Company;
- the person concerned is eligible to this pension plan only if he was performing his duties within the Group at the time of retirement (it being specified that in the event the person leaves the Group before reaching the age of 55, all the rights acquired will be lost, and that in the event such officer is laid off after the age of 55, the benefit derived from this plan is preserved, on the condition that the person does not take up a salaried position).



These agreements were maintained in 2010 and were not utilized, with the exception of the one involving Jacques VINCENT, who exercised his rights to retirement benefits effective April 1, 2010. The annuity which has been paid to him during the 2010 fiscal year with respect to this agreement is included in the total amount paid by your Company to the members of the Board of Directors for their past functions in the Group for € 1.3 million in 2010.

### *2.1.2 Which were not implemented during the year*

In addition, we have been advised that the following agreements and commitments which were approved by the General Meeting of Shareholders in prior years were not implemented during the year.

#### **2.1.2.1 Commitments with respect to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the conditions under which their employee agreements would be resumed following the expiration of their term of corporate office**

##### *Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer) and Jacques VINCENT (Deputy General Manager)

##### *Nature, purpose and conditions*

At its July 21, 2004 meeting, the Board of Directors, pursuant to the Nomination and Compensation Committee's proposal, updated the conditions under which the employment agreements of Franck RIBOUD and Jacques VINCENT would be resumed (it being specified that such employment agreements were suspended on August 26, 1994 when they were appointed as executive directors and officers of your Company), assuming that their term of office had ended, for whatever reason, and established that:

- the amount of time during which they have exercised their duties as executive directors and officers for the benefit of your Company will be entirely taken into account with respect to seniority and their resulting rights within the framework of their employment agreement;
- your Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of your Company's Executive Committee;
- the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement;
- they will benefit from your Company's defined benefit pension plan based on their seniority as a corporate officer and their seniority under the employment agreement.

Jacques VINCENT exercised his right to receive retirement benefits effective April 1, 2010 as part of his retirement. His employment agreement was therefore terminated as of that date.

##### *Persons concerned*

Emmanuel FABER (Deputy General Manager) and Bernard HOURS (Deputy General Manager)

##### *Nature, purpose and conditions*

The Board of Directors' meeting of February 13, 2008 authorized an amendment to the employment agreements concluded with Emmanuel FABER and Bernard HOURS, for the purpose of determining the conditions under which their respective employment agreements would be resumed (it being specified that such employment agreements were suspended when they were appointed as executive directors and officers of your Company), assuming that their term of office had ended, for whatever reason. This amendment provides both executives, in an identical way, with the assurance that:

- the amount of time during which they have exercised their duties as executive directors and officers for the benefit of your Company will be entirely taken into account with respect to seniority and to their resulting rights within the framework of their employment agreement;
- your Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee;
- the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement;
- they will benefit from your Company's defined benefit pension plan based on their seniority as a corporate officer and their seniority under the employment agreement;
- the contractual indemnity due in the event of a breach in the employment agreement will be cancelled.

### **2.2 Agreements and commitments approved during the year**

In addition, we have been advised of the implementation during the year of the following agreements and commitments which were approved by the General Meeting of Shareholders on April 22, 2010 based on the Statutory Auditors' report dated March 11, 2010.

## Related Party Transactions

*2.2.1 Guarantees and securities granted**Companies concerned*

Danone Finance and Danone Corporate Finance Services (formerly known as Alfabanque)

*Nature, purpose and conditions*

At its February 10, 2010 meeting, the Board of Directors amended the previous agreement authorized by the February 14, 2007 Board of Directors meeting, allowing your Company to act as guarantor for various financial transactions conducted by Danone Finance up to a maximum amount of € 500 million, to include financial transactions carried out by its subsidiary Danone Corporate Finance Services.

This guarantee was extinguished on November 30, 2010 with respect to Danone Finance as part of the subsidiary's dissolution without liquidation (through the universal transfer of assets and liabilities to your Company) and it was maintained unchanged with respect to Danone Corporate Finance Services. To date, this guarantee has never been used.

*Companies concerned*

Danone Finance and Danone Finance International

*Nature, purpose and conditions*

At its February 10, 2010 meeting, the Board of Directors amended the authorization allowing your Company to guarantee its subsidiary Danone Finance, in connection with the issue of commercial paper, for a total maximum amount of € 3 billion, covering the principal amount and any interest, costs, disbursements and incidental expenses related to said amounts, to include its subsidiary Danone Finance International.

In 2010, this guarantee was utilized in the average amount of € 918,944 thousand, providing your Company with interest income totaling € 919 thousand.

On October 22, 2010, Danone Finance ended its commercial paper program, with the program taken over exclusively by your Company as of that date. As this guarantee towards Danone Finance no longer served any purpose, it expired as of the same date.

*2.2.2 Commitment with regard to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the conditions applicable to indemnities paid to them in certain cases of termination of their respective terms of corporate office**Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer), Emmanuel FABER (Deputy General Manager) and Bernard HOURS (Deputy General Manager), it being specified that Jacques VINCENT exercised his right to receive retirement benefits effective April 1, 2010 and that for Bernard HOURS, the renewal of these conditions under identical terms has been decided by the Board of Directors of February 14, 2011 and is submitted to the approval of the General Meeting of April 28, 2011 (refer to paragraph 1.2 of this report).

*Nature, purpose and conditions*

The Board of Directors' meeting of February 10, 2010 amended the principle and methods for the right to an indemnity for each of the Company's three executive officers and directors authorized by the Board of Directors' meeting of February 13, 2008 in accordance with the following conditions:

*(i) Amount of the Indemnity*

The person concerned will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the person concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.



*(ii) In the event of payment of the Indemnity*

The Indemnity will be due to the person concerned only in the event that his term of office is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct, i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence, i.e. extremely gross negligence committed by the person with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in the Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly, holds more than 50% of your Company's capital or voting rights).

In addition, no payment will be due under the Indemnity if the person concerned, as of the date on which his term of office ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the person concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the person concerned ceases to carry out his duties under said employment agreement or resigns from his salaried position within the three months following the date on which his term of office as an executive director and officer came to an end due to a change of control.

*(iii) Performance conditions governing payment of the Indemnity*

The amount paid under the Indemnity will be based on:

- a)** the average organic growth in the Danone group's sales (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the executive director and officer (the "Reference Period"); and
- b)** the average organic growth in the sales generated by the Panel members (the "Panel CICA"), over the Reference period.

The Group and Panel CICAs are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically announce its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the Indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the person concerned will be allocated 50% of the Indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no Indemnity will be paid to the person concerned.

Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

*(iv) Payment of the Indemnity*

The amount of the Indemnity will be paid within 30 days following the date of the Board of Directors' meeting which will decide whether the performance conditions governing payment of the Indemnity have been met.

### *2.2.3 Amendments made to the suspended employment agreements of the Chairman and Chief executive Officer and of the Deputy General Managers*

#### *Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer), Emmanuel FABER (Deputy General Manager) and Bernard HOURS (Deputy General Manager).

#### *Nature, purpose and conditions*

The Board of Directors' meeting of February 10, 2010 amended the suspended employment agreements of aforementioned persons, in order that, for each of them:

- the Indemnity for Breach of the Employment Agreement is (i) subject to a limit of two years' fixed and variable gross compensation and (ii) in the event of the payment of both the Indemnity for Breach of the Employment Agreement and the indemnity due in certain instances of the termination of the term of office of an executive director and officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment agreement;
- the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same performance conditions as the indemnity due in certain instances of the termination of the term of office of the executive director and officer; and
- in the event only of the termination of his term of office caused by a change of control, the person concerned may, provided he is not guilty of serious misconduct or gross negligence, request the cancellation of his employment agreement in the form of lay-off within three months from the date of the termination of his term of office as a executive director and officer (i.e. the date on which his employment agreement is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of an executive director and officer, the performance conditions applicable to the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically amended. It is specified that with respect to Bernard HOURS, the performance conditions applicable to the portion of Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically modified in case of approval by the General Meeting of April 28, 2011 of the indemnity conditions due in certain instances of the termination of the term of office of an executive director and officer, these conditions being renewed under identical terms (refer to paragraph 1.2 of this report).

The portion of the Indemnity for Breach of the Employment Agreement which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the agreement of the Board of Directors and the approval of the shareholders on each occasion the term of office is renewed.

In addition, the non-compete clause included in the suspended employment agreements of Emmanuel FABER and Bernard HOURS was amended such that it can only be exercised by your Company and result in the payment of consideration in the event of the resignation of either of the directors concerned.

Neuilly-sur-Seine, March 16, 2011

#### **The Statutory Auditors**

##### **PricewaterhouseCoopers Audit**

Étienne BORIS

Philippe VOGT

##### **Ernst & Young et Autres**

Jeanne BOILLET

Gilles COHEN

## **5.5 Information originating from third parties, expert opinions and declarations of interest**

Nil.



# CORPORATE GOVERNANCE

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## 6.1 Board of Directors

### Organization of the Board of Directors

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The administration of the Company is entrusted to a Board of Directors.

Each Director must hold at least 4,000 shares, and such shares must be held in registered form.

The term of office of the Directors is set in the Company's by-laws at three years and may be renewed, it being specified that the current term of office of any natural person acting as a Director expires, automatically, following the Shareholders' Meeting that has deliberated on the financial statements of the previous fiscal year and held in the year during which this Director has reached or will reach the age of 70 years. However, at the Shareholders' Meeting's discretion, this age limit shall not apply to one or more Directors who may remain in office or who may be re-appointed,

provided the number of Directors concerned by this provision does not exceed one-quarter of the Directors in office.

With respect to the staggering of all the Directors' terms of office, their regular renewal by the shareholders is facilitated, on the one hand, by a relatively short term set in the by-laws of three years, and, on the other hand, by a staggering of the expiry dates of the various terms of office, which enables the Shareholders' Meeting to decide each year on several terms of office (as the current composition of the Board stands, four terms are to be renewed at the Shareholders' General Meeting called to approve the financial statements for 2010, six at the Shareholders' General Meeting called to approve the financial statements for 2011, and two at the Shareholders' General Meeting called to approve the financial statements for 2012).

## Composition of the Board of Directors

The 14 members of the Board of Directors, as of February 28, 2011, are as follows:

Name	Age	Principal occupation <sup>(1)</sup>	Start date of Director's term	End date of term (date of Shareholders' General Meeting)
Franck RIBOUD	55	Chairman and Chief Executive Officer of Danone	1992	2013
Emmanuel FABER <sup>(2)</sup>	47	Deputy General Manager of Danone	2002	2013
Bernard HOURS <sup>(2)</sup>	54	Deputy General Manager of Danone	2005	2014 <sup>(4)</sup>
Bruno BONNELL <sup>(3)</sup>	52	Chairman of Sorobot SAS	2002	2014 <sup>(4)</sup>
Michel DAVID-WEILL <sup>(5)</sup>	78	Chairman of the Supervisory Board of Eurazeo	1970	2011
Richard GOBLET D'ALVIELLA <sup>(3)</sup>	62	Vice-Chairman of the Board of Directors and Managing Director of Sofina SA	2003	2012
Yoshihiro KAWABATA <sup>(6)</sup>	62	Senior Managing Director and Head of International Business Division of Yakult Honsha Co., Ltd.	2010	2014 <sup>(4)</sup>
Christian LAUBIE <sup>(3)</sup>	72	Member of the Board of Auditors (Collège du Haut Conseil du Commissariat aux Comptes)	1985	2012
Jean LAURENT <sup>(3)</sup>	66	Chairman of the Board of Directors of Foncière des Régions	2005	2012
Hakan MOGREN <sup>(3)</sup>	66	Company Director	2003	2012
Jacques NAHMIAS <sup>(3)(7)</sup>	63	Chief Executive Officer of Pétrofrance SA	1981	2011
Benoît POTIER <sup>(3)</sup>	53	Chairman and Chief Executive Officer of L'Air Liquide SA	2003	2012
Guylaine SAUCIER <sup>(3)</sup>	64	Company Director	2009	2012
Jacques VINCENT <sup>(8)</sup>	64	Chairman of Compassionart	1997	2014 <sup>(4)</sup>

(1) All terms and roles occupied by each Director are detailed in the Notes to the Registration Document (see paragraph 11.2).

(2) Emmanuel FABER and Bernard HOURS (for Mr. HOURS, subject to his renewal by the Shareholders' General Meeting of April 28, 2011) will be appointed Vice-Chairmen of the Board of Directors after the Shareholders' General Meeting of April 28, 2011.

(3) Director recognized as independent by the Board of Directors upon the recommendation of its Nomination and Remuneration Committee, pursuant to the AFEP-MEDEF Code (see paragraph 6.1).

(4) Subject to his term of office being renewed by the Shareholders' General Meeting of April 28, 2011.

(5) Michel DAVID-WEILL will be appointed honorary Vice-Chairman of the Board of Directors after the Shareholders' General Meeting of April 28, 2011. On this date, his roles as Director and as Vice-Chairman of the Board of Directors will come to an end.

(6) Yoshihiro KAWABATA was co-opted as Director at the Board of Directors meeting of April 22, 2010 in replacement of Naomasa TSURITANI, subject to ratification of this appointment by the Shareholders' General Meeting of April 28, 2011.

(7) The Director's term of Jacques NAHMIAS will end after the Shareholders' General Meeting of April 28, 2011.

(8) The Vice-Chairman's term on the Board of Directors of Jacques VINCENT will end after the Shareholders' General Meeting of April 28, 2011.

At February 28, 2011, the Board of Directors also included two honorary members who have advisory roles: Yves BOËL and Jean-Claude HAAS, whose terms will end after the Shareholders' General Meeting of April 28, 2011.

After the Shareholders' General Meeting of April 28, 2011, Emmanuel FABER and Bernard HOURS (for Mr. HOURS, subject to renewal of his term of office as Director by the Shareholders' General Meeting of April 28, 2011) will be appointed Vice-Chairmen of the Board of Directors, and Michel DAVID-WEILL will be appointed honorary Vice-Chairman of the Board of Directors.

## Rules of independence of the members of the Board of Directors

The Board of Directors reviews, on an annual and individual basis and on the recommendation of the Nomination and Compensation Committee, the situation of the Directors with regard to the independence rules of the AFEP-MEDEF Code.

Such code considers a Director independent when he or she *“has no relationship of any kind with the Company, its Group or its management that may compromise the exercise of his or her free judgment”*, and lists the following independence criteria:

- not to be an employee or Executive Director of the Company, employee or Director of its parent company or of a company that it consolidates, either currently or over the last five years;
- not to be an Executive Director of a company in which the Company holds directly or indirectly a term as Director or in which an employee appointed as such or a Executive Director and office of the Company (currently or within the last five years) holds a term as Director;
- not to be a client, supplier, investment banker or commercial banker which is:
  - material to the Company or to its Group,
  - or for whom the Company or its Group represents a significant part of its business;
- have no close family link to an Executive Director;
- not to have been an auditor of the Company over the last five years;
- not to have been a company Director for over twelve years.

However, the Board of Directors decided not to apply the independence criterion limiting the term of office of Directors to twelve years. In accordance with the recommendation of the Nomination and Compensation Committee, the Board considers that, on the one hand, such seniority is a positive element for knowing the Group, its history and its activities, and that, on the other hand, the freedom of judgment is the essential criteria defining one's independence.

As part of the continuing improvement of the Group's governance, and on the recommendation of the Nomination and Compensation Committee, the appointments of Isabelle SEILLIER and Jean-Michel SEVERINO as new Directors will be proposed to the Shareholders' General Meeting of April 28, 2011.

The Board of Directors, upon the recommendation of its Nomination and Compensation Committee, has examined the situation of Isabelle SEILLIER and Jean-Michel SEVERINO with respect to the Group's Corporate Governance Code (the AFEP-MEDEF Code) and has concluded that:

- Isabelle SEILLIER should be treated as a “non-independent” Director of the Board. Mrs. SEILLIER acts as an Executive Director within the JP Morgan Chase banking group, which is one of the bankers used by the Danone group regularly; and
- Mr. Jean-Michel SEVERINO should be treated as an “independent” Director as he meets all of the independence criteria applied by the Board.

The Board has also acknowledged the wishes of Michel DAVID-WEILL and Jacques Alexandre NAHMIAS, Company Directors since 1970 and 1981, respectively, not to seek the renewal of their terms as Director.

Subject to approval by the Shareholders' General Meeting of April 28, 2011 of the appointments of Isabelle SEILLIER and Jean-Michel SEVERINO as new Directors, all of these changes in the composition of the Board will improve its independence ratings and its gender balance.

The Board has committed, in the future, in its proposals to the Shareholders' General Meeting, to improving its governance as regards both its independence and gender balance.



## Rules of Procedure of the Board of Directors

The Board of Directors adopted the rules of procedure specifying the rights and obligations of Directors, as well as the operating practices of the Board of Directors, at its meeting of April 25, 2002. Following the publication of the Bouton report, the Board of Directors evaluated its operating practices in 2003 and decided to change its rules of procedure. Following the evaluation conducted in 2007 and 2008, the rules of procedure were modified by the Board of Directors on two occasions (see paragraph "Self-assessment of the Board of Directors" below). Finally, the Board of Directors meeting of February 14, 2011 decided to amend its rules of procedure again to take into account the best corporate governance practices (see the paragraph "Code of Ethics Applicable to Members of Board of Directors" below).

The main provisions of the rules of procedure of the Board of Directors are summarized below.

**Responsibilities of the Board of Directors.** The Board of Directors is a collective body in which all of the Directors have the same powers and responsibilities and all decisions are made collectively. The Board has a responsibility toward all of the shareholders and meets at least five times per year. It determines its rules of operation and those of its various committees.

The Board of Directors determines the Company's business orientation and oversees its implementation. It makes major decisions regarding the Company's strategic, economic, social, financial, and technological direction. It ensures the relevancy, comparability, reliability, and accuracy of the information provided to shareholders and to the financial market in accordance with applicable accounting standards.

At each meeting, the Chairman sets out the transactions concluded since the previous meeting as well as the main projects underway that may be concluded prior to the next meeting. Each year, the Board of Directors examines the essential points of the management report, as well as the resolutions to be submitted at the Shareholders' Meeting. In addition, General Management reports to the Board of Directors at least once per half-year on the Company's financial position, treasury position, and commitments.

Between meetings of the Board, Directors receive any useful information on events or transactions of significance for the Group. More generally, they may have the Chairman provide them at any time with such information and documents as they may deem useful in carrying out their responsibilities.

**Limitations on the powers of the Chief Executive Officer.** The list of transactions that, according to the rules of procedure, require the Chief Executive Officer to obtain prior authorization from the Board appears in paragraph 6.5 (Powers of the Chief Executive Officer).

**Meetings of the Board of Directors.** In accordance with legal and regulatory provisions and the Board's Internal Regulations, Directors participating in Board meetings by videoconference or any other means of telecommunication are deemed present for the purposes of calculating quorum and majority. However, this means of attendance is not permitted when the Board of Directors meets to approve the Company's financial statements and its consolidated financial statements or to prepare the management report including the Group's management report.

**Committees of the Board of Directors.** The Board of Directors may form one or more special committees, whose composition and powers it determines and which act under the responsibility of the Board. These committees may not interfere in the Company's management or reduce or limit the powers of the Chairman and Chief Executive Officer, the Deputy General Managers or the Board of Directors. In its field of competence, each committee submits proposals, recommendations, opinions, and reports to the Board of Directors on its activities.

The committees are comprised solely of Directors. Their members are appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee. They are appointed in their individual capacity and may not be represented by proxy. Committee chairmen are appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee.

**Compensation of the Members of the Board of Directors.** The Shareholders' Meeting sets the maximum total amount of attendance fees (*jetons de présence*) to be distributed among the Directors. Directors who are members of the Executive Committee do not receive attendance fees.

**Code of Ethics Applicable to Members of the Board of Directors.** The Directors are bound by a general duty of confidentiality that applies to the discussions and deliberations of the Board and its committees and to information of a confidential nature. Each Director acts in the interest and on behalf of all of the shareholders. In carrying out his or her responsibilities, each Director must make decisions independently of any interest other than the corporate interest of the Group and its shareholders. Each Director must constantly ensure that his or her personal situation does not create a conflict of interests with the Group. Any Director who has a conflict of interests must (i) inform the Board of Directors so that it may make a decision regarding his or her particular case and (ii) refrain from participating in the vote on the relevant discussion.

Following the Board of Directors meeting of February 14, 2011, the provisions of the rules of procedure have been strengthened on the following three points:

- *Knowledge of the rights and obligations of Directors:* each Director must, when they begin serving on the Board, be aware of the general and particular obligations attached to their role;

- *Directors' duty of confidentiality:* the general confidentiality obligation of the Directors has been extended to all information and documents of which they become aware in the course of their work;
- *Obligation to declare conflicts of interest:* each Director must provide a sworn statement on the existence of a potential conflict of interest: (i) when they first become Directors, (ii) each year in response to a request made by the Company, when it prepares its Registration Document, (iii) whenever the Chairman of the Board of Directors so requests, and (iv) within ten business days following the occurrence of any event that makes a Director's previous declaration incorrect in full or in part.

**Transactions Involving the Company's securities.** These securities include the Company's shares as well as any financial instruments connected with these shares.

In general, the members of the Board of Directors are bound by a duty of care and due diligence as well as by a special precautionary obligation with regard to any personal transaction involving the Company's securities.

In particular, the Directors may not carry out speculative or short-term transactions involving the Company's securities and may not carry out transactions involving the Company's securities in the following cases:

- if they have information that, when published, will affect the price of these securities;
- during the periods explicitly indicated by the Company; in particular, the month preceding the preliminary announcement of the Company's annual and mid-year financial results and two weeks preceding the publication of the Company's quarterly revenues.

In addition, the members of the Board of Directors must refrain from employing hedging instruments in connection with Danone stock any derivative financial instruments linked to Danone stock (in particular stock purchase options or rights to free awards of Danone stock).

All of these rules also apply to transactions by Directors' relatives (in the sense of the applicable law).

**Evaluation of the Board of Directors' Performance.** The Board's performance shall be evaluated every two years, either through self-assessment or by the Nomination and Compensation Committee or a third party.

## Conditions of preparation and organization of the work of the Board of Directors

### WORK OF THE BOARD OF DIRECTORS IN 2010

Ongoing efforts to improve the efficiency of the Board of Directors activities continued in 2010.

The Board of Directors had seven meetings in 2010 (ten in 2009), which lasted for an average of three hours (one hour thirty minutes in 2009). The Directors' attendance rate was 91% (86% in 2009).

1. The Board of Directors' work covered the following ongoing issues in 2010:
  - (i) **monitoring day-to-day management and major policies:** the detailed review of the Group's activity, presentation of the annual budgets, approval of the Company and consolidated annual financial statements, review of the half-year financial statements, financial information releases, in particular when the annual and half-year financial statements are published, review

of the Group's strategic plans, acquisitions and disposal of assets or equity interests, review of the Group's financial position (debt, off-balance sheet commitments, equity level, liquidity, hedging of financial risks, ratings), financial commitments (securities and guarantees), the annual delegation to the General Management on the Group's bond issue program (EMTN), monitoring of corporate governance matters, regular information on Group risk management and internal control systems by the monitoring of the work of the Audit Committee, the annual capital increase reserved for employees, allocations of Group Performance Units and Group Performance Shares (including the annual setting of performance objectives for the following year and the verification of their achievement for the preceding year), review of the Company's share price and of its shareholder base, approval of the Group's annual contribution to danone.communities and to the Danone Ecosystem fund;

**(ii) functioning of corporate bodies:** monitoring of corporate governance issues, reviewing the regular reports from the three Board committees (Audit Committee, Nomination and Compensation Committee and Social Responsibility Committee) presented at the Board meeting following each of these meetings, determining all elements of the compensation of each of the Company's three Executive directors and officers, approving the various reports of the Board as well as the draft resolutions submitted for shareholder approval, and preparation for the Shareholders' Meeting.

2. The Board of Directors' work covered the following specific issues in 2010:

**(i) the Group's financial position:**

review of the closing of the 2010 accounts, including the accounting treatments of the acquisition of Unimilk and of the put options granted to minority Group shareholders;

- the share buyback transactions carried out in 2010,
- a review of the Group's debt restructuring operations: transfer of the Group's bond issue program (EMTN) from Luxembourg to France, bond exchange offer to holders of two Group bond tranches,
- study of the implementation of Group Performance Shares (in place of the stock option program);

**(ii) organization of the Group in 2010 and strategy:**

- a review of the transformation of the Group (i.e., exposure to emerging countries, prioritization of certain key countries, etc.) and their various impacts on the Group (in terms of organization, human resources, operations, adaptation of Group products to local needs, etc.);
- as part of the annual review of the Group's strategic plans, the members of the Executive Committee responsible for Group Divisions presented to the Directors over half a day in December the strategic plans for each of these Divisions (this presentation was followed by exchanges with the Directors);

**(iii) corporate governance and General Management:**

- reviewing the amendment of the clause in the by-laws limiting voting rights, with the introduction of a threshold of desactivation of this clause for a meeting when its quorum reaches 75% (amendment adopted by the Shareholders' General Meeting of April 22, 2010),
- reviewing the composition of the Board and the General Management (co-opting of Yoshihiro KAWABATA as Director, renewal of the terms as Chairman and Chief Executive Officer of Franck RIBOUD and as Deputy General Manager of Emmanuel FABER),
- reviewing the composition of the Audit Committee, particularly the decision to appoint Guylaine SAUCIER as Chairman of the

Audit Committee as of the Shareholders' General Meeting of April 22, 2010,

- reviewing the changes in the composition of the Executive Committee,
- reviewing the self-evaluation of the Board and the functioning of the Board (see Section "Board of Directors self-evaluation" below),
- reviewing the feedback from the assessment of the Social Responsibility Committee,
- amendments to the rules of procedure of the Board and of the committees,
- the annual and individual examination of the independence of the Directors,
- authorizing the related party transactions relating to the Group's executive officers,
- reviewing the role of the Vice-Chairman of the Board and of the honorary system of the Board,
- reviewing changes in the composition of the Board and of each of the three committees in view of the renewal of the terms of Directors expiring after the Shareholders' General Meeting of April 28, 2011,
- changes in the composition of the Board in 2011 and in coming years, especially taking into account gender balance and independence of its members;

**(iv) restructuring, disposals and acquisitions:**

- reviewing and monitoring the restructuring of the financial subsidiaries of the Group, which resulted in the transfer to the Company of the Group's bond issue program (EMTN) in 2009, followed by the transfer to the Company of the treasury note program in 2010,
- reviewing the following intra-group restructurings: contribution in kind of the Company's stake in Blédina to Danone Baby and Medical Holding (related party transaction authorized by the Shareholders' General Meeting of April 22, 2010) and contribution in kind of the stake held by the Company in its subsidiary Danone Baby and Medical Nutrition BV to the company Danone Baby and Medical Holding SAS (related party transaction subject to the approval of the Shareholders' General Meeting of April 28, 2011),
- the disposal by the Group of all of its stake in the capital of Wimm-Bill-Dann,
- the acquisition of Unimilk by combining the Fresh Dairy Products activity of the Unimilk group with the Fresh Dairy Products activities of the Group in the CIS area,
- the acquisition by the Group of a 51% stake in the Danone Chiquita joint venture,
- the acquisition by the Group of Yocream International Inc.;

**(v) corporate responsibility:**

- review of the Group's "four axes of development" (Health, For All, Nature and People),
- review of the project to create a Nature/Livelihoods fund (related to carbon offsetting programs),
- information on the activities of danone.communities and of the Danone Fund for the Ecosystem,

Finally, the Directors take part every September in the Evian days, which bring together all of the executives of the Group from all over the world.

**ORGANIZATION OF THE MEETINGS OF THE BOARD OF DIRECTORS**

Meetings of the Board of Directors are always held in the presence of the executive directors and officers. Directors who are external to the Company never holding meetings at which the internal directors are not present, to ensure that all Board members are provided with the same level of information and to reinforce the collegial character of this body.

At the Board of Directors' meeting during which the compensation of executive directors and officers is set by the Board, the latter are present, but, in conformity with law, do not vote. However, an executive director and officer shall not be present at the Nomination and Compensation Committee meeting during which his or her compensation is discussed.

**BOARD OF DIRECTORS' SELF-EVALUATION**

The Board of Directors regularly carries out self-evaluation (recently in 2007, 2008 and 2010).

- The Board's self-evaluation conducted in 2007 resulted in the Boarding adopting new internal regulations. Following this evaluation, it was decided, inter alia, to improve the information provided to the Directors on the Group's strategy as well as on acquisitions and disposals (see Section 6.5);
- The self-evaluation of the Board in 2008 led the Board of Directors to change its rules of procedure in order, in particular, to (i) specify the rules according to which it was to be informed of the Company's financial position (i.e., at least once every six months, which was already in practice) and (ii) definitively prohibit the use by the Directors of any hedging instrument with regard to Danone shares. In addition, following this self-evaluation, a half-day meeting was organized for the first time in December 2009 at which the strategic plans and budget were presented and discussed.

- Finally, another self-evaluation of the Board was conducted during the second half of 2010, the results of which were examined at the Board meeting of December 2010. The following changes were decided by the Board of Directors:
  - *Functioning of the Board:* to improve the interactive nature of the Board, and to ensure that all matters of substance that are material to the Group are duly discussed, the Board decided to implement annual thematic meetings: (i) strategic issues will be dealt with at the annual presentations of the Executive Committee to the Board, (ii) the issues examined by each committee will be examined in depth once a year by the Board and finally (iii) an update on the results of the activities acquired by the Group will be provided following the authorization of an acquisition given by the Board;
  - *Training/Information provided to the Directors:* an integration procedure will be implemented for new Directors; they will be assigned a "reference Director" who will be responsible for facilitating integration on the Board of the new member for one year after their appointment. Also, to improve the training of Directors, theme days (including visits on site and meetings with the operational managers of the various Group divisions or from headquarters management) will be set up for a better understanding of the operation and activities of the Group.

**DIRECTORS' ATTENDANCE FEES (JETONS DE PRÉSENCE)**

The Shareholders' Meeting of April 23, 2009 adopted a resolution increasing the annual aggregate amount of Directors' attendance fees to be allocated by the Board of Directors amongst its members from € 500,000 to € 600,000. Directors who are also either members of the Executive Committee or executive directors and officers (mandataires sociaux) do not receive Directors' fees.

The gross amount of Directors' attendance fees in 2010 amounted to € 472,000 (compared with € 498,000 in 2009).

A Director who only attends the meetings of the Board of Directors receives a compensation composed of a fixed portion of € 10,000 per year and a variable portion of € 2,000 per Board meeting attended. In addition, Directors who are also members of one of the three committees created by the Board of Directors receive a compensation of € 4,000 per committee meeting they attend. The compensation of the Chairmen of these committees is € 8,000 per meeting.

## CONFLICTS OF INTEREST

To the knowledge of the Company, there are no family ties between the executive directors and officers of the Company and, over the last five years, no executive directors and officers have been convicted of fraud, declared bankrupt, been the subject of a sequestration order, been in liquidation, subject to incrimination and/or official public sanction by the legal or regulatory authorities, or prohibited by a court from acting in their capacity of member of an administrative, management

or supervisory body or taking part in the management or the conduct of the affairs of a company.

To the knowledge of the Company, there is no potential conflict of interest between the duties to the Company of any of the Directors and their private interests and/or other duties.

As of the date of this Registration Document, no executive directors and officer is linked to the Company or to one of its subsidiaries by a services agreement that stipulates the granting of any benefits.

## 6.2 Audit Committee

### Composition of the Audit Committee

As of February 28, 2011, the Audit Committee is comprised of the following three Directors, who have all been declared as independent by the Board of Directors:

- Guylaine SAUCIER, Chairman of the Committee, Independent Director; the Nomination and Compensation Committee decided that Mrs. Guylaine SAUCIER met the criteria for inclusion as one of the Committee “financial experts” of the Committee, due to both her training and her accounting and financial experience (as she is Co-Chair of the Audit Committee of the Areva group). Mrs. Guylaine SAUCIER also has skills in

internal control and risk management being a member of the Risk Management Committee of the Banque de Montréal;

- Richard GOBLET D’ALVIELLA, Independent Director; Richard GOBLET D’ALVIELLA is Vice-Chairman of the Board of Directors and Deputy Director of Sofina SA;
- Christian LAUBIE, Independent Director; Christian LAUBIE is also one of the Audit Committee “financial experts”. He is a member of the French Supreme Council of Statutory Auditors (*Haut Conseil du Commissariat aux Comptes*) and was Chief Financial Officer of the Company from 1980 to 2001.

### Audit Committee Rules of Procedure

In its meeting on December 15, 2006, the Board of Directors adopted new internal regulations for the Audit Committee, which specify its responsibilities. These internal regulations are regularly updated by the Board of Directors:

- in 2007, the Board of Directors decided to amend the internal regulations in order to clarify the division of responsibilities between it and the Social Responsibility Committee;
- at its meeting on December 17, 2009, the Board of Directors approved a new version of this committee’s rules of procedure.

The rules of procedure were revised to reflect changes to the relevant legislation and regulations regarding Audit Committees;

- at its meeting on December 14, 2010, the Board of Directors approved a revised version of the rules of procedure to take into account a recent legislative change (regarding the liability of Board members concerning the work of this committee) and also to comply with the recommendations of the report, dated July 22, 2010, and issued by the working group created by the AMF on Audit Committees (see paragraph below).



Following these amendments, the internal regulations specify that the Audit Committee is primarily responsible for:

- reviewing the individual and consolidated financial statements of the Company prior to their presentation to the Board of Directors. The Audit Committee (i) is responsible for ensuring the relevance and consistency of the Company's accounting policies, (ii) reviews the accounting treatment of complex and/or unusual transactions, (iii) reviews the scope of consolidation, (iv) reviews the policy for monitoring off-balance sheet commitments, (v) reports to the Board of Directors on the options for closing the financial statements, (vi) reviews the press releases relating to the Group's results with General Management, and (vii) obtains, twice a year, information about any disputes in which the Group is involved and any accounting provisions made in respect of them;
- managing the selection process for the Company's Statutory Auditors by supervising the invitations to tender launched by General Management and, in particular, making all proposals for their appointment, the renewal of their term of office and their compensation, examining the results of their works and of their reviews, and ensuring that they remain independent. In accordance with the recommendations of the working group formed by the AMF, the Board meeting of December 14, 2010 supplemented the rules of procedure so that the Audit Committee would examine with the Auditors the protective measures they have taken to minimize the potential risks of damage to their independence and ensure that they comply with the laws and regulations respecting incompatibilities set out in the Code of Conduct for Auditors;

- ensuring that the Group has a structure and systems designed to identify and evaluate the risks to which it is exposed as well as monitoring the effectiveness of said systems, and verifying that correct account is taken of major risks and action plans are drawn up in respect of them;
- ensuring the existence of internal control systems, monitoring their effectiveness and reviewing the report of the Chairman of the Board of Directors on the composition of the Board of Directors, the conditions for the preparation and organization of the Board's activities, and the internal control and risk management procedures implemented by the Company;
- approving the Audit plan and monitoring its execution.

As part of its responsibilities, the Audit Committee may, on a regular basis, speak to the executive directors and officers (*mandataires sociaux*), the Group's General Management and, in particular, the VP Risks, Control and Audit, the Statutory Auditors, and the executive managers of the Group (in charge, in particular, of the preparation of the financial statements, risk management, and internal control and internal audit, legal, tax, treasury and financing affairs, and compliance with professional ethics). These hearings may take place, whenever the committee so decides, without the presence of the Company's General Management. In addition, the Audit Committee may consult with independent external advisors, in particular regarding legal and accounting matters, and may request that an internal or external audit be performed.

## Activity of the Audit Committee in 2010

Over the course of 2010, the Audit Committee met six times (as in 2009). The attendance rate at meetings was 90%.

In 2010, the committee's work involved mainly:

- the functioning of the committee, and the setting of its program and its priorities for 2010-2011;
- approving the new version of the committee's rules of procedure;
- reviewing the Group's annual and half-year financial statements (in each case after hearing the Chief Financial Officer and the Group executive responsible for preparing the accounts). These reviews involve (i) a presentation by the Statutory Auditors of the key elements of the results and the main accounting options that were adopted and (ii) a presentation by the Chief Financial Officer on the Group's financial position;
- reviewing the closing of the 2010 financial statements, including the accounting treatment of Unimilk and the reporting of the put options granted to non controlling interests;
- reviewing the draft press release on the annual and semi-annual financial statements; on this occasion, the committee ensured the consistency of the presentation of financial information to the market with the financial statements, and also ensured that the process of preparation of the press releases included a review by the Statutory Auditors;
- reviewing the major disputes in which the Group is involved;
- reviewing changes in the Group's scope of consolidation;
- examining the resolutions relating to the financial authorizations submitted for approval to the Shareholders' General Meeting of April 22, 2010;
- reviewing the Group's financial position;
- reviewing the presentation of the proposed dividend distribution;
- receiving presentation on risk management systems and on the main risks to which the Group is exposed, in particular through presentations from and discussions with the operational managers;

- receiving a presentation on the internal control systems, and reviewing the part of the Chairman's report relating to internal control;
- approving the audit plan and reviewing the principal conclusions of the audits conducted during the year;
- monitoring the call for tenders for the subcontracting of some of the Group's internal auditing missions;
- reviewing the pre-approval policy for services of the Statutory Auditors (excluding Statutory Audit-related engagements) to ensure their independence.

With respect to the review of the annual financial statements, the Audit Committee reviews (i) the main options for closing the financial statements in December, prior to the actual closing and (ii) the Company's financial statements during a meeting held prior to the meeting of the Board which approves those financial statements.

A report on each Audit Committee meeting is provided to the next Board of Directors' meeting. These reports on its activity must be such as to enable the Board to be fully informed, thereby facilitating its deliberations.

## 6.3 Nomination and Compensation Committee

### Composition of the Nomination and Compensation Committee

As of February 28, 2011, the Nomination and Compensation Committee is comprised of the three following Directors, two of whom were recognized as independent by the Board of Directors:

- Michel DAVID-WEILL, Chairman of the committee;
- Jean LAURENT, Independent Director;
- Hakan MOGREN, Independent Director.

The composition of this committee will be changed after the Shareholders' General Meeting of April 28, 2011, Michel DAVID-WEILL being replaced by Yoshihiro KAWABATA (subject to renewal of his term of office as Director), with Jean LAURENT becoming Chairman of the committee.

### Rules of procedure of the Nomination and Compensation Committee

In its meeting of December 15, 2006, the Board of Directors adopted new internal regulations for the Nomination and Compensation Committee, which specify its responsibilities.

The Nomination and Compensation Committee is notably responsible for:

- making proposals to the Board of Directors for the appointment of Directors;
- preparing the review by the Board of Directors of questions relating to the corporate governance;
- conducting an evaluation of the Board of Directors and the Audit Committee, upon request;
- proposing criteria for the compensation of the executive directors and officers;
- making proposals related to the grant of stock purchase options or free shares to the executive directors and officers;
- proposing the allocation of directors' attendance fees among Directors;
- more generally, making recommendations related to the Group's compensation policy upon the request of the Board of Directors.

For all subjects related to the appointment of executive officers (and excluding any issue relating to their compensation), the Chairman and Chief Executive Officer participates in the committee's activities.

Further to the recommendations of the Nomination and Compensation Committee, the Board of Directors meeting of February 10, 2009 amended the internal regulations of the committee, providing for the following:

- the above mentioned preparation by the Committee of the review by the Board of Directors of questions relating to corporate governance shall now be performed annually;
- the annual presentation to the committee of the compensation policy applicable to members of the Group's Executive Committee (other than the executive directors and officers) shall now be made in the presence of one or more executive directors and officers (which was already the case in practice);

- the Nomination and Compensation Committee's performance will now be subject to regular assessment.

Following the recommendations of the Nomination and Compensation Committee, the Board of Directors meeting of February 14, 2011 changed the rules of procedure of this committee, such that:

- the Committee may henceforth also evaluate the functioning of the Social Responsibility Committee, if the latter so requests, as it was already able to do for the Audit Committee and the Board of Directors;
- the confidentiality clause pertaining to this Committee is deleted and replaced with the confidentiality clause of the Rules of Procedure of the Board, which itself was clarified and strengthened and is now applicable to the Board and all its committees.

## Activity of the Nomination and Compensation Committee

Over the course of 2010, the Nomination and Compensation Committee met six times (compared with six times in 2009). The attendance rate at meetings was 100% (compared with 89% in 2009).

In 2010, the Committee's work involved mainly:

- an examination of all factors related to the compensation of each of the four executive directors and officers (and of the other members of the Executive Committee), in particular an examination of the variable compensation programs, including the (i) short-term (annual variable), (ii) medium-term (Group Performance Units, including an examination of the performance achieved in 2009 and the setting of performance objectives for 2010), and (iii) long-term (stock options, then Group Performance Shares, including a review of the requirement to keep shares for the executive directors and officers and the other members of the Executive Committee);
- review of the variable compensation policy of the Group (including the examination of the balance of allotments between the different categories of beneficiaries of options) and the weighting between the long-term (stock options) and medium-term (Group Performance Unit) programs, particularly the implementation of a free share allocation plan subject to performance conditions (Group Performance Shares) from 2010, which was approved at the Shareholders' General Meeting of April 22, 2010, in place of the stock options program, for which the Nomination and Compensation Committee recommended that this program be stopped;

- the proposals to the Board (i) to renew the terms of Directors subject to the approval of the Shareholders' General Meeting of April 22, 2010, (ii) to appoint as Chairman of the Audit Committee and (iii) not to split the duties of the Chairman Board from those of the Chief Executive Officer of the Company;
- a review of the status of the executive officers and the Company's undertakings related to the conditions of indemnification applicable to Franck RIBOUD, Emmanuel FABER and Bernard HOURS in certain cases of the termination of their terms of office and of the amendments to be made to the previous provisions approved by the 2008 Shareholders' Meeting as well as to the suspended employment contract of each of these executive directors and officers (all of these commitments and agreements were approved by the Shareholders' General Meeting of April 22, 2010);
- the individual situation of Jacques VINCENT, who wished to exercise his retirement right as of April 1, 2010;
- the composition of the Board in terms of expertise, independence and gender balance. The Board made recommendations to formulate a medium-term recruitment policy for Board members. This policy was based on the results of the self-evaluation of the Board performed during the second half of 2010. In this context, the committee recommended that the rates of gender balance and independence of the Board continue to increase over the coming years;
- the in-depth review of the provisions of the AFEP-MEDEF Code and its amendments;



- the annual and individual examination of the independence of each Director;
- the renewal of all Director terms expiring at the Shareholders' General Meeting of April 22, 2010;
- the following proposals to the Board meeting of February 14, 2011, which are subject to the approval of the Shareholders' General Meeting of April 28, 2011, i.e.:
  - the renewal of the terms of Bruno BONNELL, Bernard HOURS, Yoshihiro KAWABATA and Jacques VINCENT,
  - the appointment of Isabelle SEILLIER and Jean-Michel SEVERINO as Directors:
    - (i) concerning Isabelle SEILLIER, the Board recommended, for reasons of prudence, that she be considered as a non-independent Director of the Board. Also, the Board noted, on the one hand, the existence of a potential conflict of interest due to her responsibilities toward JP MORGAN, a financial institution that may offer financial services to the Group, and, on the other hand, that the Board rules of procedure require every director to abstain from voting on any deliberation that may present a conflict of interest to him or her;
    - (ii) concerning Jean-Michel SEVERINO, the Board noted that he met all independence criteria applied to the Board, i.e., those of the AFEP-MEDEF Code;
- in this context, the Committee noted the wishes of Jacques NAHMIAS (Director since 1981) and Michel DAVID-WEILL (Director since 1970) not to renew their terms as director, which both expire at the Shareholders' General Meeting of April 28, 2011;
- the examination of the changes to the composition of the Nomination and Compensation Committee, with the proposal to appoint Yoshihiro KAWABATA as a member of this committee to replace Michel DAVID-WEILL (the rate of independence of this committee remaining at 66%);
- the examination of the changes to the composition of the Social Responsibility Committee, with the proposal to appoint Jean-Michel SEVERINO as an additional member of this committee (the rate of independence of this committee thus being raised from 66% to 75%);
- the Board recommendation concerning the appointment of FABER and HOURS as Vice-Chairmen of the Board of Directors.

A meeting of the Nomination and Compensation Committee was held at the beginning of February 2011, which dealt with the following matters (about which it reported back to the Board of Directors on the meeting of February 14, 2011):

- the amendments to the rules of procedure of the Nomination and Compensation Committee and of the Board of Directors (described in paragraph 6.1);
- all compensation items for each of the three corporate officers (and other members of the Executive Committee), especially

the examination of variable compensation programs that are (i) short-term (yearly variable), (ii) medium-term (Group Performance Unit, including the examination of the achievement of the performance goals for 2010) and (iii) long-term (Group Performance Shares);

- a review of the process and practices in place in terms of the Group General Management succession plan and of the key positions in the Group companies;
- proposals to the Board concerning General Management and more particularly the renewal of the term of office of Bernard HOURS as Deputy General Manager (subject to renewal of his term of office as Director by the Shareholders' General Meeting of April 28, 2011). On this occasion, the Committee reviewed the obligations of this Director to hold a number of shares resulting from his Group Performance Shares and recommended to keep these obligations unchanged;
- examination of the commitments made by the Company concerning the conditions of indemnification applicable to Bernard HOURS in certain cases of the termination of his term of office, as approved by the Shareholders' General Meeting of April 22, 2010 and the recommendation (upon renewal of his term of office as Director subject to the Shareholders' General Meeting of April 28, 2011) of maintaining these commitments unchanged;
- review of the honorary Directors' system in order to simplify the governance of the Board, by reserving eligibility for the position of honorary Directors to only the Chairman and Vice-Chairman (Chairmen) in office when they retire from the Board. On this basis, the Board proposed the appointment of Michel DAVID-WEILL as Honorary Vice-Chairman of the Board as the terms of office of Messrs. HAAS and BOËL as honorary Directors expire at the end of the meeting of April 28, 2011;
- finally, it was noted that, subject to the adoption by the Shareholders' General Meeting of April 28, 2011 of all resolutions relating from the renewal of terms of office as Director and the appointment of two new Directors, the composition of the Board would change notably in terms of:
  - (i) independence: the new configuration of the Board would include a majority of independent Directors (in accordance with the independence criteria used by the AFEP-MEDEF Code); and
  - (ii) gender balance: the gender balance on the Board would increase from 7% to 14% (two Directors out of 14).

The Committee recommended that the Board pursues, in its future proposals submitted for the approval of the Shareholders Meeting, the improvement of its governance as regards both its independence and gender balance on the Board.

A report on each meeting of the Nomination and Compensation Committee is provided at the following Board of Directors meeting. These activity reports must enable the Board to be fully informed, thus facilitating its deliberations.

## 6.4 Social Responsibility Committee

At its meeting of December 15, 2006, the Board of Directors decided to create a third specific governance body, the Social Responsibility Committee.

### Composition of the Social Responsibility Committee

As of February 28, 2011, the Social Responsibility Committee was comprised of the following three Directors, two of whom were recognized as independent by the Board of Directors:

- Jean LAURENT, Chairman of the committee, Independent director;
- Bruno BONNELL, Independent director;

- Emmanuel FABER, Director and Executive Vice-President.

The composition of this committee will be changed after the Shareholders' General Meeting of April 28, 2011, as Jean-Michel SEVERINO will be appointed as a member of the committee (subject to his appointment as Director).

### Rules of Procedure of the Social Responsibility Committee

During its meeting of February 14, 2007, the Board of Directors adopted internal regulations for the Social Responsibility Committee, which specify its responsibilities and procedures.

During its meeting of December 17, 2009, the Board of Directors adopted a new version of the committee's internal regulations, which stipulate, in particular, that the Social Responsibility Committee will in future be the subject of a regular performance evaluation.

The Social Responsibility Committee is responsible for:

- reviewing the main environmental risks and opportunities for the Group in relation to its objectives and activities;
- reviewing the social policies of the Group, its objectives and the results obtained;
- reviewing reporting, evaluation and control systems in order to enable the Group to produce reliable information regarding non-financial matters;

- reviewing all non-financial information published by the Group, in particular relating to societal and environmental matters;
- reviewing annually the summary of the ratings received by the Company and its subsidiaries by non-financial rating agencies;
- ensuring the application of the Ethical Codes established by the Group.

In addition, in the area of socially responsible investments, the committee is responsible for:

- evaluating the impact of these investments for the Group;
- reviewing the application of the rules established by the Group concerning investments and social programs in areas related to the Group's activities;
- ensuring that the Company's interests are preserved, with particular focus on preventing any conflict of interest between these investments and the rest of the activities of the Group.

## Activity of the Social Responsibility Committee

Over the course of 2010, the Social Responsibility Committee met three times (it also met three times in 2009). All members had a 100% attendance rate at meetings was 100% (as in 2009).

In 2010, the committee's work focused mainly on:

- the four axes of the Group's societal approach (Health, For All, Nature and People), and the committee decided to dedicate a point of each meeting to studying one of these four areas;
- the Group societal ongoing societal projects;
- review of the activities of funds created by Danone, such as the danone.communities Fund and the Danone Ecosystem Fund;
- the project to create a Nature/Livelihoods Fund (related to carbon offsetting programs);
- the amount borne by the Company in respect of its financial contributions to danone.communities and the Danone Ecosystem Fund. See paragraphs 5.4 – Regulated agreements and 7.4 – Information on the danone.communities Fund and the Danone Ecosystem Fund, and the special report by the Statutory Auditors in paragraph 5.4;
- review of the various challenges of transformation to the Group in terms of human resources;
- the Group's rating in non-financial terms;
- review of the main risks within the scope of the committee.

In addition, during its meeting of June 29, 2009, the committee carried out an initial evaluation of its activity, which resulted in consideration being given to the position of the committee, particularly in relation to the Audit Committee. At its meeting in October 2009, the committee decided to carry out a further evaluation of its activity, the results of which were examined in 2010.

This assessment confirmed the committee's contribution to the Group's strategy, as the committee makes it possible to better understand the changes affecting the Company, as well as consumer expectations in the face of new issues (especially those linked to the environment, health and social policy).

Following this assessment, it was decided in 2009 (i) to improve coordination in reviewing Group risks with the Audit Committee and (ii) deliver the reports on its work to the Board in a more concrete manner. The roles of the committee have also been supplemented so that the committee ensures (i) the implementation of the Group's aforementioned four societal approach axes mentioned above and the reality of the transformation processes regarding the management of the Company, and (ii) the sincerity and reliability of the extra-financial communications of the Group.

A report on each Social Responsibility Committee meeting is provided to the next Board of Directors' meeting. These reports on its activity must be such as to enable the Board to be fully informed, thereby facilitating its deliberations.

## 6.5 Powers of the Chief Executive Officer

The Board of Directors meeting of April 25, 2002 decided not to split the duties of the Chairman of the Board of Directors from those of the Chief Executive Officer, in order to promote cohesion between the powers of the Board of Directors and those of the General Management and, in doing so, avoid the dilution of power and responsibility of the Chairman of the Company.

This decision was confirmed by the Board of Directors on February 10, 2010, which considered that:

- this absence of a separation of the duties does not lead to an excessive concentration of power since General Management includes two Deputy General Managers;

- a majority of Directors were recognized as independent by the Board of Directors on the basis of its application of the terms of the AFEP-MEDEF Code (including all the members of the Audit Committee and two-thirds of the members of the Nomination and Compensation Committee and of the Social Responsibility Committee);
- most of the significant transactions that the Chief Executive Officer is responsible for are subject to the prior approval of the Board of Directors.

### **Limits to the powers of the Chief Executive Officer**

The Board of Directors approves (i) strategic investment plans and (ii) any transactions, particularly acquisitions or disposals, which may significantly impact the Group's financial results, balance sheet, or risk profile. In particular, the Chairman and Chief Executive Officer must obtain the prior approval of the Board of Directors for the following transactions.

Type of transaction	Authorization limit
Purchases and sales of securities and/or assets, partnerships or joint ventures (in cash or through a contribution of assets, made in one or more installments)	Limit of € 250 million applicable to: <ul style="list-style-type: none"> <li>• acquisitions, partnerships, and joint ventures: per investment, for the Group's portion</li> <li>• disposals: payment received by the Group</li> </ul>
Any off-balance sheet commitment given by the Group	Limit of € 100 million for the Group's portion
Other investments	Any significant overrun of the amount set in the annual budget
Internal restructuring	Any restructuring where the total cost for the Group's portion exceeds € 50 million

## 6.6 Executive Committee

Under the authority of Franck RIBOUD, the Executive Committee is responsible for the Group's operational management. This committee implements the strategy defined by the Board of Directors, approves the budgets, coordinates the planning and

execution of the missions of each of the subsidiaries and Business Lines and depending on the results achieved, determines action plans to be implemented. The members of the Executive Committee meet at least once per month.

At February 28, 2011, the 10 members of the Executive Committee <sup>(1)</sup> are the following:

Name	Age	Main occupation within the Group	In office since <sup>(2)</sup>
Franck RIBOUD	55	Chairman and Chief Executive Officer	1996
Emmanuel FABER	47	Deputy General Manager <sup>(3)</sup>	2000
Bernard HOURS	54	Deputy General Manager <sup>(3)</sup>	2001
Thomas KUNZ	53	General Manager Danone Waters	2004
Sven THORMAHLEN	54	General Manager Danone Research	2005
Jordi CONSTANS	46	General Manager Fresh Dairy Products <sup>(4)</sup>	2008
Felix MARTIN GARCIA	50	General Manager Baby Nutrition <sup>(5)</sup>	2008
Muriel PENICAUD	55	General Manager Human Resources	2008
Pierre-André TERISSE	44	Chief Financial Officer	2008
Flemming MORGAN	55	General Manager Medical Nutrition	2009

(1) Christian NEU left the Executive Committee on December 31, 2010.

(2) Date of appointment to the Executive Committee.

(3) Will be appointed Vice-Chairman of the Board of Directors after the Shareholders' General Meeting of April 28, 2011 (Bernard HOURS, subject to renewal of his term of office as Director at the Shareholders' General Meeting of April 28, 2011).

(4) Was appointed General Manager Fresh Dairy Products on January 1, 2011.

(5) Was appointed General Manager Baby Nutrition on January 1, 2011.

## 6.7 Application of the AFEP-MEDEF Corporate Governance Code for listed companies

The Company is in compliance with the corporate governance regime applicable in France pursuant to the conditions set out in this section.

Pursuant to the Law of July 3, 2008, the Board of Directors, at its meeting of December 18, 2008, studied the provisions of the AFEP-MEDEF Code and decided that the Group shall refer to this Code of Governance (such decision has been published in a press release issued on December 19, 2008). This code is available on the MEDEF website ([www.medef.fr](http://www.medef.fr)).

## 6.8 Other information

The restrictions on the sale by Directors and executive directors and officers of the Danone shares that they receive from the exercise of options and Group Performance Shares are mentioned in Section 6.10.

The principles and rules laid down by the Board of Directors to determine compensation and benefits of any kind granted to corporate officers are presented in Section 6.10.

The rules for the participation of shareholders in the Shareholders' General Meeting appear in the bylaws of the Company and are summarized in Section 9.1.

The information set out in Article L. 225-100-3 of the French Commercial Code is mentioned in Section 8.9.

Finally, the report prepared pursuant to Article L. 225-37 of the French Commercial Code was approved at the Board of Directors meeting of February 14, 2011.

## 6.9 Information on transactions concluded with members of Administrative, Management and Surveillance bodies

See Section 5.4 regarding related party transactions.

## 6.10 Compensation and benefits paid to executive directors and officers

### Compensation policy for executive directors and officers

The Nomination and Compensation Committee met several times in 2010 and at the beginning of 2011 to review the compensation policy of executive directors and officers (*mandataires sociaux*) and members of the Executive Committee.

This compensation policy was presented to the members of the Nomination and Compensation Committee in a reference file based on a study produced by a specialized firm and observing the practices on two main markets (France and Europe). The policy was developed through an approach organized in levels of responsibility corresponding to the job content and relative to market practices. In addition, this policy is based on collective principles that are applicable to all General Managers and to approximately 1,400 managers worldwide.

The retained principles can be broken down into two parts: an annual compensation and a pluri-annual compensation.

#### ANNUAL COMPENSATION

This annual compensation consists in:

- fixed compensation;
- short-term variable compensation, granted subject to performance conditions, determined based on economic, societal and managerial objectives and calculated with reference to objective and quantified criteria:

- for the Chairman and Chief Executive Officer, Franck RIBOUD, as well as for Emmanuel FABER, Deputy General Manager, and Bernard HOURS, Deputy General Manager: the variable economic portion is computed with reference to Group objectives (in terms of sales, trading operating margin, free cash flow and underlying earnings per share), as communicated to the financial markets, in addition to the Group's societal objectives (which are derived from labor parameters such as safety at work, employee training and the development of talents, and from environmental parameters such as carbon footprint reduction) and an assessment of the strategy developed during the year,
- for members of the Executive Committee who manage a division: the variable economic portion is based on objectives set in the budget of the relevant division (in terms of sales, trading operating income, operating free cash flow and underlying earnings per share), the societal part of the variable portion is based on the societal objectives set for the division concerned (which are derived from labor parameters such as safety at work, employee training and the development of talents, and from environmental parameters such as carbon footprint reduction),
- for the other members of the Executive Committee: the variable economic portion is based on the Group's objectives, as communicated to the financial markets (set in terms of sales, trading operating margin, free cash flow and underlying earnings per share), the societal part of the variable portion is based on the Group's societal objectives.

### PLURI-ANNUAL COMPENSATION

This pluri-annual compensation consists in:

- medium-term variable compensation in the form of GPUs (Group Performance Units described in paragraph 7.2) granted subject to pluriannual performance conditions over a three-year period. The GPUs were instituted in 2005 with the objective of aligning more closely the compensation of executive directors and officers, members of the Executive Committee and managers with the Group's overall economic performance in the medium term. GPUs are allocated upon the decision of the

Board of Directors every year. At the end of a three-year period, the beneficiaries receive compensation in the amount of € 30 per unit allocated if the Group has achieved, for each of the three years in question, all of the established objectives. This compensation is decreased to € 20 per GPU if the objectives were achieved only two years out of the three and to € 0 per GPU if the objectives were achieved only one year out of the three or were never achieved;

- long-term variable compensation, in the form of GPS (Group Performance Shares described in paragraph 7.2). GPS are Company shares subject to two-year performance conditions. GPS were introduced in 2010, on the proposal of the Danone Board of Directors, after approval by the General Shareholder Meeting, and in place of the stock option program that was consequently closed, for which the new grant authorization was cancelled for the unused part on April 22, 2010, the date of the Shareholders' General Meeting that approved the GPS program. GPS are valued in the Group's accounts according to IFRS 2 (see Note 14 of the consolidated financial statements).

The proportion of medium- and long-term variable compensation increases with on the level of responsibility of the managers concerned.

The compensation of Franck RIBOUD, Chairman and Chief Executive Officer, Emmanuel FABER, Deputy General Manager, and Bernard HOURS, Deputy General Manager, is determined by the Board of Directors on the basis of recommendations made by the Nomination and Compensation Committee. The compensation of the other members of the Executive Committee of the Group is only presented to the Nomination and Compensation Committee.

The Vice-Chairman of the Board of Directors and Deputy General Manager, Jacques VINCENT, exercised his right to receive retirement benefits as part of his retirement effective April 1, 2010. Upon this date, his term of office in his position as Deputy General Manager as well as his employment agreement were therefore terminated, in both cases, with no compensation for the termination of his functions.

His term as Vice-Chairman of the Board of Directors will end at the conclusion of the General Meeting of April 28, 2011, the same meeting that is to decide on the renewal of his term as Director.



## Compensation and benefits paid to executive directors and officers

The table below shows the various agreements, plans and indemnities applicable to the executive directors and officers of the Company:

Name	Employment agreement suspended <sup>(1)</sup>		Additional retirement plan <sup>(2)</sup>		Indemnities or benefits owed or that may be owed pursuant to the termination of or change in duties <sup>(3)</sup>		Indemnities relative to a non-compete clause <sup>(4)</sup>	
	Yes	No	Yes	No	Yes	No	Yes	No
Franck RIBOUD Chairman and Chief Executive Officer Term of office began in: 1992 Term of office will end in : 2013	X		X		X			X
Emmanuel FABER Deputy General Manager Term of office began in: 2002 Term of office will end in: 2013	X		X		X		X	
Bernard HOURS Deputy General Manager Term of office began in: 2005 Term of office will end in: 2014 <sup>(5)</sup>	X		X		X		X	

(1) With respect of the employment agreement of Franck RIBOUD, Emmanuel FABER and Bernard HOURS see Section 5.4.

(2) A description of these additional retirement plans is provided in Section 5.4.

(3) Indemnities paid in certain cases of termination of the term of office are detailed in Section 5.4. In case of termination, no contractual indemnity would be paid. However, indemnities provided for by the Group collective bargaining agreement would still be payable. Refer to Section 5.4.

(4) This clause enables the Group, in the sole case of resignation of the Deputy General Manager concerned, either to activate the clause for an 18 months period with a financial consideration equivalent to 50% of his fixed and variable compensation, or to release the person concerned from the clause without financial consideration. See Section 5.4

(5) Subject to his term of office as Director being renewed by the Shareholders' General Meeting of April 28, 2011.

The Board of Directors of February 10, 2010 acknowledged that Franck RIBOUD and Emmanuel FABER's terms of office would come to an end at the Shareholders' General Meeting called to approve the 2009 financial statements, and that therefore, in compliance with the law, their indemnification conditions would have to be submitted to the approval of shareholders at the General Meeting of April 22, 2010. This meeting approved the new indemnification conditions for the three corporate officers (including Bernard HOURS, although his term of office as Director had not expired at this meeting).

On this occasion, and in accordance with the law, payment of this indemnification was subject to performance conditions. In addition, and in compliance with the French corporate governance AFEP-MEDEF Code, the amount of these indemnification is subject to a limit and is to be paid only in certain cases. All information about the indemnification conditions of the three corporate officers of the Company is provided in Section 5.4.

The Board of Directors meeting of February 14, 2011 decided to submit once again the indemnification conditions of

Bernard HOURS (whose term of office comes to an end after the Shareholders' General Meeting of April 28, 2011) for the approval of the shareholders at that Meeting. The Board decided to leave these conditions unchanged compared to those conditions approved at the Shareholders' General Meeting of April 22, 2010.

Finally, upon the renewal of Franck RIBOUD's term of office as Chairman and Chief Executive Officer and following the publication of the AFEP-MEDEF Code, the Board of Directors meeting of February 10, 2010, pursuant to the recommendation of the Nomination and Compensation Committee, considered that Franck RIBOUD's employment agreement should be maintained, taking into account his age, personal situation and long period of service as a Group employee. The Board considered this system relevant for directors with at least ten years of seniority within the Group, to encourage internal promotion and the sustainable management that the Company is trying to implement, as terminating the employment agreement could, to the contrary, prevent internal candidates from accepting corporate officers positions.



## Compensation for 2010

For the 2010 fiscal year, the gross aggregate amount of direct and indirect compensation paid out to all of the members of the Board of Directors and members of the Executive Committee amounted to € 22.7 million.

This amount includes (i) the compensation paid only to the members of the Executive Committee, for an amount of € 22.2 million (including € 14.6 million with respect to the variable portion) and (ii) € 0.5 million of Directors' attendance fees (to which the executive directors and officers are not entitled).

In 2010, the corporate officers' (Franck RIBOUD, Emmanuel FABER and Bernard HOURS) short-term variable compensation represented on average 62% of the annual monetary compensation due, and may not represent an amount which is higher than 65% of this annual monetary compensation. In addition, during that same period, GPS granted annually to the three executive directors and officers represented in total less than 0.014% of the Company's share capital.

Details are provided in the following table of the aggregate amount of compensation paid out, GPS and stock options granted to each corporate officer over the course of the 2010 and 2009 fiscal years:

<i>(In €)</i> <b>Name</b>	Compensation owed		Valuation of Stock options and GPS on the date of grant according to IFRS 2 <sup>(1)</sup> <sup>(2)</sup>		Total	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Franck RIBOUD	4,397,370	4,397,370	1,573,250	1,497,688	5,970,620	5,895,058
Jacques VINCENT	2,300,860	1,111,843	786,625	-	3,087,485	1,111,843
Emmanuel FABER	2,273,620	2,428,870	786,625	966,250	3,060,245	3,395,120
Bernard HOURS	2,273,620	2,450,870	786,625	966,250	3,060,245	3,417,120

(1) In 2009 grant of stock options only. See Note 1.22 for the valuation of stock options according to IFRS 2.

(2) In 2010 grant of GPS only. See Note 1.22 for the valuation of GPS according to IFRS 2.

## Compensation and benefits paid to executive directors and officers

The aggregate amount of annual compensation due and paid out, as well as benefits of any nature awarded over the course of the 2010 fiscal year to the members of the Board of Directors is broken down as follows:

2010									
(In €)	Fixed compensation <sup>(1)</sup>		Variable annual compensation		Benefits of any kind <sup>(2)</sup>		Attendance fees <sup>(3)</sup>	Total annual compensation	
Name	Amounts owed	Amounts paid	Amounts owed	Amounts paid	Amounts owed	Amounts paid	Amounts owed	Amounts owed	Amounts paid
Franck RIBOUD	1,050,000	1,050,000	1,842,750	1,842,750	4,620	4,620	-	2,897,370	2,897,370
Jacques VINCENT <sup>(4)</sup>	1,094,688	1,094,688		786,240	1,155	1,155	16,000	1,111,843	1,882,083
Emmanuel FABER	665,000	665,000	1,009,250	875,000	4,620	4,620	-	1,678,870	1,544,620
Bernard HOURS	665,000	665,000	1,031,250	875,000	4,620	4,620	-	1,700,870	1,544,620
Bruno BONNELL							36,000	36,000	
Michel DAVID-WEILL							68,000	68,000	
Richard GOBLET D'ALVIELLA							40,000	40,000	
Christian LAUBIE							44,000	44,000	
Jean LAURENT							72,000	72,000	
Hakan MOGREN							48,000	48,000	
Jacques NAHMIAS							22,000	22,000	
Benoît POTIER							40,000	40,000	
Yoshihiro KAWABATA							22,000	22,000	
Guylaine SAUCIER							64,000	64,000	

(1) Gross amount. The amounts due correspond to sums attributable to the current fiscal year. The amounts paid correspond to sums effectively paid out during the fiscal year and include amounts that were due with respect to the previous fiscal year.

(2) Benefits of any kind correspond to the pool of cars and drivers made available to all members of the Executive Committee.

(3) Gross amount due over the course of the fiscal year, withholding at source not yet applied. The corporate officers do not benefit from Directors' attendance fees.

(4) Jacques Vincent decided to retire as of April 1, 2010. On that date, his role as Deputy General Manager and his employment contract both ended. As part of the collective agreement applicable to all employees of Danone SA, he received a retirement indemnity representing 7 months of his fixed and variable remuneration (a gross amount of € 904,688), for his 40 years of seniority within the Group. For the period January 1 until April 1, 2010, he received a gross base salary of € 190,000.

The aggregate amount of pluri-annual compensation due and paid out, over the course of the 2010 fiscal year to the corporate officers is broken down as follows:

(In €)	Pluri-Annual variable compensation <sup>(1)</sup>		GPS valued at the date of grant according to IFRS 2	Total Pluri-Annual compensation
Name	Amounts owed	Amounts paid		
Franck RIBOUD	1,500,000	1,500,000	1,497,688	2,997,688
Jacques VINCENT <sup>(2)</sup>	-	2,255,000	-	-
Emmanuel FABER	750,000	405,000	966,250	1,716,250
Bernard HOURS	750,000	405,000	966,250	1,716,250

(1) Pluriannual variable compensation owed corresponds to the GPUs granted in 2010. Amounts paid in 2010 were related to the GPUs granted in 2007 for the achievement of the performance conditions for the 2007, 2008 and 2009 fiscal years.

(2) Jacques VINCENT wanted to assert his retirement rights on April 1, 2010. Therefore, following the rules for GPUs for 2008 and 2009, he received the sum of € 750,000 for the GPUs awarded in 2008 and the sum of € 500,000 for the GPUs awarded in 2009. He was not allotted any GPS in 2010.

## Compensation and benefits paid to executive directors and officers

## Compensation for 2009

The aggregate amount of annual compensation due and paid out, as well as benefits of any nature awarded over the course of the 2009 fiscal year to the members of the Board of Directors is broken down as follows:

(In €)	Fixed compensation <sup>(1)</sup>		Variable annual compensation		Benefits of any kind <sup>(2)</sup>		Attendance fees <sup>(3)</sup>	Total annual compensation	
	Amounts owed	Amounts paid	Amounts owed	Amounts paid	Amounts owed	Amounts paid	Amounts owed	Amounts owed	Amounts paid
<b>Name</b>									
Franck RIBOUD	1,050,000	1,050,000	1,842,750	1,729,350	4,620	4,620	–	2,897,370	2,783,970
Jacques VINCENT	760,000	760,000	786,240	765,180	4,620	4,620	–	1,550,860	1,529,800
Emmanuel FABER	644,000	644,000	875,000	725,000	4,620	4,620	–	1,523,620	1,373,620
Bernard HOURS	644,000	644,000	875,000	2,215,000 <sup>(4)</sup>	4,620	4,620	–	1,523,620	2,863,620
Bruno BONNELL	–	–	–	–	–	–	38,000	38,000	–
Michel DAVID-WEILL	–	–	–	–	–	–	66,000	66,000	–
Richard GOBLET	–	–	–	–	–	–	52,000	52,000	–
D'ALVIELLA									
Christian LAUBIE	–	–	–	–	–	–	54,000	54,000	–
Jean LAURENT	–	–	–	–	–	–	78,000	78,000	–
Hakan MOGREN	–	–	–	–	–	–	34,000	34,000	–
Jacques NAHMIAS	–	–	–	–	–	–	30,000	30,000	–
Benoît POTIER	–	–	–	–	–	–	76,000	76,000	–
Naomasa TSURITANI	–	–	–	–	–	–	24,000	24,000	–
Guylaine SAUCIER	–	–	–	–	–	–	46,000	46,000	–

(1) Gross amount. The amounts owed correspond to the amounts allotted for the current fiscal year. The amounts paid correspond to the amounts actually paid over the fiscal year and include the amounts that were owed for the previous fiscal year.

(2) Benefits of any kind correspond to the pool of cars and chauffeurs made available to all members of the Executive Committee.

(3) Gross amount owed over the course of the fiscal year before withholding at source. The four corporate executive officers are not entitled to attendance fees.

(4) Bernard HOURS, while he was General Manager of the Fresh Dairy Products business line, received a medium-term exceptional variable portion linked to performance targets for the years 2006, 2007 and 2008. Since he met all these targets for the entire period, he received € 1,500,000 in 2009. This non-renewable program came to an end in 2008 in accordance with the maturity dates laid down at the outset.

The aggregate amount of pluri-annual compensation due and paid out, over the course of the 2009 fiscal year to the corporate officers is broken down as follows:

(In €)	Pluri-Annual Variable compensations <sup>(1)</sup>		Stock options valued at the date of grant according to IFRS 2	Total Pluri-Annual compensation
	Amounts owed	Amounts paid		
<b>Name</b>				
Franck RIBOUD	1,500,000	1,500,000	1,573,250	3,073,250
Jacques VINCENT	750,000	1,005,000	786,625	1,536,625
Emmanuel FABER	750,000	405,000	786,625	1,536,625
Bernard HOURS	750,000	405,000	786,625	1,536,625

(1) Pluri-annual variable compensation due corresponds to the GPUs allocated in 2009. Amounts paid in 2009 were paid for the GPUs allocated in 2006 for the achievement of the performance conditions for the 2006, 2007 and 2008 fiscal years.

Lastly, the conditions under which the corporate officers of the Company are paid indemnities in certain cases of termination of their terms of office are described in Section 5.4. The other members of the Executive Committee benefit from similar

commitments from the Company in certain cases of termination of their duties (see Note 24 of the Notes to the consolidated financial statements).

## Stock options, Group Performance Shares granted to Corporate Officers

### **POLICY FOR GRANTING STOCK OPTIONS AND GROUP PERFORMANCE SHARES**

Since the Shareholders' General Meeting of April 22, 2010, grants of Group Performance Shares ("GPS") replaced grants of stock options.

The GPS and the stock options granted to members of the Executive Committee are described in paragraph 7.2. The Board of Directors grants GPS annually on the basis of an amount determined globally, as recommended by the Group's Nomination and Compensation Committee.

As of December 31, 2010, the members of the Executive Committee benefited from exercisable options for an aggregate of 3,461,834 shares.

The first GPS related shares will actually be delivered as of July 27, 2013 (for the "3+2" plan) and as of July 28, 2014 (for the "4+0" plan), provided continued employment and performance conditions are met.

### **POLICY TO HOLD SHARES RESULTING FROM STOCK OPTIONS AND GROUP PERFORMANCE SHARES**

Concerning the Company shares resulting from the exercise of stock options: all corporate executive officers and other Executive Committee members are subject to an obligation to hold a portion of their shares from the exercise of options since 2007. In accordance with Article L. 225-185 of the French Commercial Code, the Chairman and Chief Executive Officer and the Deputy General Managers must hold (in registered form) a certain number of shares resulting from the exercises of each stock option plan they were granted since January 1, 2007 onwards until such time as the cease of their functions.

Accordingly, the Board of Directors has (i) decided that this commitment to hold a portion of the shares would apply to a number of shares corresponding to 35% of the capital gains upon acquisition, net of tax and social security contributions realized on all of the shares resulting from an exercise of options carried out by the executive concerned under this plan; and (ii) decided to subject all other members of the Executive Committee to this obligation to hold shares under the same conditions.

Also, the Board of Directors has reexamined and confirmed these obligations to hold shares derived from the exercise of stock options by Messrs. RIBOUD, FABER and HOURS, upon the renewal of their respective terms as Director at the Shareholders' General Meetings of April 22, 2010 and April 28, 2011.

Concerning shares derived from the Group Performance Shares, the Board of Directors meeting of July 26, 2010 decided that all directors and corporate officers had to hold (in registered form) a number of shares derived from each GPS plan granted as of July 26, 2010 (until the end of their corporate functions) corresponding to 35% of the capital gains upon acquisition, net of tax and social security contributions, which would be realized if all shares resulting from each GPS plan granted were sold. Also, this same Board of Directors meeting decided to extend this obligation to hold shares to all members of the Company's Executive Committee.

The Board meeting of February 14, 2011 confirmed this obligation to hold shares for Bernard HOURS upon the renewal of his term.

Finally, the amounts reported as compensation and other benefits for all Directors and members of the Executive Committee are detailed in Note 24 of the Notes to the consolidated financial statements) and in Notes 10 and 11 of the Notes to the parent company financial statements.

## STOCK OPTIONS AND GROUP PERFORMANCE SHARES

In accordance with Article L. 225-184 of the French Commercial Code, the exercises of options on Company shares of the executive directors and officers of the Company during the 2010 fiscal year are detailed in the following table:

Name	Date of the Board meeting granting the options exercised	Number of options	Options exercised	
			(In €)	Exercise price (In €)
Franck RIBOUD	04/11/2003	141,330		27.87
Jacques VINCENT	04/22/2005	38,000		35.43
Emmanuel FABER	-	-		-
Bernard HOURS	04/11/2003	84,800		27.87

In accordance with Article L. 225-197-4 of the French Commercial Code, Group Performance shares granted during the 2010 fiscal year to the three directors and corporate officers are detailed in the following table:

Name	Date of the Board meeting granting the GPS	Valuation <sup>(1)</sup>	Number of GPS <sup>(2)</sup>	Vesting Date
Franck RIBOUD	07/26/2010	1,497,688	38,750	07/27/2013
Emmanuel FABER	07/26/2010	966,250	25,000	07/27/2013
Bernard HOURS	07/26/2010	966,250	25,000	07/27/2013

(1) Value on the grant date of the GPS according to IFRS 2 (see Note 14 of the Notes to the consolidated accounts), i.e. on July 26, 2010.

(2) As a percentage of the share capital on December 31, 2010, these grants represented 0.006% for Franck RIBOUD and 0.004% for the two following directors and corporate officers: Emmanuel FABER and Bernard HOURS.

## Retirement Obligations

Corporate officers are eligible to a defined benefit pension plan which was provided to certain executive and directors of the Group. (See paragraph 7.2).

As of December 31, 2010, the portion of the total amount of the Group's obligation which relates to the Company's executive directors and officers under this pension plan amounted to € 40.2 million, which takes into account the impact of new charges applicable as of 2010, as provided in the *Loi de Financement de la Sécurité Sociale 2010* (LFSS) (2010 Social Security Funding Act). Refer to Note 16 of the consolidated financial statements.

The total amount paid out by the Company with respect to this pension plan for the benefit of the members of the Board of Directors (based on the duties they have completed within the Group, currently Mr. Christian LAUBIE and since the beginning of his retirement on April 1st 2010, Mr. Jacques VINCENT) amounted to € 1.3 million in 2010.

With respect to the eligibility of each of the three executive directors and officers of the Company to this pension plan, see Section 5.4 (Related party transactions).

## Transactions performed in 2010 on Company shares by the corporate officers and members of the Executive Committee at December 31, 2010

Name	Function	Type of shares	Type of transaction	Date of transaction	Gross unit price (In €)	Number of shares	Total gross amount (In €)
Franck RIBOUD	CEO	Shares	Exercise of stock options	12/22/2010	27.87	141,330	3,938,867.10
A person linked to Mr. RIBOUD		Shares	Sale	12/29/2010	48.0497	20,200	970,603.94
A person linked to Mr. RIBOUD		Shares	Sale	12/29/2010	48.0497	21,500	1,033,068.55
Bernard HOURS	Co-Chief Operating Officer	Shares	Exercise of stock options	03/11/2010	27.87	84,800	2,363,376.00
		Shares	Sale	03/11/2010	44.050	84,800	3,735,440.00
		Shares	Purchase	05/25/2010	39.50	253	9,993.50
Jordi CONSTANS FERNANDEZ	Member of the Executive Committee	Shares	Exercise of stock options	02/12/2010	32.74	2,968	97,172.32
		Shares	Sale	02/12/2010	41.84	2,968	124,181.12
		Shares	Exercise of stock options	11/09/2010	27.87	17,000	473,790.00
		Shares	Sale	11/09/2010	47.00	17,000	799,000.00
Yoshihiro KAWABATA	Director	Shares	Purchase	04/20/2010	45.21	4,000	180,840.00
Thomas KUNZ	Member of the Executive Committee	Other*	Subscription	05/06/2010	10.00	2,000	20,000.00
Felix MARTIN GARCIA	Member of the Executive Committee	Shares	Exercise of stock options	11/05/2010	27.87	6,038	168,279.06
		Shares	Sale	11/05/2010	46.4443	6,038	280,430.68
		Shares	Exercise of stock options	11/09/2010	27.87	2,600	72,462.00
		Shares	Sale	11/09/2010	47.67	2,600	123,942.00
Christian NEU	Member of the Executive Committee	Shares	Exercise of stock options	10/22/2010	27.87	10,000	278,700.00
		Shares	Sale	10/22/2010	45.6288	10,000	456,288.00
		Shares	Exercise of stock options	11/22/2010	27.87	10,000	278,700.00
		Shares	Sale	11/22/2010	47.1686	10,000	471,686.00
		Shares	Exercise of stock options	12/28/2010	27.87	5,440	151,612.80
		Shares	Sale	12/28/2010	47.8898	5,440	260,520.51
Muriel PENICAUD	Member of the Executive Committee	Other*	Subscription	05/06/2010	10.00	2,000	20,000.00
Pierre-André TERISSE	Member of the Executive Committee	Other*	Subscription	05/06/2010	10.00	2,000	20,000.00
Sven THORMAHLEN	Member of the Executive Committee	Other*	Subscription	05/06/2010	10.00	2,000	20,000.00

Name	Function	Type of shares	Type of transaction	Date of transaction	Gross unit price (In €)	Number of shares	Total gross amount (In €)
Jacques VINCENT	Co-Chief Operating Officer	Shares	Exercise of stock options	03/30/2010	35.43	38,000	1,346,340.00
		Shares	Sale	03/30/2010	44.60	38,000	1,694,800.00

\* These transactions correspond to subscriptions to a share capital increase reserved for Group employees which has been carried out through a special purpose vehicle called FCPE - See paragraph 7.2.

Corporate officers of the Company must hold a certain number of shares from the exercise of options granted under each option grant plan as of January 1, 2007 until their corporate

function ends. This obligation to hold shares was extended by the Board of Directors to the other members of the Executive Committee (see paragraph above).

## 6.11 Internal control

(Article L. 225-37 paragraph 6 of the French Commercial Code)

### General organization of internal control

#### INTERNAL CONTROL OBJECTIVES AND GUIDELINES USED

Internal control is a process put in place by Danone's top management, management and employees that is designed to provide reasonable assurance, albeit not absolute certainty, that the following main objectives are being met:

- accuracy of financial information;
- compliance with applicable laws, regulations, and internal policies;
- effectiveness and efficiency of internal processes, including those related to the protection of the Group's assets.

Danone uses internal guidelines based on the reference framework implementation guidelines suggested in 2007 by the French Financial Markets Authority (*Autorité des marchés financiers*), completed by its guide, and updated in mid 2010. This framework relates to reference risk management and internal control systems, and touches on monitoring processes and the elaboration of the accounting and financial information, as well as risk management processes. This reference framework is in turn coherent with the COSO I and II guidelines, which have also inspired the Danone internal guidelines.

Danone's internal control system is adapted to the Group's strategic orientations and consistent with its international and decentralized organization.

#### SCOPE OF INTERNAL CONTROL

Danone's internal control system applies to subsidiaries controlled by the Group. As of December 31, 2010, 145 Group-owned entities located in 53 countries and accounting for more than 98% of Danone's consolidated net sales were evaluated under Danone's internal control system (DANgo – "*Danone Governing and Operating Processes*"), thus representing 30 more entities than the previous year.

The subsidiaries of the Baby Nutrition and Medical Nutrition Divisions, acquired at the end of 2007, continued to roll out Danone's risk management and internal control referentials, in line with the medium term original integration plan. 2010 marked a major step in this integration regarding the internal control system because the Baby Nutrition and Medical Nutrition subsidiaries were integrated into the scope monitored directly by the internal control on the same basis as the subsidiaries of the Fresh Dairy Products and Waters business lines.



## Internal control

In 2010, among the 145 organizational entities covered by DANgo, 28 small or newly acquired entities used simplified guidelines focused on the DANgo Fundamentals specifically selected for these smaller entities in order to facilitate their integration and development while ensuring adequate control of their financial and accounting processes.

### INTERNAL CONTROL PARTICIPANTS

Danone's **General Management** is responsible for the Group's internal control system, while the **Audit Committee** is responsible for monitoring the effectiveness of the Group's internal control and risk management systems. In order to accomplish this, General Management relies on operational (Business Lines, geographical zones, subsidiaries) and functional reporting lines, and especially the Group Finance Department and the Risk, Control and Audit Department, both of which report to the same Deputy General Manager.

The **Group Finance Department** (DGF) is responsible for the finance function throughout the entire Group, directly through centralized functions (Business Control, Consolidation, Treasury and Financing, Tax, Strategy, Financial Communications, Acquisitions, Corporate Legal), and, through functional ties, by relying on the Chief Financial Officers of the respective Business Lines. The Chief Financial Officer, who reports to one of the two Deputy General Managers, is a member of the Group's Executive Committee. The main heads of departments and Business Lines meet in a monthly Executive Finance Committee.

The **Risk, Control and Audit Department** (DGRCA) was established in early 2009 to strengthen the impact of the three functions that are now reporting to it (risk management, internal control, and internal audit) and to create synergies around certain corporate governance and compliance-related topics. The RCA General Manager reports directly to one of the two Deputy General Managers, who is a member of the Executive Committee, and reports functionally to the Chairman of the Audit Committee of the Board. He is also a permanent member of the above-mentioned Executive Finance Committee.

Reporting to the Risk, Control and Audit Department, the **Risk Management Department** (DGR) – which consists of a central team of three people supported by one coordinator for the Americas region and another for the Asia-Pacific region – is responsible for the risk management system, known internally as "Vestalis." The Risk Management Department is supported by other participants, notably Group operational managers through various internal committees, including the Danone Enterprise Risk Committee (DERC). The approach used is described in Section 2.3 "Risk factors" and below in the two sections labeled "Risk identification and assessment."

Reporting to the Risk, Control and Audit Department, the **Internal Control Department** (DCI) is composed of a three-member central team, supported by three regional or Business Line coordinators and by the network of local internal controllers, who typically report to the Chief Financial Officers of the subsidiaries. This department reports directly to the Risk, Control and Audit Department and functionally to the Group Finance Department, the latter being jointly responsible for the quality of the Group's internal control. The internal controllers of the subsidiaries, working together with the other members of the Risk, Control and Audit Department, ensure that the procedures defined by the Group are properly applied in the subsidiaries and the central departments. Specifically, the Internal Control Department defines and coordinates the internal control priorities at the central level and deploys them in the operating entities. It prepares the Group's internal control guidelines, defines the methodology used to document processes, manages the analysis of results from the assessments and monitors the set-up of the action plans through the community of internal controllers. It provides support and guidance for this international internal control network through coordination, communication and training.

Reporting to the Risk, Control and Audit Department, the **Internal Audit Department**, supported by specialized teams from several international audit and consulting firms, including KPMG in particular, under the supervision of Danone's Audit Managers, conducts regular audits in the operating units as well as audits covering central and Group-wide functions. Since 2009, the Internal Audit Department has been certified compliant with International Auditing Standards by IFACI Certification, the French Institute for Internal Audit and Control certification body (certification renewed in 2010). This central unit is supported by internal auditors in certain major subsidiaries or in some cases at the country level, as well as by the audits and supervision activities of other centralized functions (Quality, Industrial, Safety, Environment, Information Systems, Crisis Management, Organization, Human Resources, etc.).

The **line management** at headquarters and in the subsidiaries remain the main internal control participants in their respective areas of responsibility, with support from numerous central corporate departments (mainly Finance and Risk-Control-Audit, but also Human Resources, Sustainable Development, Environment, Safety, Quality, Information Systems, Legal, etc.). In particular, the Human Resources Department's People and Organization Development function provides a major contribution to the coordination of the internal control referential and DANgo best practices.



## Danone's overall internal control procedure

Internal control consists of five closely-related components, which, at Danone, are implemented as follows:

**Control environment.** The control environment establishes the level of staff awareness of the usefulness and necessity of internal control and is the foundation on which the other components of internal control are built, notably through ethics, discipline and an organizational setup.

Danone's control environment is based on the following:

- Danone's values, which are widely communicated across all of the subsidiaries, the dual economic and social project; the existence of a "Business conduct policy," which was updated and communicated in 2009; a human resource and social policy, particularly with regard to employee development and training; the impetus given by the Board of Directors; the willingness to achieve continuous improvements in all operating procedures, as expressed by the Group's General Management; and the "DanoneWay" program, established in nearly all of the Group's subsidiaries and promoting a favorable internal control environment;
- in 2010, a major survey on business ethics was conducted at more than 160 Group subsidiaries. Some 97% of the subsidiaries responded to this comprehensive survey, which made it possible to identify the subsidiaries' strengths and areas in need of improvement with respect to raising awareness of documents and their circulation, as well as best practices in the area of compliance and business ethics. The discussions that took place also made it possible to raise awareness among operating personnel on this topic; the findings of the survey were discussed at the highest levels of Danone's organization. Action plans were prepared and are currently being implemented;
- for several years, the Group has deployed and operated an antifraud program that informs the subsidiaries' Management Committees and all employees of internal fraud and corruption risks. This antifraud program is based on seven stages, which include information, prevention, detection, investigation, penalties, reporting and continuous improvement to the internal control system;
- in 2006, Danone introduced an whistleblowing system (dialert), which focuses on internal control matters and is also available to Group suppliers and potential suppliers in the context of requests for proposals; the system's visibility was enhanced in 2010 through the progressive deployment of "Danone Inside Pack," an introductory guide that highlights the Business Conduct Policy, the ethics hotline and the above-mentioned global internal ethics survey. In 2010, 27 actionable ethics alerts were received. In all of the demonstrated cases of fraud related to internal control, appropriate sanctions were imposed;
- the standardization of operating processes through the implementation of DANgo referential managed in an eponymous software application accessible worldwide, and the regular use of *Themis*, an integrated information system, contribute to the strength of the control environment. The Group's internal control guidelines were created in their present form in 2003, and greatly enriched in 2005 and 2006, as Danone, being a publicly listed corporation in the United States at the time, was subject to the Sarbanes-Oxley Act. DANgo now includes operating procedures ("Danone Operating Models"), internal control items *per se* ("Danone Internal Control Assessments"), and the practices promoted by the "DanoneWay" program. Coordination of the central functions covered by DANgo is ensured by holding a periodic, ad-hoc, transversal coordination committee;
- since 2006, the Group has ensured that the DANgo internal control and best practices referential are continuously up-to-date by systematically revising them every year. Major steps have been taken to improve DANgo and to incorporate the Baby Nutrition and Medical Nutrition subsidiaries into the process. DANgo is kept up to date by a network of internal control experts and operations staff from various business lines, which helps DANgo to be used by participants in the various departments and makes it possible to enhance the referential through best operating practices. Recently, this update has been an opportunity to identify and validate good practices emanating from subsidiaries, which can now be shared with other subsidiaries. This continuous improvement also includes the formal documentation and updating of certain procedures. In 2010, the Group continued its program to improve the segregation of duties, notably through organizational changes and reviews of access rights to the various information systems;
- in addition to DANgo, an intranet site presenting all the documents useful for internal control is now accessible to all Danone employees and is updated regularly. Two other charters important to the control environment were also updated and distributed widely throughout the Group in 2009: the Internal Audit Charter, approved by the Audit Committee, and the Risk Management and Insurance Charter.

**Information and communication.** Appropriate information must be identified, collected, quantified and communicated in a

## Internal control

format and within an appropriate time frame that enables each person to carry out his or her responsibilities.

To accomplish this, Danone relies on:

- its values, culture, organization, and information systems, all elements that facilitate the dissemination of information necessary to the decision-making process;
- the documentation databases and various intranet sites that enable information to be shared within the Group. These include not only financial information but also non-financial information that meets the needs of the various operating and administrative departments; in 2010, a social networking tool form for the subsidiaries' internal controllers was launched. It includes a directory, blog and documentary database;
- the distribution of the DANgo referential, the methodological coordination and support provided to the internal controllers of the subsidiaries by the Internal Control Department: training sessions for the integration of new subsidiaries and the use of the DANgo tool; workshops, where more than 130 members of the Danone international internal controllers network met to share best practices in 2010;
- ongoing coordination and communication at various levels (Corporate Committees, meetings at the Business Line level with the chief financial officers or operations managers, presentations to the general managers and chief financial officers for the zones, and participation on the Management Committees of central functions).

**Risk identification and assessment.** Every company faces internal and external risks that may hinder the achievement of its objectives. The principal risks the Group faces are described in Section 2.3 "Risk Factors," which also includes a brief description of the risk management policy and scope.

The Group has established a risk management system, using a special risk-mapping application called *Vestalis*. Risks are mapped annually in most of the subsidiaries of the Waters and Fresh Dairy Products business lines, and they were mapped for the first time in this manner in 2009 in several subsidiaries of the Baby Nutrition and Medical Nutrition business lines. In 2010, more than 60 entities from these two new Business Lines applied this system and compiled their first risk map, working either with support from the Risk Management Department or independently. The methodology employed enables all of the risks and weaknesses of all operations in the companies covered to be identified, tabulated and ranked based on their probability of occurrence and their financial impact, on the scale of a country or a Business Line, and accordingly to define the preventive or corrective measures to be taken, either locally or globally as the case may be. The most significant risks are reviewed once a year with the zone top management, at specific meetings attended by the General Manager and Chief Financial Officer of each region. More than 75% of these zone risk committee meetings were held

in 2010. These meetings are also the occasion to discuss the opportunities, which are often the counterpart of the identified risks.

A review of all the most significant risks is performed regularly by the Danone Enterprise Risk Committee (DERC), comprised of Danone's two Deputy General Managers, Chief Financial Officer, Head of Human Resources, Head of Risk, Control and Audit, and Head of Risk Management. A mapping of Danone's major risks is assessed during the committee, "risk owners" are systematically designated, and risk mitigation plans are reviewed and assessed. This work serves as the basis for the presentations made to Danone's Executive Committee and to the Audit Committee.

In addition, the existence of procedures – regarding the monitoring of competition, training, risk prevention and protection, etc. – and the initiatives taken by specialized departments – such as the Environment Department and the Quality and Food Safety Department – all contribute to the identification and analysis of risks. The Safety Department helps to identify threats against Group employees or assets. The Crisis Management Department uses information made available by the Vestalis risk maps to identify potential crises and prepare the affected entities, while also ensuring that an appropriate response is provided for all crises, even if the risk was not identified beforehand.

Moreover, the identification and reporting of risks is also facilitated by the relatively low number of reporting levels, short decision-making channels and input from the operating units in strategic discussions. Two group-wide committees headed up by Head of Risk, Control and Audit have also been created to deal with major risks against which the Group must protect itself: a group-wide Health, Safety and Environment Committee (HSE), created in 2008, and a quarterly group-wide Compliance Committee, attended – since 2006 – by the various central departments that collaborate on the quality of the control environment.

**Control activities.** The control activities are intended to ensure the application of the standards, procedures, and recommendations that contribute to implementation of the main strategic decisions made by the Group's General Management.

All DANgo operating procedures and guidelines, which are improved continuously, are disseminated and put into practice within the operating units. Certain items in DANgo are identified as contributing to the prevention of fraud and corruption. The use of the integrated information system Themis by the majority of the operating units also contributes greatly to the reliability of operating control activities.

In addition to these rules and procedures, the Group has also set in place a body of practices and procedures that allow it to carry out its control activities. These practices and procedures include regular monitoring of the performances of each operating unit – notably during performance reviews – and attendance at the units' Board of Directors and Management Committee meetings.

The subsidiaries' internal controllers oversee the implementation of these practices and procedures. All the subsidiaries integrated into DANgo use this self-assessment process, and the largest of them follow a more detailed internal control methodology that includes information flows, control points and tests conducted by management.

**Continuous monitoring.** The internal control systems are reviewed periodically so that their performances and effectiveness may be qualitatively evaluated.

The permanent monitoring of control procedures is part of the ongoing activities of the Company and its subsidiaries. The IT application that hosts DANgo allows subsidiaries to document their operating processes, especially those used to prepare financial information; to perform self-assessments; to determine whether they are compliant with the Group's internal control guidelines; and to monitor any necessary action plans. The results of the annual self-assessments by the subsidiaries are sent to the Internal Control Department (ICD), which analyzes them and communicates relevant summaries to the different interested parties. Appropriate action plans are put in place by the entities with a view to continuous improvement; the Internal Control Department (ICD) verifies that the action plans have been created for each reported deficiency, and independent internal audits are subsequently carried out to validate that corrective measures have indeed been taken.

The quality of the internal control system's steering and monitoring is ensured by two committees – headed up by the Internal Control Department – which meet regularly: the DANgo Steering Committee (which meets twice a year and consists of the operational executive managers designated to represent the Group's key functions: R&D, Purchasing, Operations, Sales, Finance, HR, IS, etc.), and the quarterly internal control Steering Committee (which includes primarily the heads of the Finance function at headquarters and in the Business Lines).

Beginning in 2009, internal control performance indicators (coverage rate, expectation intensity rate and deficiency rates for control points) were established to facilitate the analysis and communication of results as well as assess the effectiveness of internal control at the level of the various regions and the four Business Lines. The targets for these performance indicators are discussed in the internal control Steering Committee and in the DANgo Steering Committee, and are then presented to the Audit Committee before being sent to the subsidiaries, which assists in harmonizing the internal control priorities and developing a shared vision.

In 2010, Danone's internal control key indicators again showed signs of improvement: the coverage rate for subsidiaries increased by 13 points relative to 2009, while the deficiency rate continued to fall thanks to continuous monitoring of the improvements to DANgo and internal control throughout the organization.

The bi-annual internal fraud reporting has now been operational for five years. Some 163 Group entities, i.e. nearly all, participate in the program. The number of reported suspected or confirmed fraud cases has remained stable for two years. In 2010, approximately 130 suspected cases were reported per six-month period, which represented approximately 80 demonstrated cases over the same period. The majority of these proven cases involved minor incidents (thefts of products or equipment, minor embezzlement). In 2010, none of these fraud cases had a significant impact on Danone's financial statements. In the vast majority of the identified cases, the employment agreements of the corresponding employees were terminated following investigations into these frauds. A fraud case monitoring meeting is held monthly at the Group headquarters level in order to ensure the effective monitoring of fraud cases and their appropriate management with respect to compliance and internal control. To that end, detailed information on the nature of the main cases is collected and analyzed by the Risk, Control and Audit Department.

In 2010, the Group Internal Audit Department conducted 44 internal audits at subsidiaries or for Group-wide functions, based on the plan previously approved by the Audit Committee. Twelve of these audits covered Baby Nutrition and Medical Nutrition entities, thereby covering nearly 87% overall of sales of former Numico subsidiaries since they were acquired in 2007. Following each audit, an action plan is prepared by the management of the subsidiary to correct any weaknesses identified in the audit report, and the implementation of action plans is routinely monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2010, this monitoring led to 34 short follow-up audits on the implementation of action plans, with these follow-up audits carried out within 12 months, whenever possible, of the initial audit. In addition, 10 special audits not initially scheduled in the annual audit plan were conducted in the fourth quarter in order to validate the quality of the self-assessment of the subsidiaries identified as risky in that regard. These targeted audits confirmed the reliability of this self-assessment.

The Treasury and Finance, Information Systems, Internal Control, Environment, and Crisis Management Departments all arrange for audits and periodic inspections in the subsidiaries, in addition to the internal audit assignments.

The Audit Committee and the Group's General Management are informed at least twice a year of the progress made in the subsidiaries' self-assessments, the related findings, and the results of the audits conducted by the Internal Audit Department. The following year's targets are also presented as well as the priorities selected by the Risk Management, Internal Control and Internal Audit functions.

## Internal control procedure for the preparation and processing of Danone's financial and accounting information

**Control environment.** The finance function's organization is based on:

- centralized functional departments: Treasury and Financing, Acquisitions, Strategy, Management Control, Consolidation and Standards and Procedures, Financial Communication, Corporate Legal;
- the Finance Department of each Business Line. These departments are organized by geographical zones supervising business units and, in some countries, the accounting, treasury and certain specialized functions are shared.

In all cases, the operating units are responsible for the production and content of their financial statements as well as their internal control.

The roles and the skills required at the different levels of the organization are clearly defined and the internal training programs are tailored accordingly.

The Group has a single set of guidelines covering accounting procedures and principles, which are consistent with its internal control principles. Available on the DAFnet intranet, these guidelines are accessible to all managers in the finance function. Also, the control practices and procedures mentioned in DANgo help to ensure the reliability of the processes for preparing the financial statements. Indeed, the DANgo guidelines include many points that address the quality of the financial and accounting information.

### **Production and dissemination of financial information.**

Financial information is generated by a rigorous and comprehensive financial planning process. This process integrates a strategic plan, a budget process, preceded by the preparation of a framework defining key targets, comprehensive re-estimates at regular intervals, monthly reports, monthly updated forecasts of certain indicators as well as monthly performance review meetings attended by the finance teams and the General Managers of the Business Lines. In this context, each operating unit prepares a monthly, detailed financial report, and a twice-yearly exhaustive consolidation package for use in preparation of the Group's consolidated financial statements. The relevance of the selected performance review indicators is reviewed on a regular basis.

### **Monthly financial reports and published quarterly information.**

The financial report is prepared using a standard format focusing on a limited number of monthly performance indicators. The financial information is incorporated into a centralized and unified database, used for both internal management purposes and for external reporting.

### **Preparation of six-month and annual financial statements.**

The operating units use consolidation packages to report financial statements presented in compliance with the International Financial Reporting Standards used by the Group and the analytical tables presented by balances and by movements that are used to prepare the consolidated financial statements and the Notes to the consolidated financial statements. These consolidation packages are verified by a central team, which: throughout the year checks the accounting options used; is responsible for all elimination and consolidation entries; and validates those line items that present the highest degree of risk (intangible assets, financial assets, taxes, provisions and debt).

The information is produced and disseminated using the following applications:

- the management and optimization of information flows for the financial functions as well as purchasing, industrial functions, quality, supply chain and sales functions, both within the subsidiaries and between them, is performed primarily through the SAP/Themis integrated information system. This application is being regularly deployed in all Group subsidiaries and its features are constantly being improved. Presently, the activities supported by Themis account for approximately 75% of consolidated sales in the Fresh Dairy Products and Waters business lines, and the integrated software is currently being rolled out in the Baby Nutrition and Medical Nutrition business lines following the Numico acquisition;
- monthly financial reports, and more generally the financial information used to manage and control the activities of the operating units, are produced by a unified information system (the most widely used consolidation software application on the market);
- this same system is also used to produce the six-month and annual consolidated financial statements. The procedures related to the security, use and development of new features of this consolidation system are documented. In 2010, the Group had either initiated or completed the roll-out of this consolidation software in the controlled entities acquired during the year.

The production of financial information also involves the following preliminary steps:

- meetings attended by the main financial managers of each Business Line and certain department heads are held regularly to share information and best practices, and training sessions covering specific accounting topics are also held regularly;
- to prepare the year-end close, the Head of the Group Consolidation Department sets up meetings with the finance teams of the Group's principal subsidiaries to address key points involving operations and discuss the specific accounting issues arising from the application of IFRS.

To disseminate financial information within the Group, each quarter the Group's entire finance function can log onto a site where the Chief Financial Officer comments the activity for the quarter, the year-to-date financial results and the main challenges for the Group.

**Identification and assessment of risks.** The monitoring and management of the main identified risks is organized as follows:

- the identified risks and results obtained through the various established approaches (*DANgo*, *DanoneWay* and *Vestalis*) are used;
- the budgeting and strategic planning process, performance monitoring, regularly scheduled meetings that involve finance functions to a significant degree (Management Control, Treasury and Financing, Consolidation, Development) as well as the meetings of the Danone Enterprise Risk Committee (DERC) and the Group's Executive Committee make it possible to monitor and manage the most important risks identified;
- specific risks related to the processes used to prepare and disseminate financial information are also reviewed and the internal control system is adapted based on the identified risks.

**Control activities.** Each Business Line has a Finance Department, which is responsible for monitoring performance, capital expenditure and operating cash flow, primarily through the rigorous financial planning and reporting process. The Business Lines' Finance Departments are supported by the Finance Departments in the regions and operating units, with the overall management control process administered by the central Management Control Department.

Members of the central departments visit the operating units on a regular basis (performance monitoring, procedures reviews, pre-closing meetings, *ad hoc* audits, progress on improving internal controls, follow-up on actions plans, training in accounting standards, etc.). The appropriate documents are provided sufficiently in advance for them to be reviewed by the Group's management bodies.

Twice yearly, the General Manager and Chief Financial Officer of each subsidiary along with their counterparts in the regions and Business Lines provide written confirmation of compliance with

the Group's applicable procedures and with all of the standards applicable to the financial information sent to the central teams. This confirmation is provided in a certification letter that covers the interim and year-end closings of the financial statements, including all subjects involving risk management and internal control.

Since 2010, a balance sheet items checklist, which is prepared by the Finance Department and the Risk, Control and Audit Department, is sent to the regional chief financial officers in order to assist them in the periodic review of their subsidiaries' activities.

The control activities are therefore conducted at all of the Group's hierarchical and functional levels and include a variety of steps such as approving and authorizing, verifying and comparing, assessing operational performances, ensuring the protection of assets and monitoring the segregation of duties. The audits administered and conducted independently by the Internal Audit Department provide appropriate validation.

**Continuous monitoring.** One of the responsibilities of each Business Line Chief Financial Officer and Function Manager is to improve the procedures used to prepare and process financial information. Detailed audits are conducted on the key control procedures in the preparation of financial information (particularly published disclosures) in the subsidiaries and in the Group's headquarters and on their effective application. Moreover, the internal audits conducted in the operating units are aimed primarily at verifying the quality of the accounting and financial information. The Business Lines' Finance Departments ensure that the action plans established subsequent to the above-mentioned internal and external audits have been carried out correctly.

**Assessment.** The procedures intended to control the accounting and financial information provided by the consolidated subsidiaries, as well as the internal control procedures used to prepare the consolidated financial statements, are adequate to provide reliable accounting and financial information.

The Audit Committee examined the report of the Chairman of the Board of Directors on the internal control and risk management procedures put in place by the Group. This report was then reviewed and approved by the Company's Board of Directors on February 14, 2011, in accordance with the French Law of July 3, 2008.



## Statutory Auditors' report

**(prepared in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*) on the report prepared by the Chairman of the Board of Directors of Danone)**

To the Shareholders,

In our capacity as Statutory Auditors of Danone, and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2010.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by Article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

### **INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION**

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

### **OTHER INFORMATION**

We attest that the Chairman's report sets out the other information required by Article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine, March 16, 2011

#### **The Statutory Auditors**

##### **PricewaterhouseCoopers Audit**

Étienne BORIS

Philippe VOGT

##### **Ernst & Young et Autres**

Jeanne BOILLET

Gilles COHEN

# SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

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## 7.1 Group employees

As of December 31, 2010, the Group's fully-consolidated companies employed 100,995 staff, compared with 80,976 in 2009. This figure includes the staff of Unimilk, which was first-time consolidated on December 1, 2010. The tables below provide details of the total number of employees and a breakdown by geographical area and Business Line as of December 31, 2009 and 2010, with and without the Unimilk employees for each year:

### GROUP EMPLOYEES INCLUDING UNIMILK STAFF

As of December 31	2009	2010
Total number of employees	80,976	100,995
<b>By geographic area</b>		
France	10.6%	8.7%
Rest of Europe	26.2%	36.9%
China	10.8%	9.1%
Rest of Asia-Pacific	17.9%	15.3%
North and South America	29.1%	24.9%
Africa and Middle East	5.4%	5.1%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>
<b>By Business Line</b>		
Fresh Dairy Products	38.7%	48.2%
Waters	41.1%	35.0%
Baby Nutrition	13.7%	11.0%
Medical Nutrition	5.0%	4.5%
Corporate functions	1.5%	1.2%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

### GROUP EMPLOYEES EXCLUDING UNIMILK STAFF

As of December 31	2009	2010
Total number of employees	80,976	85,073
<b>By geographic area</b>		
France	10.6%	10.3%
Rest of Europe	26.2%	25.1%
China	10.8%	10.8%
Rest of Asia-Pacific	17.9%	18.2%
North and South America	29.1%	29.6%
Africa and Middle East	5.4%	6.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>
<b>By Business Line</b>		
Fresh Dairy Products	38.7%	38.5%
Waters	41.1%	41.6%
Baby Nutrition	13.7%	13.1%
Medical Nutrition	5.0%	5.3%
Corporate functions	1.5%	1.5%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>



## 7.2 Employee benefits

### Employee profit-sharing

#### PROFIT-SHARING OF THE EMPLOYEES OF THE PARENT COMPANY

The Company's employees benefit from a three-year profit sharing plan, which was renewed in 2009, and which is primarily based on the Group's results.

#### OTHER PROFIT-SHARING AGREEMENTS

The French subsidiaries and certain foreign subsidiaries of the Group have profit sharing plans in place for their employees based on their own results.

All of the profit-sharing agreements, which cover all of the Group's French subsidiaries were renegotiated in order to pay out a greater share of the profits for a given level of Group earnings. These improvements were made in 2009 and 2010, depending on the renewal schedule.

In 2010, the expense recognized by the Group in connection with profit sharing plans amounted to € 105 million (€ 98 million in 2009).

#### EMPLOYEE SHAREHOLDERS

The Shareholders' General Meeting of April 23, 2009 authorized the Board of Directors to carry out capital increases reserved for employees who were members of a French company savings plan *Plan d'Epargne Entreprise* or (PEE), within the limit of a nominal amount of € 3 million. This authorization will remain valid until June 2011.

In connection with this authorization, in May 2010 the Company implemented a capital increase reserved for Group employees participating in a company savings plan (through a temporary vehicle called FCPE, which was later merged into the "Fonds Danone" FCPE) in the nominal amount of € 232,747.50, representing the issue of 930,990 new shares.

Also in connection with this authorization, the February 14, 2011 Board of Directors meeting decided to issue shares in favour of Group employees participating in a company savings plan for a maximum subscription amount of € 65 million, representing a maximum of 1,816,149 new shares based on a discounted price for Danone shares of € 35.79.

The final amount that will be subscribed will be known in May 2011. The Board noted that, as in each year, if the share's market price, costs included, at the end of the subscription period is lower than the subscription price, the management company for the Company investment fund would be authorized to acquire shares directly on the stock market, within the limit of the employees' subscriptions.

### Medium and long-term incentive plan policy

#### MEDIUM-TERM VARIABLE COMPENSATION IN THE FORM OF GROUP PERFORMANCE UNITS

In 2005, the Group put in place a new system of variable compensation, in the form of Danone Group Performance Units ("GPUs"), for which members of the Executive Committee, and the General Managers and their colleagues are eligible, totaling approximately 1,400 people worldwide.

This three-year variable compensation program, based on medium-term performance objectives, increases the unity and commitment of the members of the Executive Committee and of the General Managers and their colleagues, with the objective of strengthening the Group's positions in its markets and improving its operational performance.

## Employee benefits

The value of the GPUs, which can vary between € 0 and € 30, is calculated over a sliding period of three years based on the Group's overall economic performance in the medium term. Each year, the Board of Directors of the Company, based on recommendations by the Nomination and Compensation Committee, sets the performance objectives for the next year and evaluates the achievement of the previous year's objective for each GPU plan.

In the event of a successful tender offer for shares of the Company, the performance objectives of all of the GPU plans will be considered to have been met and the GPUs will be paid in the month following the completion of the offer.

In the event of a disposal of all or part of a business, the performance objectives for the year in which the disposal takes place will be considered to have been met for the beneficiaries in the business considered and all of the GPU plans concerned will be paid in the month following completion of the disposal. The regulations of the GPU plans stipulate that the conditions regarding continuing employment and performance are partially waived in the event that the beneficiary dies, leaves the Group or retires, or the business employing him is discontinued.

The performance objectives set under the 2007 GPU program were achieved in connection with the 2007, 2008 and 2009 periods. Consequently, a payment to all beneficiaries was made in May 2010.

### MEDIUM-TERM VARIABLE COMPENSATION IN THE FORM OF GROUP PERFORMANCE SHARES

In its 15<sup>th</sup> resolution, the April 22, 2010 Shareholders' General Meeting authorized the Board of Directors to grant Company shares (named Group Performance Shares, or GPS) that are either existing or to be issued, on one or more occasions to employees or to certain categories thereof to be selected among eligible employees and executive officers and directors (*mandataires sociaux*) of the Company and affiliated companies as defined by Article L. 225-197-2 of the French Commercial Code. At the same time, the Shareholders' General Meeting decided that this authorization canceled the as-then-unused portion of the previous authorization granted by the April 23, 2009 Shareholders' General Meeting in its 30<sup>th</sup> resolution to grant options to purchase and/or subscribe shares.

As a result, the July 26, 2010 Board of Directors meeting decided to grant Group Performance Shares.

This new long-term, performance-based incentive program is intended to consolidate the commitment of eligible employees to support the Group's development and strengthen the share's value over the long term.

GPS are therefore granted annually to the members of the Executive Committee, including executive officers and directors (*mandataires sociaux*), General Managers and certain employees. The shares are granted to about 1,400 beneficiaries.

The performance conditions applied to the GPS grants made in 2010 consist of two complementary criteria, representative of the Group's performance and adapted to the specific nature of its activity, namely growth of consolidated sales and of consolidated free cash flow.

The two conditions set for the first two vesting years of the program (2010 and 2011) are as follows: 5% annual sales growth and 10% annual free cash flow growth during this period (arithmetic average, on a consolidated basis and on a like for like basis, ie excluding changes on consolidation scope and foreign exchange rates). These performance conditions are those described in the April 22, 2010 report of the Board of Directors to the Shareholders' General Meeting presenting the resolution on GPS.

The total number of GPS granted to executive officers and directors (*mandataires sociaux*) and Executive Committee members is subject to these two performance conditions in equal measure. For other beneficiaries, i.e. senior managers and managers of the Group, two-thirds of the number of GPS granted individually are subject to these same performance conditions, with the remaining third subject only to the condition of continuous employment during the vesting period. Consequently, for 2010 the GPS granted under performance conditions accounted for 75.3% of the total number of GPS granted. As a reminder, the 15<sup>th</sup> resolution adopted by the Shareholders' General Meeting of April 22, 2010 specified that shares could be granted without performance conditions within the following limits: (i) these shares may not represent more than 25% of the total number of shares and (ii) these shares may not represent more than 33% of the total number of shares granted to an employee (excluding executive officers and directors, and members of the Executive Committee). The share grant approved on July 26, 2010 is therefore consistent with the limits set by the authorization approved by the Shareholders' General Meeting.

The continuous employment condition is applied to all GPS beneficiaries until the delivery date for the Company's shares at the end of the vesting period. In the event of a voluntary departure, the granted GPS are canceled. As of December 31, 2010, the aggregate number of canceled GPS amounted to 3,359 out of a total of 644,565 GPS granted (see table below). However, the plan regulations for the GPS granted by the Board of Directors as of July 26, 2010 leave open the possibility, for GPS beneficiaries, of waiving the continuous employment and performance conditions in the event of a change of control of the Company (see Section 8.10). Therefore, if a person or group of people acting in concert (as defined in Article L. 233-10 of the French Commercial Code), acquire control of Danone (as defined in Article L. 233-3 of the French Commercial Code), the beneficiaries would not have to satisfy any conditions in order to receive the GPS on the delivery date. The GPS plan regulations also stipulate that the continuous employment and performance conditions may be partially waived in the event of the employee's death, departure or retirement, or if the business activity employing him/her is discontinued.

The GPS grants become definitive and are delivered in the form of Company shares at the conclusion of a vesting period. The GPS vesting period is three years for beneficiaries subject to the French social security ("3+2" plan) and four years for other beneficiaries ("4+0" plan). Beneficiaries of the "3+2" plan must also satisfy a two-year holding period during which they may not sell or transfer their GPS-issued shares. Beneficiaries of the "4+0" plan are not subject to any holding period.

The plan regulations prohibit GPS beneficiaries from hedging in any manner their position with respect to their rights to receive GPS or their rights with respect to shares that they have already received and are still subject to a holding period. Moreover, for the Group's executive officers and directors, the ban on hedging extends to all Danone shares or financial instruments related to these shares that they own or may be in a position to own (see Section 6.10).

As of the date of this Registration Document, the Group's policy is not to amend the initial conditions of the plan regulations.

The main characteristics of these GPS plans as of December 31, 2010 are described in the table below:

	<b>Number of GPS authorised by the Shareholders meeting</b>	<b>Date of Board Meeting Granting GPS</b>	<b>Number of GPS granted</b>	<b>Delivery Date</b>	<b>Number of GPS cancelled as of December 31, 2010</b>	<b>Number of GPS delivered as of December 31, 2010</b>	<b>Number of active GPS as of December 31, 2010</b>	<b>Of which : GPS which could be delivered to members of the Executive Committee</b>	<b>Of which Number of Executive Committee member concerned</b>
04/22/2010	<b>2,587,963</b>								
Plan "3+2"		07/26/2010	266,900	07/27/2013	1,225	-	265,675	130,750	7
Plan "4+0"		07/26/2010	377,665	07/27/2014	2,134	-	375,531	36,000	4
			<b>644,565</b>		<b>3,359</b>	<b>-</b>	<b>641,206</b>	<b>166,750</b>	

### Grants of GPS to the 10 Group employees (excluding executive officers and directors) who received the largest number of shares in 2010

In 2010, pursuant to the authorization granted by the April 22, 2010 Shareholders' General Meeting, 85,150 GPS were granted to the ten employees who received the largest number of shares in 2010 (including 78,000 GPS to eight members of the Executive Committee, excluding executive officers and directors).

### COMPANY STOCK OPTIONS

In its 15<sup>th</sup> resolution, the April 22, 2010 Shareholders' General Meeting authorized the Board of Directors to grant Company shares that are existing or to be issued, on one or more occasions. At the same time, the Shareholders' General Meeting decided that this authorization canceled the as-then-unused portion of the previous authorization granted by the April 23, 2009 Shareholders' General Meeting in its 30<sup>th</sup> resolution to grant options to purchase and/or subscribe shares.

Consequently, no stock purchase options were granted in 2010. Instead, a GPS grant was approved in 2010 to the members of the Executive Committee (including executive officers and directors), Directors and senior managers. These shares were granted to the same group of employees that would qualify for options to purchase shares, approximately 1,400 beneficiaries.

Until December 31, 2009, only options to purchase shares were granted to eligible employees as part of stock option plans (the Company had not issued options to subscribe shares since 1997).

Options to purchase shares were granted annually to members of the Executive Committee (including the executive officers and directors), the General Managers and certain employees based on a grant by thirds for each of the three groups. The options to purchase shares were generally granted twice a year: (i) a principal grant (generally in April) for the benefit of members of the Executive Committee (including the executive officers and directors), the General Managers and certain employees, and (ii) a second grant (generally in October) intended for certain newly hired employees as well as, if applicable, certain employees of recently acquired companies (as was the case in December 2007 with the acquisition of Numico).

The exercise price of the options was the equivalent of the average stock market price of Danone shares during the 20 trading days leading up to the Board of Directors' meeting held to grant them, with no discount offered.

The term of the existing plans is eight years. Since 2006, the options may be exercised following a four-year holding period from the date of grant (with the exception of the first two plans offered following the Numico acquisition). However the regulations of the stock option plans authorized by the Board of Directors beginning April 11, 2003 give beneficiaries the right to exercise part or all of the options granted to them in the event of a successful public offer targeting the Company's shares (see Section 8.10).

## Employee benefits

In the event of voluntary departures, the granted options are canceled. Thus, for example, as of December 31, 2010, the aggregate number of canceled options represented 2,768,021 of the 25,109,830 total options granted (see table below).

As of the date of this Registration Document, the Group's policy is not to amend the initial conditions of the plan regulations.

As of December 31, 2010, the main characteristics of the stock option purchase plans that remain open are described in the table below and take into account:

- the two-for-one splits of the shares that occurred in June 2000, June 2004 and June 2007;
- the adjustment following the June 25, 2009 capital increase, made retroactively to the numbers of purchase options granted and to the exercise prices in respect of the plans in existence as of that date. The maximum number of purchase options authorized by the various Shareholders' General Meetings was not changed.

The main characteristics of these option plans that remain open as of December 31, 2010 are as follows:

	Number of options authorized by the Shareholders' Meeting	Date of the Board Meeting granting options	Number of options granted	Expiration date	Exercise price per share	Number of options cancelled or expired as of December 31, 2010	Number of options exercised as of December 31, 2010	Number of exercisable options	Of which: exercisable by members of the Executive Committee	Of which: number of members of the Executive Committee concerned
May 29, 2001	8,000,000 <sup>(1)</sup>									
		10/08/2001	659,956	10/08/2009	33.41	140,356	519,600			
		04/25/2002	2,784,832	04/25/2010	32.74	350,550	2,434,282			
		10/17/2002	497,352	10/17/2010	28.66	100,487	396,865			
		04/11/2003	3,908,538	04/11/2011	27.87	433,323	2,802,081	673,134	48,348	3
			<b>7,850,678</b>			<b>1,024,716</b>	<b>6,152,828</b>	<b>673,134</b>	<b>48,348</b>	
April 11, 2003	8,000,000 <sup>(2)</sup>									
		10/15/2003	129,744	10/15/2011	31.04	36,464	64,408	28,872	-	
		04/15/2004	3,976,442	04/15/2012	31.80	433,324	1,510,013	2,033,105	480,286	8
		10/13/2004	93,916	10/13/2012	30.22	8,480	7,678	77,758	55,120	2
		04/22/2005	2,411,983	04/22/2013	35.43	182,420	425,235	1,804,328	418,350	8
			<b>6,612,085</b>			<b>660,688</b>	<b>2,007,334</b>	<b>3,944,063</b>	<b>953,756</b>	
April 22, 2005	6,000,000 <sup>(3)</sup>									
		07/20/2005 <sup>(4)</sup>	29,680	07/20/2013	38.95	-	-	29,680	-	-
		10/18/2005	27,136	10/18/2013	42.53	3,392	2,120	21,624	-	-
		04/27/2006	2,045,853	04/26/2014	46.92	196,471	-	1,849,382	428,240	8
		10/16/2006	36,040	10/15/2014	52.40	4,664	-	31,376	-	-
		04/26/2007	2,633,517	04/25/2015	57.54	250,637	-	2,382,880	677,340	8
			<b>4,772,226</b>			<b>455,164</b>	<b>2,120</b>	<b>4,314,942</b>	<b>1,105,580</b>	
April 26, 2007	6,000,000 <sup>(5)</sup>									
		10/19/2007	28,408	10/18/2015	52.33	7,844		20,564	-	-
		12/17/2007	327,078	12/16/2015	56.57	64,302		262,776	-	-
		04/29/2008	2,762,403	04/28/2016	53.90	359,070		2,403,333	710,730	11
		10/21/2008	31,941	10/20/2016	43.71	2,756		29,185	-	-
		04/23/2009	2,704,611	04/22/2017	34.85	192,281		2,512,330	643,420	11
			<b>5,854,441</b>			<b>626,253</b>	<b>-</b>	<b>5,228,188</b>	<b>1,354,150</b>	
April 23, 2009	6,000,000 <sup>(6)</sup>									
		10/20/2009	20,400	10/19/2017	40.90	1,200		19,200		
			<b>20,400</b>			<b>1,200</b>	<b>-</b>	<b>19,200</b>	<b>-</b>	
<b>TOTAL</b>			<b>25,109,830</b>	<b>-</b>	<b>-</b>	<b>2,768,021</b>	<b>8,162,282</b>	<b>14,179,527</b>	<b>3,461,834</b>	

(1) Of a total of 8,000,000 options authorized by the Shareholders' Meeting of May 2001, 593,700 options were not granted and expired on April 11, 2003.

(2) Of a total of 8,000,000 options authorized by the Shareholders' Meeting of April 2003, 1,762,184 options were not granted and expired on April 22, 2005.

(3) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2005, 1,497,900 options were not granted and expired on April 26, 2007.

(4) On July 20, 2005, the Board of Directors authorized the grant of 28,000 options and this grant was made by delegation on August 5, 2005.

(5) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2007, 476,942 options have not been granted and expired on April 23, 2009.

(6) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2009, 5,979,600 options have not been granted as of December 31, 2009 and expired on April 22nd 2010 following the vote of the resolution authorising the grant of GPS, and cancelling the as-then-unused portion of the previous authorization given by April 23rd 2009.

### Exercise of options by the 10 Group employees (excluding executive officers and directors) having purchased the greatest number of shares in 2010

In 2010, 245,020 options were exercised at a weighted average price of € 29.88 by the ten Group employees having purchased the greatest number of shares in 2010 (including 45,408 options by two members of the Executive Committee, excluding executive officers and directors).

See also Section 6.10 for a breakdown of the options exercised during the year by the Company's executive officers and directors.

### Overall impact of GPS and stock options in terms of dilution/ownership of the Company's share capital

The Group's policy with respect to authorizations for granting stock options and GPS has always had a limited impact in terms of the dilution/ownership of the share capital.

#### *Regarding the stock purchase options program:*

Up until the most recent options grant in October 2009, the option plans had a limited ownership/dilution impact on the share capital. As of December 31, 2009, the total number of options granted to all Company stock option holders represented approximately 0.4% of the shares making up the share capital. The total number of options granted to the four executive officers and directors, about 16% of the total grants in 2009, represented in 2009 nearly 0.1% of the shares making up the share capital.

#### *Regarding the GPS program:*

The GPS grants have a limited ownership/dilution impact on the share capital. As of December 31, 2010, the total number of GPS granted to all Company beneficiaries represented approximately 0.1% of the shares making up the share capital. The total number of GPS granted to the three executive officers and directors, about 14% of the total grants in 2010, represented in 2010 nearly 0.014% of the shares making up the share capital. As a reminder, the 15th resolution adopted by the Shareholders' General Meeting of April 22, 2010 specified that share grants could not represent a number of shares greater than 0.4% of the Company's share capital outstanding as of the end of the Shareholders' General Meeting. This resolution also set a secondary ceiling of 0.1% of the share capital to be granted to executive officers and directors.

#### *Regarding both the stock option and the GPS program, as of December 31, 2010:*

- the balance of stock purchase options not yet exercised totaled 14,179,527 options, or 2.19% of the share capital;
- the number of shares that could be allocated under GPS grants totaled 641,206 shares, or 0.10% of the share capital.

The combined total for these two categories represented 2.29% of the share capital.

## Retirement obligations

Approximately 200 executives who hold the status of Senior Manager in the Group and who were covered by French pension schemes as of December 31, 2003 are, under certain conditions (particularly seniority and continuing employment conditions), eligible for a defined benefit pension plan.

This plan provides for a pension based on years of service and the amount of final salary, under the condition that the beneficiary is still in the Group's employment at the time of retirement. The pension is paid after deducting certain pensions (corresponding, with respect to a first category of Senior Managers in the Group, to the full amount of retirement benefits they acquired over the course of their professional career and, with respect to a second category of Senior Managers in the Group, to the full amount of retirement benefits that they acquired due to the implementation

of an additional retirement plan paid for entirely by the Company), and may reach a maximum of 65% of final salary. In the event of leaving the Group before the age of 55 or in the event of death before retirement, the employee loses all benefits under this plan, it being specified that if the employee is laid off after the age of 55, the plan benefits are preserved, subject to the employee not taking any salaried position in the future. This pension plan was closed to new participants on December 31, 2003.

The amount accrued for under this plan represents the obligation of the Group as of December 31, 2010 for the payment of annuities calculated on the basis of life expectancies derived from mortality tables (see Note 16 of the Notes to the consolidated financial statements).



## 7.3 Social responsibility, health and safety, training and development

### Employee dialogue

A forerunner since 1972 in the area of international employee dialogue, Danone sought in 2009 to expand and intensify various aspects of these policies:

- expansion of the Information and Consultation Committee (*Comité d'Information et de Consultation – CIC*) to representatives from non-European countries (Asia, North and South America, Africa);
- stepped up employee dialogue with the creation of Business Line Committees (Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition) between General Management and representatives of the corresponding employees to discuss the Business Line's strategy, organization, human resources policy and major Group-wide projects.

The experience has been rolled out in 2010, with the establishment of a half day dedicated to the in-depth review of a specific topic in the area of employee dialogue and the sharing of best practices among the various countries. In 2010, the topic covered focused on working conditions and safety.

In addition, the Baby & Medical European Works Council (previously the Numico European Works Council until 2008), was dissolved at end-2010, as the Medical Nutrition and Baby Nutrition business lines joined a single international employee dialogue body, the Danone Information and Consultation Committee (*Comité d'Information et de Consultation Danone*).

### Health and safety

#### WORKING CONDITIONS AND SAFETY

The WISE program enabled the Group to reduce of 50% its workplace accident rate from 2004 to 2008. The program continues to bear fruit, as Danone reduced this rate by 24% in 2009 and by another 23% in 2010. For the first time, the rate of accidents fell to three per million man hours worked.

2010 was marked in particular by the establishment of specific action plans for six countries (Saudi Arabia, Russia, China, Indonesia, Mexico, Argentina), which are exposed to major risks in terms of road travel safety.

These action plans made it possible to reduce the number of accidents with time off in these countries (58 fewer accidents relative to 2009) and reduce the frequency rate of accidents resulting in time off by 29%. The countries involved adopted innovative measures, notably with training programs for subcontractors, the implementation of vehicle speed limiter and GPS systems, the enactment of a special driver's license, the reconfiguration of road maps and itineraries to limit trip durations and the renewal of the trucking fleet.

In addition, the safety policy toward subcontractors is systematically audited by the 137 Group Safety Department internal auditors as well as by outside experts, who perform more than 100 audits each year at various Group sites.

Danone's objective is to continue to improve and become a leading company in the area of workplace safety and firmly establish a lasting safety culture, with the goal of lowering the accident frequency rate to 2 per million man hours worked by 2012.

#### EMPLOYEE HEALTH

Danone's efforts in the area of employee health are based on the following two areas:

- the Dan'Cares program, which aims to provide Danone employees with basic health insurance; and
- the prevention of stress in the workplace and improvements in employee well-being and working conditions.

Danone believes that its Group Health mission must first and foremost be achieved within the Company. Danone launched the Dan'Cares program, which aims to ensure that all group employees have access to health coverage offering quality healthcare, with satisfactory accessibility and limited expense for the patient.

Dan'Cares covers basic care such as hospitalization, surgery, maternity care, basic checkups and drug prescription benefits. The first phase of the program consisted of performing an audit conducted in 15 countries representing 69,000 employees (or 85% of all Group employees, before the acquisition of Unimilk) and 56 subsidiaries. This audit made it possible to identify 10 countries – Argentina, Saudi Arabia, Brazil, China, Spain, Indonesia, Mexico, Poland, Russia and Turkey – that will implement Dan'Cares beginning in 2011, with a goal of improving healthcare coverage by 2013.

In addition to strictly healthcare issues, Dan'Cares also supports Danone's dual economic and social program to the extent that this program aims to share value created among all employees, to innovate and develop fundamental employee benefits within the Group and to improve workplace efficiency and well being, notably through an increased employee commitment and lower turnover.

Also, in France a Group-level agreement was signed with the trade unions on March 11, 2010. This ambitious agreement follows closed collaboration with the unions since 2008. Negotiations

have started in all of the French companies in order to implement concrete measures at the companies themselves in conjunction with the management and employee representative and involving all of the respective parties.

Four types of actions have been undertaken:

- systematic approaches to measure stress at all sites;
- establishment of an employee feedback system at several sites;
- initiatives to raise awareness and train management and all employees in order to develop collective vigilance;
- the use of human feasibility studies prior to major organizational changes (this methodology is still under construction).

All these actions need to be implemented over the long term in order to become engrained in the Company's processes and must involve all key participants with a stake in these complex challenges.

## Training and development

### TRAINING

Among Danone's priorities are ensuring that its employees remain employable. To that end, the Group supports significant training budgets, ensures that all employees receive regular training, implements efficient joint working units that do not impede working conditions and develops the autonomy of its employees. Training initiatives in 2010 are summarized in the following indicators, which show improvement relative to 2009:

- the average number of training hours per employee was 31 (up from 28 in 2009);
- the total number of training hours offered increased by 17% at constant scope (an increase of 382,689 hours relative to 2009). Of this increase, 296,970 hours benefited manual workers, clerical staff, technical and supervisory clerical staff;
- the number of trained employees increased by 7% to reach 99% in 2010 (excluding Unimilk employees).

### CODE and the Danone Leadership College

Danone continued to roll out its "Danone Leadership College" program, which aims to develop leadership within the Group and has the following goals:

- develop the leadership of all team leaders, based on the "CODE" concept (formalization of leadership attitudes in connection with the Group's values: *Committed, Open, Doer & Empowered/Empowering*);
- contribute to improving the Group's performances;
- continue to develop the professional skills and accountability of all the Group's employees.

Since mid-2009, nearly 110 Group subsidiaries have participated in this program by following a step roll-out process (starting with the participation of Executive Committee members and successively working its way through to all team leaders). As of end-2010, nearly 8,400 team leaders had received training.

In 2011, the Group's goal is (i) to train all 15,000 team leaders and (ii) to extend the training to other Danone personnel, in particular the industrial and sales functions.



## 7.4 Corporate social and societal responsibility

### General policy

A direct outgrowth of Danone's dual economic and social project, Corporate Social Responsibility (CSR) is deeply anchored in the Group's business activity (see Section 2.2).

2006 marked a key stage with the formalization of Danone's mission: "Bring health through food to the greatest number of people." This mission requires that the Company take concrete steps with regard to the major challenges facing society today:

- social challenges: employment, increased employability and professional skills, consideration for the local and regional areas where the Company operates and employee commitment;
- challenges linked to products and consumers: taking nutrition and food into account as basic elements in public health policies;
- environmental challenges: address the dilemma facing agribusiness, namely satisfying the needs of an ever-increasing number of consumers while minimizing the Group's environmental impact.

To satisfy these challenges and grow in accordance with its mission, Danone decided to focus on four key areas to ensure sustained and responsible growth:

- Health: strengthening of the Group's capacity to deliver relevant benefits with respect to nutrition and health challenges;
- For All: establishment of new economic models to bring high-quality nutritional solutions to populations with limited purchasing power in a growing number of countries;
- Nature: faster recognition of environmental impacts through reductions in the Group's carbon footprint and water consumption;
- People: transformation of the Company as a place for the development of all employees and promoting their commitment to socially responsible programs.

These four areas (Health, For All, Nature, People) are a guiding principle by which Danone can design, produce and market its products.

### Danone's CSR policy in detail

#### INTEGRATION OF CSR IN THE GROUP'S ACTIVITY

Danone's CSR policy is marked by the high degree to which it is integrated in the business activities and the systematic search for creating value for shareholders and all constituent groups.

Danone ensures that its actions help to develop economic and social benefits. Thus for each of its four strategic areas (Health, For All, Nature, People), Danone offers:

- products adapted to the nutritional and health needs of the populations without sacrificing fundamental marketing principles whereby companies must appeal to consumers' tastes, emotions or even their subconscious;
- products designed, produced and distributed based on policies aimed at protecting the environment;

- products manufactured and marketed using processes and methods that make it possible to develop local employment, and making sure that the plants are safe, healthy and pleasant workplaces.

#### INTEGRATION OF CSR WITHIN THE FUNCTIONS

**Responsible supply chain.** As Danone works with thousands of suppliers worldwide, the vast majority of its environmental and social impact is located within companies that work alongside the Group. Consistent with the Group's "dual economic and social project," the RESPECT approach initiated in 2005 aims to extend this vision to the Group's entire supply chain (excluding milk producers), by adhering to the following process:

- contractualization of the suppliers' CSR performance through the signature of the Sustainable Development Principles and their integration into the general purchasing conditions;

- sharing of information through Internal Quality audits or self-reported CSR performance disclosures by suppliers on the Sedex platform, which is open to all agribusiness market participants;
- audit of suppliers deemed at risk after this information sharing in order to implement an action plan.

#### **Human Resources policy integrating CSR in its processes.**

This integration is formalized through eight fundamental principles specifically focused on Human Rights and Human Resources assessed in Danone Way each year. Variable compensation also integrates CSR criteria. Finally, the signature of international framework agreements with the International Union of Food Workers (IUF) along with their promotion among Group subsidiaries and joint audit by Danone with the IUF all help to promote CSR among the subsidiaries.

**Direct participation in the CSR of the production functions, both upstream and downstream of Group activities.** Linus project, helps to reduce bovine methane emissions, support for small-scale farms and unique distribution methods in Bangladesh and France.

**Synergies between CSR and the sales and marketing functions.** The elimination of cardboard packaging on yogurt packs in France went hand-in-hand with increased sales. Volvic also launched the first bottle made not from traditional plastic materials but from plant-based plastics, while Stonyfield is marketing the first yogurt containers made from corn-based plastic in the United States.

### **SPECIAL GOVERNANCE SYSTEM**

**A Social Responsibility Committee**, created by the Board of Directors and whose membership is two-thirds filled by independent Directors, reviews non-financial information and ratings and prevents conflicts of interest between socially responsible investments and the rest of Danone's activities (see Section 6.4).

**Health governance** integrates principles, mechanisms, commitments and assessment methods that enable the Group to satisfy the commitments made in 2009 in the Food, Nutrition and Health Charter.

**The Danone Way approach** since 2001 has made it possible to disseminate the Group's sustainable development culture and fundamental principles by measuring the subsidiaries' CSR performance. Each subsidiary performs an annual self-assessment on 16 "Fundamentals" covering five sections (human rights, human relations, environment, consumers and governance) with respect to both its policies and indicator levels. This tiered assessment generates a certain number of points that determine the number of stars obtained (from 0 to 5), which reflect progress in the area of CSR performance. The goal is to reach the level of three stars. Entities that remain below this level after three successive assessments receive priority treatment on progress to be made and individualized monitoring. Each year, 15 to 20 subsidiaries, accounting for 20% of Group sales, are subjected to a Danone Way audit performed by KPMG and the audit and CSR teams in order to validate the self-assessments. In 2010, 112 subsidiaries accounting for more than 93% of Group sales performed self-assessments as part of Danone Way.

**The bonus system** has integrated since 2008 CSR performance by introducing criteria to assess the performance of the 1,400 executive and senior managers. This system is based on achieving three-part objectives: economic, social and environmental, and individual performance.

**Dedicated funds**, such as danone.communities, the Danone Ecosystem Fund, the Nature fund (currently being established).

See below.

## **Danone Ecosystem Fund**

At the Shareholders' Meeting of April 23, 2009, the shareholders approved the proposed creation of an endowment fund, the "Danone Ecosystem Fund" (the Fund).

Under the terms of the resolution approved by that Shareholders' Meeting, in 2009 the Company made a free and irrevocable capital endowment of € 100 million into the Fund. In addition to this capital endowment, every year, for a period of five years, the Company and its subsidiaries will also make additional annual donations totaling up to 1% of the Danone group's total consolidated underlying net income per year.

The Fund is governed by the provisions of the French Law of August 4, 2008 and is run by a Board of Directors. A Strategy Board, composed of representatives of the Danone group and non-Group members, establishes the Fund's major strategic guidelines, especially with regard to priorities and resource allocation principles, as presented by the Board of Directors.

Acting on the recommendation of the Social Responsibility Committee, Danone's Board of Directors on July 26, 2010 authorized an overall Group contribution of € 1.4 million in respect of the 2009 fiscal year (approximately 0.1% of the Group's 2009

net income from continuing operations). On February 14, 2011, again acting on the recommendation of the Social Responsibility Committee, the Board of Directors of Danone authorized a second overall Group contribution of € 1.4 million in respect of the 2010 fiscal year.

The purpose of the Fund is to expand the Group's dual economic and social project to strengthen and grow the businesses of the partners that comprise the Danone group's ecosystem, including: agricultural producers, suppliers and subcontractors, transportation and logistics operators, and distributors.

Each project is selected using a process that takes several criteria into account, including the public interest nature of the activities, the relevance of the choice of partnership (with a non-profit organization), access to employment for distressed individuals, employment and micro-entrepreneurship, the creation of economic and social values, sustainability and, finally, project replicability.

As of December 31, 2010, 20 projects had been approved by the Fund's Board of Directors using a special process that aims to measure the project's footprint based on five criteria (economic viability of the activity being funded, creation of social value, the possibility of developing or replicating the initiative, innovative character, differentiation opportunities).

Initiated by the Group's subsidiaries – consistent with the Fund's vision – the projects are carried out around the world, both in developed and emerging market countries.

The Fund supports initiatives that fall into five main thematic categories:

- Supply: diversifying and localizing Danone's supply by developing partnerships with small-scale producers; seven projects currently receive support from the Fund (in Ukraine, Egypt and France);
- Recycle: collecting PET and helping to organize the work of associations providing support to distressed individuals (*chiffonniers*) and by improving their quality of life; four projects have been approved and are operational (in Indonesia and Mexico);
- Personal services: with respect to nutrition, develop the professional skills of participants in the personal services sector; two projects are currently funded in this area (in Brazil and France);
- Distribution: provide job insertion for people who are struggling in the job market by creating new distribution channels for mass market consumer products; four projects were launched thanks to the Fund's financing (in France and Brazil);
- Local and regional development: contribute to social development at the local and regional levels where the plants of the Group are located through local economic initiatives; the Fund is supporting three projects in this area (in France and Indonesia).

## Danone.communities

During the Company's Shareholders' Meeting of April 26, 2007, a substantial majority of the shareholders approved the implementation of a socially and economically innovative project called danone.communities.

Following the creation in May 2007 of the danone.communities SICAV (open-ended investment company) and the establishment of the danone.communities FCPR (venture capital fund), the Company subscribed € 20 million in danone.communities.

By the end of December 2010 the five sub-funds of the danone.communities fund had reached a total value of approximately € 78 million.

The fund's investment strategy consists in investing at least 90% of its assets in a selection of fixed income instruments in the euro zone, while favoring a "Socially Responsible Investment" (SRI) approach, and at most 10% of its assets in the danone.communities FCPR. The sub-funds are differentiated by their investment term and their risk/return ratio.

Offered since 2008, through a *Fonds Commun de Placement d'Entreprise* (FCPE, a French employee savings mutual fund) created for the Company's French employees in the framework of the *Plan d'Épargne Groupe* (PEG, the French group savings plan)

as one of the investment options for French obligatory and discretionary profit-sharing, the fund has been subscribed by more than 25% of all employees in France and more than 60% of all employees working in the head office and the research center from the time of the fund's inception until the end of 2010.

To date, the FCPR has made five investments, including two new ones in 2010 (Isomir and Naandi projects):

### 1. GRAMEEN DANONE FOODS, BANGLADESH

The FCPR's first investment was made in Grameen Danone Foods, a company located in Bangladesh. This social enterprise built a factory for manufacturing micronutrient-fortified yogurts to be sold in Dhaka, Bangladesh. Sold at a very affordable price by Grameen ladies and small retail stores, it will help combat children's nutritional deficiencies.

It represents a combined investment from the FCPR and other entities of the Grameen group, which has taken the form of a subscription to a capital increase for Grameen Danone Foods, totaling 100 million takas (approximately € 1 million), with the FCPR subscribing a total of 50 million takas to the capital increase.

## 2. 1001 FOUNTAINS, CAMBODIA

1001 Fountains makes it possible for isolated villages in Cambodia to access clean drinking water, in order to prevent their inhabitants from drinking the water found in ponds (which is the cause of a high infant mortality rate and diarrhea-related illnesses). 1001 Fountains uses an ultraviolet treatment process powered by solar energy to purify the water in these ponds. Danone.communities supports this project through an investment in the UV+Solaire company. This investment took the form of a € 51,000 (33%) subscription to a capital increase and a € 99,000 short-term current account advance.

## 3. LA LAITERIE DU BERGER, SENEGAL

The Senegalese company known as “La Laiterie du Berger” is a dairy company that processes and distributes fresh milk produced by Peuls farmers (and not imported milk, which accounts for the larger portion of consumption in Senegal, while a significant portion of the population survives through farming). Quality products made from this milk are sold at competitive prices on the Senegalese market. The FCPR invested 541 million FCFA (approximately € 825,000) by subscribing to two capital increases.

## 4. ISOMIR, FRANCE

Financed by the FCPR danone.communities in 2010, this project is aimed at helping farmers in France develop their businesses, through direct farm marketing, using modular processing units (meat cutting, canning). The FCPR participated in the establishment of a company through an equity investment of € 100,000.

## 5. NAANDI, INDIA

Also financed by the FCPR danone.communities in 2010, Naandi Community Water Services (Naandi) seeks to provide healthy drinking water to village communities in India. The water treatment and distribution systems are managed directly by the villages. Naandi distributes 30 million liters per month, at a cost of about 0.3 USD cents per liter, to some 600,000 beneficiaries, and has created 500 direct and indirect jobs. The FCPR participated in the creation of the company through an equity investment totaling some USD 288,000 and the subscription of convertible bonds for the amount of USD 1,909,000, bringing the total investment amount to approximately € 1.6 million.

In accordance with the Governance Charter of danone.communities, the Social Responsibility Committee of the Company's Board of Directors was consulted and issued a favorable opinion on the compliance of each of these investments with the charter.

Lastly, in accordance with the commitments undertaken by the Board of Directors, the total amount of the Company's financial contributions toward danone.communities projects in 2010 reached € 3.96 million, which was below the ceiling of € 4.0 million set by Danone's Board of Directors. The € 4 million ceiling was maintained for 2011. The amount will be reviewed each year by the Company's Board of Directors to take into account the growth of danone.communities.

## 7.5 Environmental responsibility

Danone's Environmental strategy is based on control over fundamentals and a focus on five areas deemed critical with respect to environmental impact.

### Control over fundamentals

As early as 1995, the Group defined environmental production standards for the manufacture of its products ("Green Plants Program"). These standards have also been subject to internal audit since 1997. In 1999, the Group received its first ISO 14001 certifications for 16 of its sites. In 2010, 55% of the sites are now ISO certified, compared with 50% in 2009. In 2006, the Group rolled out its GREEN (Global Risk Evaluation for Environment) project at the global level. This application summarizes all of the environmental risks (actual risks, reputation risks and administrative impacts based on European regulations) of the

Group's industrial sites into a standardized rating that is audited by an independent partner (ERM). As of December 31, 2010, more than 60% of the Group's industrial sites (excluding Unimilk) had completed an independent GREEN audit, up from more than 55% in 2009. A special plan involving € 1.3 million in investments was identified to improve the 13 sites identified as having the Group's lowest environmental performance. The "GREEN Light" application was also developed to enable audits of our smaller-scale sites, notably in the Waters business line ("Home Delivery" sites). This application will be rolled out beginning in 2011.

### Focus on the five areas where the Group's environmental impact is significant

The Group (excluding Unimilk) has set itself environmental objectives according to the following five areas:

#### CO<sub>2</sub>

**Priority objectives and results.** As of December 31, 2010, the Group has measured the global footprint of its products (on an annual basis) at 14 million metric tons equivalent of CO<sub>2</sub> over the entire life cycle (upstream agriculture, packaging, transportation, storage, industrial sites and end of life).

In 2008, the Group set a target of reducing its carbon intensity by 30% through 2012 across the entire supply chain for which Danone is directly responsible (i.e. including industrial sites, product packaging and end of life, transportation and storage, but excluding upstream agriculture, for which responsibility lies with third parties). In 2010, the carbon intensity was reduced by 9%, yielding a 22% aggregate reduction from 2008 to 2010.

#### WATER

Water is at the heart of Danone's mineral water business. The Group's strategy is based on four areas aimed at protecting this resource:

- protect our sources and ensure that any wastewater generated by our activities is clean;
- reduce water consumption;
- help restore the water production cycle around the world;
- enable access to water for sites located in water-scarce areas.

**Priority objectives and results.** The Group's objective set in 2000 is to reduce water consumption at its industrial sites by 30% by 2010 and to protect our sources. As of December 31, 2010, this reduced consumption target was exceeded by -41%, compared with -33% in 2009. Also, as of December 31, 2010, almost all of the sites were in compliance with the Group's "Ground Water Policy" a series of measures aimed at protecting water resources in collaboration with the local communities.

## PACKAGING

The Group has always focused on minimizing the environmental impact of its packaging by integrating a global vision that extends from upstream to downstream of the Group's activities. Beginning in 1971, it established the "Clean Vacations" initiative to combat littering and raise consumer awareness. In 1992, the Group contributed to the creation in France of the Eco Emballage organization, which defined the principle of the Producer's extended responsibility and which is now used in 29 countries. In 2000, the Group developed a manual for environmentally friendly packaging design, and since 2008 Danone has measured CO<sub>2</sub> emissions and the quantity of packaging used across the entire production chain.

**Priority objectives and results:** The 2000/2010 plan's goal was to achieve a 10% reduction in the ratio of packaging weight to the weight of products sold. Despite the development of single use products, whose packaging weight relative to product quantity sold is greater, this objective has been achieved.

## AGRICULTURE

In this area, where the Group's decisions are shared with its upstream dairy network, and where it is not a major market player (less than 1% of global dairy procurement, less than 5% in the largest countries), Danone implements initiatives with farmers and cooperatives to reduce the environmental impact of the dairy business.

**Outlook.** Since 2009, Danone has actively participated in carbon sink programs through soil restoration and biomethanators (tests in Indonesia and Evian, France). These projects could help to develop farm sustainability while helping the local farmers get out of poverty.

## BIODIVERSITY

Protecting biodiversity and the water resource are at the heart of the Waters business line's strategy. The policy of watershed protection in connection with the development of pesticide-free agriculture in Evian has promoted flora and fauna biodiversity and enabled the site to be named a wetland of international importance by the RAMSAR convention concluded in 2009. In Indonesia, efforts to channel rainwater in the Klaten watershed have made it possible to reconstitute a forest of native plants. In Argentina, a 12,000-hectare natural park was created around the Villavicencio watershed. In France, the Molay Littry plant of the Fresh Dairy Products business line was restored into a Natura 2000 site.

## 2010 environmental expenses and investments

In 2010, the Group invested approximately € 30.5 million in environmental protection measures, or around 3.7% of its total industrial investments.

The three major categories of investment are:

- waste, water and air, accounting for 28% (in particular the improvement of collection, storage, and sorting, water treatment and treatment plants, savings in amounts consumed, and the treatment of emissions);
- eco-design, accounting for 11% (reduction in and recycling of packaging);
- energy, accounting for 61% (savings in amounts consumed, transitioning toward renewable sources of energy).

Operating expenses related to the environment amounted to approximately € 103.5 million in 2010. They include € 41.9 million for the management of water, energy and waste and for environmental taxes other than those on packaging. The latter amounted to € 61.6 million in 2010.

In addition, fines, penalties and damages paid to third parties in respect of the environment totaled less than € 0.1 million in 2010. No significant provisions for environment-related risks and liabilities were recorded in the consolidated balance sheet for the fiscal year ended December 31, 2010.

## Environmental impact of the business: key indicators

Analysis of quantified indicators associated with the environmental impact of Company's subsidiaries operations in all the Divisions:

	Units	2010
<b>Energy</b>		
Thermal energy <sup>(1)</sup>	GWh <sup>(2)</sup>	2,386
Electrical energy	GWh <sup>(2)</sup>	1,823
Total energy	GWh <sup>(2)</sup>	4,209
<b>Solid waste</b>		
Total waste <sup>(3)</sup>	Thousands of tons	279
Recovered waste <sup>(4)</sup>	Thousands of tons	235
Recovery rate	%	84
<b>Water</b>		
Consumption <sup>(5)</sup>	millions of m <sup>3</sup>	35
Net CDO discharge <sup>(6)</sup>	Tons	5,338
Number of significant accidental discharges (chemical products and hydrocarbons)		2
<b>Gas contributing to the greenhouse gas effect (direct)</b> <sup>(11)</sup>	Thousands of tons equivalent CO <sub>2</sub> <sup>(7)</sup>	531
<b>Gas contributing to the greenhouse gas effect (direct)</b>		
Sulfur oxide	Tons equivalent SO <sub>2</sub> <sup>(8)</sup>	2,998
Nitrogen oxide	Tons equivalent NO <sub>2</sub> <sup>(9)</sup>	1,335
<b>Gas with an impact on the ozone layer</b> <sup>(12)</sup>	Kg equivalent CFC <sup>(10)</sup>	1,041

(1) Energy consumed by factories, derived from gas, oil, coal or other sources of thermal energy.

(2) Gigawatt hour.

(3) Waste generated by factories.

(4) Waste recovered via recycling of matter or via incineration with energy recuperation.

(5) Water consumed by factories, excluding water placed in containers.

(6) CDO (chemical oxygen demand) is a measure of water pollution; net CDO discharges are measured after treatment of used water.

(7) Carbon dioxide (CO<sub>2</sub>) is essentially produced by the combustion of matter; only primary CO<sub>2</sub> emissions are indicated.

(8) SO<sub>2</sub>: sulfur dioxide.

(9) NO<sub>2</sub>: nitrogen dioxide.

(10) CFC: chlorofluorocarbons.

(11) Includes: CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, CFC, HCFC, HFC and Halons (according to IPCC 2001).

(12) Includes: CFC, HCFC, and Halons (according to Montreal Protocol).





# SHAREHOLDERS' EQUITY AND STRUCTURE

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## 8.1 Share capital

### Share capital at February 28, 2011

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As of February 28, 2011, the Company's share capital amounted to € 161,980,460, fully paid in, and divided into 647,921,840 shares of the same class with a par value of € 0.25 per share. Each share gives a right to ownership of a proportion of the Company's assets, profits and liquidation surplus, based on the percentage of share capital that it represents.

A comparison between the number of shares outstanding at December 31, 2009 and the number of shares outstanding at December 31, 2010 is listed in the table below.

## Changes in the share capital over the last five fiscal years

Date	Number of shares issued or cancelled	Type of transaction	Change in share capital		Total share capital	Total number of shares
			Par value (ln €)	Additional paid-in capital (ln €)		
January 17, 2003	143,750 shares	Exercise of options	143,750	7,586,252.60	137,335,122	137,335,122 shares
April 24, 2003	332,861 shares	Capital increase reserved for employees who are members of a company savings plan	332,861	31,042,616.86	137,667,983	137,667,983 shares
July 22, 2003	(1,000,000) shares	Decrease in share capital through share cancellations	(1,000,000)	(128,529,669.74)	136,667,983	136,667,983 shares
December 22, 2003	(1,700,000) shares	Decrease in share capital through share cancellations	(1,700,000)	(216,882,782.43)	134,967,983	134,967,983 shares
January 20, 2004	7,510 shares	Exercise of options	7,510	473,881.00	134,975,493	134,975,493 shares
February 10, 2004	(1,300,000) shares	Decrease in share capital through share cancellations	(1,300,000)	(155,926,934.77)	133,675,493	133,675,493 shares
April 26, 2004	352,232 shares	Capital increase reserved for employees who are members of a company savings plan	352,232	37,572,587.44	134,027,725	134,027,725 shares
June 15, 2004	2,265 shares	Exercise of options	2,265	142,921.50	134,029,990	134,029,990 shares
June 15, 2004	134,029,990 shares	Two-for-one stock split	–	–	134,029,990	268,059,980 shares
January 20, 2005	35,540 shares	Exercise of options	17,770	1,121,287.00	134,047,760	268,095,520 shares
April 22, 2005	(4,600,000) shares	Decrease in share capital through share cancellations	(2,300,000)	(56,206,484.93)	131,747,760	263,495,520 shares
May 2, 2005	704,730 shares	Capital increase reserved for employees who are members of a company savings plan	352,365	39,246,413.7	132,100,125	264,200,250 shares
January 23, 2006	34,940 shares	Exercise of options	17,470	1,102,357.0	132,117,595	264,235,190 shares
May 3, 2006	629,556 shares	Capital increase reserved for employees who are members of a company savings plan	314,778	44,345,924.64	132,432,373	264,864,746 shares
August 1, 2006	(1,400,000) shares	Decrease in share capital through share cancellations	(700,000)	(84,694,695.3)	131,732,373	263,464,746 shares
December 15, 2006	(2,600,000) shares	Decrease in share capital through share cancellations	(1,300,000)	–	130,432,373	260,864,746 shares
May 2, 2007	560,984 shares	Capital increase reserved for employees who are members of a company savings plan	280,492	52,177,121.84	130,712,865	261,425,730 shares
June 1, 2007	261,425,730 shares	Two-for-one stock split	–	–	130,712,865	522,851,460 shares
July 9, 2007	(10,000,000) shares	Decrease in share capital through share cancellations	(2,500,000)	(580,397,463.00)	128,212,865	512,851,460 shares
May 5, 2008	950,684 shares	Capital increase reserved for employees who are members of a company savings plan	237,671	41,164,617.20	128,450,536	513,802,144 shares
April 23, 2009	(1,844,442) shares	Decrease in share capital through share cancellations	(461,111)	(93,341,739)	127,989,426	511,957,702 shares
May 7, 2009	580,040 shares	Capital increase reserved for employees who are members of a company savings plan	145,010	19,083,316	128,134,436	512,537,742 shares
May 25, 2009	11,216,756 shares	Capital increase for payment of dividend in shares	2,804,189	356,580,673	130,938,625	523,754,498 shares
June 25, 2009	123,236,352 shares	Capital increase	30,809,088	3,016,825,897	161,747,713	646,990,850 shares
May 6, 2010	930,990 shares	Capital increase reserved for employees who are members of a company savings plan	232,747.50	31,132,305.60	161,980,460	647,921,840 shares

## Shares not representing share capital

The Company has not issued shares not representing share capital.

## 8.2 Treasury shares held by the Company and its subsidiaries

### Purchase by the Company of its own shares

#### AUTHORIZATION GRANTED TO THE COMPANY TO BUY BACK ITS OWN SHARES

The Board of Directors may, pursuant to legal provisions, purchase the Company's shares on the market.

The Shareholders' General Meeting of April 22, 2010 authorized the Board of Directors, for an eighteen-month period, to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company at a maximum purchase price of € 60 per share. This authorization cancelled and replaced the authorization previously granted by the Shareholders' General Meeting of April 23, 2009.

In addition, the Board of Directors will submit to the Shareholders' General Meeting to be held on April 28, 2011, a resolution valid for eighteen months, which will cancel and replace the authorization granted by the Shareholders' General Meeting of April 22, 2010, to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company (i.e., approximately 64,792,184 shares as of December 31, 2010, representing a maximum potential purchase amount of € 4,211,491,960) at a maximum purchase price of € 65 per share.

The purchase of the Company's shares may be executed for the purposes of:

- the allocation of shares with respect to the exercise of stock purchase options by the Company's employees and corporate officers, as well as by employees and corporate officers of companies or economic interest groups in which the Company holds, directly or indirectly, at least 10% of the share capital or voting rights;
- the implementation of any plan for the allocation of free shares to eligible employees and corporate officers, or to some among them;
- the sale of shares to employees (either directly or through an employee savings mutual fund) within the framework of employee stock ownership programs or company savings plans;

- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the subsequent delivery of shares as payment or for exchange in the context of acquisitions;
- the cancellation of shares, within the maximum legal limit;
- boosting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Within the limits allowed by the regulations in force, shares, in whole or in part, depending on the context, may be acquired, sold, exchanged or transferred, once or on multiple occasions, by any means on any stock market, including on multilateral trading facilities (MTF), through a systematic internalizer, or over-the-counter, including by acquisition or disposal of blocks of shares. These means include the use of any financial contract or forward financial instrument, within the limits of regulations currently in force.

These transactions may be carried out at any time for a period of eighteen months beginning April 28, 2011, with the exception of periods during which a public tender offer for the Company's securities has been made, within the limits indicated in the applicable regulations.

#### AUTHORIZATION TO CANCEL SHARES AND TO REDUCE CAPITAL FOLLOWING SHARE REPURCHASES

The Shareholders' General Meeting of April 23, 2009 granted an authorization to the Board of Directors for 24 months to cancel shares repurchased in the context of a share repurchase program subject to a limit of 10% of the existing share capital as of the day of the meeting.

This authorization has not been used during the 2010 fiscal year.

The Board of Directors will submit a new 24-month authorization to the Shareholders' General Meeting of April 28, 2011, which will cancel and replace the one previously granted by the Shareholders' General Meeting of April 23, 2009, to reduce the share capital by cancelling, on one or more occasions and over 24-month periods, all or part of the Company's shares that it holds or could acquire through share repurchase plans authorized by the Shareholders' General Meeting.

### TRANSACTIONS DURING THE 2010 FISCAL YEAR

During the 2010 fiscal year, the Company repurchased 5,362,100 of its own shares at an average price of € 46.62 per share. During the 2009 fiscal year, the Company did not repurchase any of its own shares.

During the 2010 fiscal year, the Company made the following use of its own shares purchased in 2010 and in previous fiscal years:

- 1,815,368 shares were transferred to beneficiaries of stock purchase options in the context of the exercise of such options;
- all of the 5,362,100 shares repurchased in 2010 were allocated to the coverage of acquisition transactions.

### USE OF THE AUTHORIZATIONS GRANTED BY THE SHAREHOLDERS' GENERAL MEETING IN FORCE AS OF DECEMBER 31, 2010

<b>Date of Shareholders' General Meeting that authorized the share repurchase program</b>	<b>Purpose of repurchase</b>	<b>Number of repurchased shares</b>	<b>Total value of the shares repurchased (In €)</b>
April 23, 2009		-	-
April 22, 2010	Acquisitions	5,362,100	249,998,933

### TREASURY SHARES HELD BY THE COMPANY AND ITS SUBSIDIARIES ON DECEMBER 31, 2010

On December 31, 2010, the Company held 31,073,952 treasury shares, representing 4.8% of its share capital and which book value amounts to € 1,209 millions.

	<b>Number of shares at December 31, 2010</b>
Acquisitions	16,077,177
Coverage of stock purchase options	14,996,775
Cancellation of shares	-
<b>Shares held by the Company</b>	<b>31,073,952</b>
<b>Shares held by Danone Espagne</b>	<b>5,780,005</b>
<b>TOTAL SHARES HELD BY THE GROUP</b>	<b>36,853,957</b>

### TREASURY SHARES HELD BY THE COMPANY AND ITS SUBSIDIARIES ON FEBRUARY 28, 2011

	<b>Number of shares at February 28, 2011</b>
Acquisitions	20,683,677
Coverage of stock purchase options	14,890,618
Cancellation of shares	-
<b>Shares held by the Company</b>	<b>35,574,295</b>
<b>Shares held by Danone Espagne</b>	<b>5,780,005</b>
<b>TOTAL SHARES HELD BY THE GROUP</b>	<b>41,354,300</b>

Based on the closing price of the Company's share on February 28, 2011 (i.e. € 45.43 per share), the market value of the treasury shares held as of that date by the Group amounted

to € 1,879 million. A 10% rise or fall in the Company's share price would result in a € 188 million change, increase or decrease, in the market value of the Company's shares held by the Group.

## 8.3 Authorizations to issue securities that confer a right to the share capital

### Valid authorizations to issue shares and other securities as of December 31, 2010

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The Shareholders' General Meeting regularly authorizes the Board of Directors to carry out a share capital increase through the issuance of ordinary shares or other securities giving access to the Company's share capital.

- The maximum nominal amount for the issuance of ordinary shares and securities giving access to the share capital, with preferential subscription rights, is € 45 million, following the renewal of the authorization by the Shareholders' General Meeting of April 23, 2009, representing a maximum of 180 million new shares to be issued.

This authorization was implemented in 2009 for a total amount of € 30,809,088, representing 930,990 new shares (see Section 8.1).

- The maximum nominal amount for the issuance of ordinary shares and securities giving access to the share capital, without preferential subscription rights (but with the obligation for the Board of Directors to grant a priority right to the shareholders of the Company) is € 30 million, representing a maximum of 120 million new shares to be issued.

## Authorizations to issue securities that confer a right to the share capital

The existing authorizations for the issuance of ordinary shares and securities giving access to the share capital, with or without preferential subscription rights, approved by the Shareholders' General Meetings of April 23, 2009 and April 22, 2010, are summarized in the following table:

Type of authorization	Authorization date	Expiration date	Authorized thresholds		Securities giving access to the share capital	Use in 2009 (nominal amount)	Use in 2010 (nominal amount)	Available balance as of December 31, 2010 (nominal amount)	
			Ordinary shares (nominal amount of the issuance)						
Non-dilutive issuances (with preferential subscription rights)	04/23/2009 (26 months)	23/06/2011	€ 45 million <sup>(1)</sup>	Common threshold of € 2 billion		€ 30,809,088	–	€ 14,190,912	
Dilutive issuances (without preferential subscription rights, but with the obligation to grant a priority period)	04/23/2009 (26 months)	06/23/2011	€ 30 million <sup>(1)</sup> , to be applied to the € 45 million threshold for non-dilutive issuances above			–	–	€ 30 million	
Dilutive issuance (public exchange offer initiated by the Company)	04/23/2009 (26 months)	06/23/2011	€ 25 million, to be applied to the € 30 million aggregate threshold for dilutive issuances above			–	–	€ 25 million	
Dilutive issuance (contributions-in-kind made to the Company)	04/23/2009 (26 months)	06/23/2011	10% of the capital, to be applied to the € 30 million aggregate threshold for dilutive issuances above			–	–	10% of share capital	
Capital increase by capitalization of reserves, earnings or additional paid-in capital	04/23/2009 (26 months)	06/23/2011	€ 33 million			–	–	€ 33 million	
Authorization for the benefits of employees and/or officers of the Group	Capital increase reserved for members of a French employee savings plan and/or the sale of reserved shares	04/23/2009 (26 months)	€ 3 million			–	– <sup>(2)</sup>	€ 232,747.50	€ 2,767,252.50
	Grant of performance shares (GPS) <sup>(3)</sup>	04/22/2010 (26 months)	06/22/2012	0.4% of the share capital as noted at the close of the Shareholders' General Meeting		–	–	644,565 shares granted	0.3% of share capital

(1) For issuances resulting from cash subscriptions, the Board of Directors may increase the number of securities to be issued by a maximum of 15% of the initial issuances and at the same price as for those issuances. The Board under this delegation must comply with the respective thresholds provided in these two authorizations.

(2) The capital increase reserved for Group employees approved by the Board of Directors of February 10, 2009 and carried out in May 2009 made use of the authorization granted by the Shareholders' General Meeting of April 26, 2007 (and not the authorization granted by the Shareholders' General Meeting of April 23, 2009).

(3) The approval of this authorization by the Shareholders' General Meeting of April 22, 2010 terminated the resolution authorizing the granting of stock purchase or subscription options approved by the Shareholders' General Meeting of April 23, 2009.

## New financial authorizations

The Shareholders' General Meeting of April 28, 2011 is called to renew the authorizations for the issuance of ordinary shares and securities giving access to the share capital, with or without preferential subscription rights, under the following terms and conditions:

	Authorization Date	Expiration date	Authorized thresholds	
			Ordinary shares (nominal amount of the issuance)	Securities giving access to the share capital
<b>Non-dilutive issuances</b> (with preferential subscription rights)	04/28/2011 (26 months)	06/28/2013	€ 56.5 million <sup>(1)</sup> (34.9% of share capital)	Common threshold of € 2 billion
<b>Dilutive issuances</b> (without preferential subscription rights, but with the obligation to grant a priority period)	04/28/2011 (26 months)	06/28/2013	€ 37.8 million <sup>(1)</sup> (23.3% of share capital) to be applied to the € 56.5 million threshold for non-dilutive issuances above	
Dilutive issuances (public exchange offer initiated by the Company)	04/28/2011 (26 months)	06/28/2013	€ 24 million (14.8% of share capital) to be applied to the € 37.8 million threshold (23.3% of share capital) common to all dilutive issuances above	
Dilutive issuances (contributions-in-kind made to the Company)	04/28/2011 (26 months)	06/28/2013	10% of share capital, to be applied to the € 37.8 million (23.3% of share capital) common to all dilutive issuances above	–
Capital increase by capitalization of reserves, earnings or additional paid-in capital	04/28/2011 (26 months)	06/28/2013	€ 41.6 million (25.68% of share capital)	–
Capital increase reserved for members of a French employee savings plan and/or the sale of reserved shares	04/28/2011 (26 months)	06/28/2013	€ 3.7 million (2.28% of share capital) to be applied to the € 37.8 million threshold (23.3% of share capital) common to all dilutive issuances above	–

(1) For issuances resulting from cash subscriptions, the Board of Directors may increase the number of securities to be issued by a maximum of 15% of the initial issuances and at the same price as for those issuances. The Board under this delegation must comply with the respective thresholds provided for in these two authorizations.

## Other securities giving access to the share capital

### STOCK PURCHASE AND SUBSCRIPTION OPTION PLANS

The Shareholders' General Meeting authorized the Board of Directors, through successive authorizations, to grant, on one or more occasions over a maximum period of 26 months, stock purchase options for up to 8 million shares for the plan approved by the Shareholders' General Meetings of May 1999, May 2001, and April 2003, and 6 million shares for the plan approved by the Shareholders' General Meetings of April 2005, April 2007 and April 2009 (after taking into account the stock-splits in 2000, 2004 and 2007).

As of December 31, 2010, 14,179,527 of these options could still be exercised by their beneficiaries, and the Board of Directors did no longer have the authority to grant the remaining 5,979,600 stock purchase options out of a total amount of six million shares authorized by the Shareholders' General Meeting of April 23, 2009 (see Section 7.2).

Indeed, the Shareholders' General Meeting of April 22, 2010 decided that the authorization to grant performance shares (see paragraph below) cancelled, for the portion not yet used by such date, the authorization granted by the Shareholders' General Meeting of April 23, 2009 in its thirtieth resolution granting future stock purchase and/or subscription options.



### PLAN FOR THE GRANT OF FREE SHARES

The Shareholders' General Meeting of April 22, 2010, in its fifteenth resolution, authorized the Board of Directors to grant, on one or more occasions, existing shares or shares to be issued by the Company. The number of existing or new shares allocated may not exceed 0.4% of the Company's share capital (as of the close of such Meeting), i.e. 2,587,963 shares.

The Board of Directors at its meeting of July 26, 2010 decided, based on this authorization, to grant a total of 644,565 shares subject to performance criteria (Group Performance Shares – GPS). As of December 31, 2010, 641,206 of these GPS could still be acquired by their beneficiaries.

The performance conditions are described in Section 7.2.

## Changes in share capital and in the rights associated with the shares

Any changes in the share capital or the rights attached to the securities comprising the share capital are subject to applicable legal provisions, as the by-laws do not contain any specific provisions related thereto.

### 8.4 Securities not representing capital

At the Combined Shareholders' General Meeting of April 23, 2009, it was decided to delete Article 27.1.9 of the Company's by-laws (which reserved the jurisdiction to decide on or authorize bond issuances to the Shareholders' General Meeting), in order to recognize the Board of Directors' jurisdiction in principle in this area, pursuant to the first paragraph of Article L. 228-40 of the French Commercial Code.

Furthermore, in accordance with a substitution agreement entered into on November 16, 2009 by the Company and Danone Finance, the Company replaced Danone Finance in its debt securities

issued under its EMTN (Euro Medium Term Note) program. Thus the Company is now the sole issuer of the Group's bonds. As of December 31, 2010, the total outstanding principal amount on the Company's bonds was € 3,373 million.

Lastly, at its meeting of October 19, 2010, the Board of Directors decided to renew, for a period of one year, the delegation granted to the General Management to issue bonds, for up to a maximum outstanding principal amount at any time of € 7 billion, or the equivalent amount in any other currency or accounting unit.

### 8.5 Employee participation in the Company's share capital

The number of Company shares held directly or indirectly by its employees and by employees of companies related to it, and which are notably subject to collective management or lock-up conditions, either within the framework of a French

*Plan d'Épargne Entreprise* (company savings plan), or via a French FCPE (employee savings mutual fund) (the "Fonds Danone" FCPE and the FCPEs of other Group subsidiaries), amounted to 8,984,242 shares, or 1.4% of the Company's share capital.

## 8.6 Dividends paid by the Company

### Dividend payout policy

The following is withheld from earnings (from which, if applicable, past losses have already been deducted): (i) at least 5% for the creation of the legal reserve, a deduction that will cease to be mandatory when the legal reserve will have reached one tenth of the share capital, but that will be reinstated if, for any reason whatsoever, this amount is no longer reached; and (ii) any sums to be allocated to reserves in accordance with the law.

The balance, to which are added retained earnings, represents an amount of distributable earnings from which an amount is allocated to shareholders, as a first dividend payment, which corresponds to interest of 6% per annum on the amount of their shares that has been paid up and not reimbursed, it being

specified that if in a given fiscal year earnings are not sufficient to make this payment, the shortfall may be paid by deduction from the earnings of future fiscal years.

Any remaining balance is available for allocation by the annual Shareholders' General Meeting, in accordance with a proposal by the Board of Directors, to shares as dividends or, in full or in part, to any reserve accounts or to retained earnings.

The reserves available to the Shareholders' General Meeting can be used, if it so decides, to pay stock dividend. In this case, the decision will expressly indicate those accounting items from which withdrawals are made.

### Dividends paid over the three previous fiscal years

A dividend payment of € 1.30 will be proposed at the Shareholders' General Meeting of April 28, 2011 with respect to shares for which the dividend entitlement date is January 1, 2010. If this dividend is approved, the shares will be declared ex-dividend on May 10, 2011 and the dividend will be payable beginning May 13, 2011.

The following dividends were paid out over the three fiscal years prior to the 2010 fiscal year:

<b>Dividend for the fiscal year <sup>(1)</sup></b>	<b>Dividend per share</b> <i>(In € per share)</i>	<b>Dividend approved <sup>(2)</sup></b> <i>(In € millions)</i>	<b>Dividend paid <sup>(2)</sup></b> <i>(In € millions)</i>
2007	1.10	564	530
2008	1.20	617	221 <sup>(3)</sup>
2009	1.20	776	745

(1) Paid the following year.

(2) The shares held directly by the Company do not carry dividend rights. Conversely, shares held by Danone Espagne carry dividend rights.

(3) The Shareholders' General Meeting of April 23, 2009 offered each shareholder the possibility of opting for the full dividend payment in respect of 2008 fiscal year to be made in new shares of the Company, which resulted in (i) the delivery of 11,216,756 new shares of the Company to those shareholders who opted for such stock dividend and (ii) the payment of € 221 million to those shareholders who opted for a payment in cash.

The payment of the dividend is carried out by Euroclear France.

The net future dividends will depend on the Company's ability to generate a profit, on its financial position, and on any other factor that the Board of Directors shall deem pertinent.

Dividends that have not been claimed within a five-year period revert to the French State.

## 8.7 Voting rights – Crossing of thresholds

### Voting rights

The Extraordinary Shareholders' General Meeting of October 18, 1935 decided to grant double voting rights, in accordance with the law and in relation to the portion of the Company's share capital that they represent, to all fully paid up shares for which evidence is provided that they have been registered in the name of the same shareholder for at least two years, as well as – in the event of a share capital increase through capitalization of reserves, earnings or additional paid-in capital – to registered shares granted free-of-charge to a shareholder in consideration of existing shares in respect of which he enjoys said rights. Double voting rights cease in the event of a transfer or conversion into bearer shares. A merger with another company shall not affect double voting rights, which can be exercised within the absorbing company if its by-laws have instituted this procedure.

The Extraordinary Shareholders' General Meeting of September 30, 1992 decided that at Shareholders' General Meetings, no shareholder may cast more than 6% of the total number of voting rights attached to the Company's shares in his or her own right and through his or her agents (mandataires), in respect of single voting rights attached to shares which he or she holds directly and indirectly and of powers which have been granted to him or her. Nevertheless, if, additionally, he or she enjoys double voting rights in a personal capacity and/or in the capacity of agent, the limit set above may be exceeded by taking into account only the extra voting rights resulting therefrom. In such a case, the total voting rights that he or she represents shall not exceed 12% of the total number of voting rights attached to the Company's shares.

The aforementioned limitations shall become null and void if any individual or corporate body, acting alone or in concert with one or more individuals or corporate bodies, were to come into possession of at least two-thirds of the total shares of the Company as a result of a public bid for all the Company's shares. The Board

of Directors shall formally acknowledge that the limitations have become null and void and shall complete the corresponding modifications to the by-laws. In addition, in accordance with the General Regulations of the French Financial Markets Authority, the effects of the limitations provided for in the preceding paragraphs shall be suspended at the first Shareholders' General Meeting following the close of the offer if the initiator, acting alone or in concert, were to come into possession of at least two-thirds of the total shares or total voting rights of the company concerned.

Following the adoption of the sixteenth resolution by the Shareholders' General Meeting of April 22, 2010, the aforementioned limitations shall be suspended for a Shareholders' General Meeting if the number of shares present or represented reaches or exceeds 75% of the total number of shares carrying voting rights. In such event, the Chairman of the Board of Directors (or any other person who is presiding over the meeting in his absence) shall formally acknowledge the suspension of said limitation when the Shareholders' General Meeting is called to order.

Shareholders may vote by mail or by proxy, voting or giving their proxy by any means in accordance with the applicable laws and regulations. In particular, shareholders may send their voting papers or proxy forms to the Company by remote data transmission or electronic means prior to the Shareholders' General Meeting, in accordance with the applicable laws. If used, the electronic signature of voting papers or proxy forms shall be in the form meeting the conditions set out in Article 1316-4, second paragraph, first sentence of the French Civil Code. The Board of Directors may decide that any vote cast during a Shareholders' General Meeting may be expressed by videoconference or by any telecommunication means enabling the shareholder to be identified, in accordance with the terms set forth in the applicable regulations.

### Crossing of thresholds

In addition to the legal declarations, the by-laws provide that any individual or entity that acquires or ceases to hold in any manner whatsoever, within the meaning of Articles L. 233-7 *et seq.* of Volume II of the French Commercial Code, a fraction equivalent to 0.5% of the voting rights or a multiple thereof must, within five trading days of crossing such threshold, notify the Company of the total number of shares or securities giving future access to the capital and the total number of voting rights that said individual or entity holds alone, or indirectly, or in concert, by registered mail with return receipt to the Company's registered office. If

the threshold is crossed as a result of a purchase or sale on the market, the period of five trading days begins as from the date of trade and not the date of delivery.

In the event of failure to comply with this notification requirement, upon the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been declared may not be exercised or delegated by the non-complying shareholder for a period of two years as from the date on which the shareholder comes into compliance with the notification requirement.

## 8.8 Shareholding structure as of December 31, 2010 and significant changes over the last three fiscal years

### Shareholding structure as of December 31, 2010

Double voting rights are granted to all fully paid-up shares held in registered form in the name of the same shareholder for a period of at least two years.

Selected information regarding the principal shareholders of the Company as of December 31, 2010 is set out below:

Shareholders	Number of shares held	Percentage of share capital	Number of gross voting rights	Percentage of gross voting rights <sup>(2)</sup>	Number of net voting rights	Percentage of net voting rights <sup>(3)</sup>
Caisse des Dépôts et Consignations group	22,051,312	3.4%	22,051,312	3.2%	22,051,312	3.4%
Eurazeo group <sup>(1)</sup>	16,433,370	2.5%	31,902,983	4.6%	31,902,983	4.9%
Sofina & Henex group	13,584,541	2.1%	24,184,541	3.5%	24,184,541	3.7%
FCPE "Fonds Danone" (employee savings mutual fund)	8,858,900	1.4%	16,670,235	2.4%	16,670,235	2.5%
The Company	31,073,952	4.8%	31,073,952	4.5%	-	-
Subsidiaries of the Company (Spanish subsidiary Danone SA)	5,780,005	0.9%	5,780,005	0.8%	-	-
Public	550,139,760	84.9%	560,410,744	81%	560,410,744	85.6%
<b>TOTAL</b>	<b>647,921,840</b>	<b>100.0%</b>	<b>692,073,772</b>	<b>100.0%</b>	<b>655,219,815</b>	<b>100.0%</b>

(1) See below.

(2) The percentage of gross voting rights includes the shares held by the Company and its subsidiaries, which hold no voting rights.

(3) The number of net voting rights (or voting rights that are "exercisable in the Shareholders' General Meeting") excludes the shares that hold no voting rights.

As of December 31, 2010, the total number of shares owned by the Company's Directors and the members of the Executive Committee (21 persons) was 636,475 shares, representing 0.10% of the Company's share capital.

As of December 31, 2010, under the authorizations granted by the Shareholders' General Meeting of April 28, 2010 and prior authorizations, the Group owned, directly and through Danone SA, its Spanish subsidiary, 36,853,957 shares of the Company, representing 5.69% of its share capital.

There is no clause in the Company's by-laws giving preferential rights for the acquisition or sale of Company shares.

Lastly, as of December 31, 2010, existing pledges on Company shares held in registered form on the Company books (*nominatif pur*) and in registered form on the books of a financial intermediary (*nominatif administré*), accounted for, respectively, 960 shares held by 1 shareholder and 64,684 shares held by 10 shareholders.

## Significant changes in share ownership over the last three fiscal years

The following table shows an analysis of share ownership and voting rights of the Company's principal shareholders over the last three fiscal years:

Shareholders	December 31, 2008			December 31, 2009			December 31, 2010		
	Number of shares	% of total shares	% of net voting rights <sup>(1)</sup>	Number of shares	% of total shares	% of net voting rights <sup>(1)</sup>	Number of shares	% of total shares	% of net voting rights <sup>(1)</sup>
Eurazeo group	25,951,990	5.1%	5.2%	26,915,746	4.2%	4.2%	16,433,370	2.5%	4.9%
Caisse des Dépôts et Consignations group	20,283,654	3.9%	4.0%	23,271,322	3.6%	3.6%	22,051,312	3.4%	3.4%
Sofina & Henex group	10,600,000	2.1%	3.2%	13,584,541	2.1%	3.8%	13,584,541	2.1%	3.7%
Crédit Agricole Assurances group	7,192,120	1.4%	1.4%	11,178,709	1.7%	1.7%	2,455,102	0.4%	0.4%
FCPE "Fonds Danone" (employee savings mutual fund)	8,149,914	1.6%	3.1%	8,740,760	1.4%	2.5%	8,858,900	1.4%	2.5%
The Company and its subsidiary	35,994,528	7.0%	-	33,507,225	5.2%	-	36,853,957	5.7%	-
Public	405,629,938	78.9%	83.1%	529,792,547	81.8%	84.2%	547,684,658	84.5%	85.2%
<b>TOTAL</b>	<b>513,802,144</b>	<b>100.0%</b>	<b>100.0%</b>	<b>646,990,850</b>	<b>100.0%</b>	<b>100.0%</b>	<b>647,921,840</b>	<b>100.0%</b>	<b>100.0%</b>

(1) This percentage excludes the shares held by the Company and all treasury stock, which hold no voting rights.

On May 28, 2009, Eurazeo announced the launch of an issue of five-year bonds convertible into existing DANONE shares, in an initial offering totaling € 500 million, an amount which could be increased to a maximum of approximately € 700 million, at a rate of one DANONE share per bond issued (this ratio being subject to adjustments in the event of certain financial transactions being carried out by the Company, such as a share capital increase with preferential subscription rights). As part of this issue, 16,433,370 DANONE shares were pledged by Eurazeo in favor of bearers of these convertible bonds.

Eurazeo's entire equity stake in the Company, except for the 16,433,370 shares pledged as described above, was sold in 2009 and 2010. In this context, Eurazeo stated that it had fallen

below the 5% legal threshold for voting rights on July 13, 2010, and that it held, at such date, 2.71% of the Company's share capital and 4.78% of its voting rights.

As of December 31, 2010, the Eurazeo group holds 2.5% of the share capital (corresponding to these 16,433,370 shares) and 4.6% of the voting rights of the Company.

To the best of the Company's knowledge, no other significant changes in the shareholding structure have taken place during the past three fiscal years.

## Survey of the Company's identifiable shareholders

The Company may, in accordance with applicable regulations, at any time, ask any entity responsible for clearing shares for the name (or legal name), nationality, and address of the holders of shares or other securities conferring immediate or future voting rights at its Shareholders' General Meetings,

along with the number of securities held by each of them and, if applicable, any restrictions placed upon such securities. At the request of the Company, the above information may be limited to those individuals holding a number of securities as determined by the Company.

The Company conducted a study of shareholders identifiable in July 2010:

	<b>% of share capital</b>
<b>Institutional investors</b>	<b>83%</b>
France	27%
United Kingdom	9%
Germany	5%
Benelux	6%
Rest of Europe	7%
United States	22%
Rest of World	7%
<b>Individual shareholders and FCPE "Fonds Danone" (employee savings mutual fund)</b>	<b>12%</b>
<b>Treasury shares and shares held by its subsidiaries</b>	<b>5%</b>
<b>TOTAL</b>	<b>100%</b>

## 8.9 Market for the Company's securities

The Company's shares are listed on Euronext Paris (Compartment A – Deferred Settlement Department; ISIN Code: FR 0000120644) and on the Swiss Stock Exchange (SWX Suisse Exchange).

From November 1997, the Company's shares were also listed on the New York Stock Exchange in the form of American Depositary shares ("ADS"), each ADS representing one fifth of one Company share. In April 2007, the Group announced the delisting of its ADS from the New York Stock Exchange, due to the low trading volume on this Stock Exchange. The delisting took effect on July 5, 2007 and the deregistration with regards to the Securities and Exchange Commission, pursuant to the U.S. Securities Exchange Act of 1934, took effect on October 5, 2007.

The Group nevertheless maintains a sponsored Level 1 program of American Depositary Receipts (ADR), which are traded over the counter.

The Company's shares are included in the CAC 40 Index, the principal Stock Exchange index published by Euronext Paris, and are included in the Dow Jones Eurostoxx and Dow Jones Stoxx indices.

Finally, since September 2000, the Company's shares have been included in the Eurostoxx 50 index, which lists the fifty largest market capitalizations in the euro zone. In addition, the Company's shares have also been included in the Dow Jones Sustainability Index World, which comprises selected companies based on strict criteria such as the quality of corporate governance, social responsibility policy, their criteria relating to innovation, and their economic performance.

### Market prices and trading volumes

	Shares		Volume <sup>(1)</sup>		Price <sup>(1)</sup>	
	Cumulative (In number of shares)	Daily average (In number of shares)	Cumulative (In € millions)	Monthly average (€ per share)	High (€ per share)	Low (€ per share)
<b>2010</b>						
January	42,028,310	2,101,416	1,789	42.660	43.730	40.905
February	59,453,312	2,972,666	2,496	42.010	43.890	40.100
March	51,662,671	2,246,203	2,259	43.780	45.060	42.850
April	59,565,541	2,978,277	2,693	45.290	46.880	42.555
May	100,616,339	4,791,254	4,225	41.870	44.470	39.345
June	63,748,368	2,897,653	2,787	43.715	45.675	41.165
July	59,167,138	2,689,415	2,658	45.218	46.750	42.705
August	47,111,727	2,141,442	2,007	42.679	44.335	41.000
September	44,023,187	2,001,054	1,927	43.793	44.780	42.340
October	48,530,036	2,310,954	2,153	44.296	46.250	42.555
November	44,296,590	2,013,481	2,048	46.174	47.950	44.880
December	34,462,796	1,498,382	1,614	47.293	48.500	45.045
<b>2011</b>						
January	49,192,091	2,342,481	2,231	45.622	48.070	43.780
February	49,614,064	2,480,703	2,228	45.000	45.990	43.040

(1) Source Euronext Paris – Includes over-the-counter transactions.

## 8.10 Factors that might have an impact in the event of a tender offer

In accordance with Article L. 225-100-3 of the French Commercial Code resulting from Act 2006-387 dated March 31, 2006, the factors that might have an impact in the event of a tender offer are set out below:

### (i) Structure of the Company's share capital

A table describing the structure of the Company's share capital is presented in Section 8.8.

### (ii) By-laws restrictions to the exercise of voting rights

The Company's by-laws provide for a system of capping voting rights. This mechanism is described in Section 8.7. The Shareholders' General Meeting of April 22, 2010 has decided to include a mechanism for suspending this limitation if the number of shares present or represented reaches or exceeds 75% of the total number of shares carrying voting rights.

The Company's by-laws provide for a reporting obligation for anyone who would hold or cease to hold a fraction equal to 0.5% of voting rights or a multiple thereof, beginning when one of the thresholds is crossed. This mechanism is described in Section 8.7.

In the event of failure to comply with this notification requirement, upon the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been declared may not be exercised or delegated by the non-complying shareholder for a period of two years beginning the date on which the shareholder comes into compliance with the notification requirement.

### (iii) Direct or indirect holdings in its share capital of which the Company is aware

Eurazeo declared that, on July 8, 2009, through its subsidiary Legendre Holding 22, it had fallen below the 5% legal threshold of share capital, and that, on that date, it held, through its subsidiary Legendre Holding 22, 4.99% of the Company's share capital and 4.77% of its voting rights.

As of December 31, 2010, Eurazeo declared that it held 2.5% of the share capital and 4.9% of the voting rights of the Company.

A detailed analysis of the Company's shareholder structure is presented in Section 8.8.

### (iv) Holders of securities providing special control rights over the Company and description of such rights

Nil.

### (v) Control mechanisms provided for any employee shareholding program, when such control rights are not exercised by employees

Only the Supervisory Board of the "Fonds Danone" employee savings mutual fund (which on December 31, 2010 held 1.4% of the share capital and 2.5% of the net voting rights) has the authority to decide how to respond to a possible tender offer. As an exception to this principle, employees may be consulted directly by referendum if the Supervisory Board were to have a split vote.

### (vi) Agreements between shareholders of which the Company is aware and that could impose restrictions on the transfer of shares and the exercise of voting rights

To the best of the Company's knowledge, no agreement exists between shareholders that could impose restrictions on the transfer of the Company's shares and the exercise of voting rights.

### (vii) Rules applicable to the nomination and replacement of members of the Company's Board of Directors

Under the terms of an agreement concluded between the Company and Yakult Honsha on March 4, 2004, the Company has undertaken to make every effort to ensure that the candidate proposed by Yakult Honsha be appointed as a member of the Company's Board of Directors by the Shareholders' General Meeting, for such period as two Company representatives sit on the Board of Directors of Yakult Honsha.

### (viii) Powers of the Board of Directors in the event of a tender offer

The Shareholders' General Meeting of April 29, 2008 ended the authorization granted to the Board of Directors to make use of the Company share buyback program at the time of a tender offer. The Shareholders' General Meeting of April 23, 2009 and April 22, 2010 explicitly confirmed that Company's shares may no longer be repurchased at the time of a tender offer. The Shareholders' General Meeting of April 28, 2011 will be asked to continue this limitation.



**(ix) Agreements signed by the Company that are amended or terminated in the event of a change of control of the Company**

- The Group granted put options that may be exercised at any moment and, in particular, during a tender offer, to minority shareholders of its Spanish subsidiary, Danone SA. The description and amount of such options is presented in Note 15 of the Notes to the consolidated financial statements.
- In 2005, the Company and the Arcor group signed an agreement governing the relations between the Group and Arcor within the joint venture named Bagley Latino America, a leader in biscuits in Latin America, in which the Company holds a 49% equity interest. In the event of a change of control of the Company, the Arcor group will have the right to have the Company repurchase all of its interest held in Bagley Latino America, for an amount equal to its fair value.
- Under the terms of contracts regarding the use of mineral springs, in particular Volvic and Evian in France, the Group has very old and privileged relations with local municipalities in which these springs are located. It is difficult for the Company to assess with certainty the impact on these contracts of any change in its control.
- Certain stock purchase option plans, as well as Group Performance Units and Group Performance Shares plans, that were put in place by the Company for the benefit of its executive directors and officers (*mandataires sociaux*) and certain employees, include specific provisions in the event of a change of control of the Company resulting from a tender offer on the Company's securities, described in Section 7.2.

- In December 2007, as part of the refinancing of the acquisition of the Numico group, the Company signed a syndicated facility agreement (described in Note 15 of the Notes to the consolidated financial statements) that included a change of control clause. This syndicated facility agreement (€ 4 billion of principal divided among (i) a tranche A of € 2.3 billion with a three-year term (which expired in December 2010) and (ii) a tranche B of € 1.7 billion with a five-year term (expiring in December 2012)) offers to the creditors an advanced repayment right should there be a change of control of the Company, if it is accompanied by a significant deterioration of its credit rating by the rating agencies to sub-investment grade.
- The Group's EMTN program and certain bank credit lines also include a similar feature in the event of a change of control of the Company (see Note 15 of the Notes to the consolidated financial statements).

**(x) Agreements providing for indemnities to be paid to employees and executives of the Company in the event that they resign, or their employment is terminated in the absence of a real and serious cause, or if their employment expires due to a tender offer**

The indemnities that would be paid to the Company's executive directors and officers (*mandataires sociaux*) in certain circumstances are described in Section 6.10.

## 8.11 Change in control

To the best of the Company's knowledge, no agreement exists which, if implemented, could, at a future date, lead to a change of control of the Company.



# COMBINED SHAREHOLDERS' GENERAL MEETING OF 28 APRIL 2011

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## 9.1 Shareholders' General Meetings

The Board of Directors convenes Shareholders' General Meetings in accordance with French law.

Meetings shall be held in the town in which the registered office is located or in any other locality, depending on the decision made in such regard by the person calling the meeting, and at the venue specified in the notice of meeting.

All shareholders may attend Shareholders' General Meetings, regardless of the number of shares held, subject to the loss of rights incurred under any applicable laws or regulations.

When properly convened and constituted, the Shareholders' General Meeting represents all the shareholders. Its resolutions are binding on all, even dissenting, incompetent, or absent shareholders.

Any shareholder may be represented by his or her spouse, by another shareholder or by any other person or corporate entity of his or her choice, by virtue of a proxy statement which form is determined by the Board of Directors.

Minors and incompetent persons shall be represented by their legal guardians and trustees, who need not be shareholders themselves. A corporate entity shall be legitimately represented by any legal representative so entitled or by a person specially empowered for said purpose.

Participation in Shareholders' General Meetings by any means shall be contingent on the registration or recording of stock ownership, according to the terms and within the time-limits stipulated by the regulations in force.

At the Shareholders' General Meeting of April 23, 2009, the Company's by-laws were amended (i) to facilitate the implementation of electronic voting for the vote prior to Shareholders' General Meetings and (ii) to allow the Board of Directors to decide that votes during the Shareholders' General Meeting may be cast by videoconference or any other means of telecommunication by which shareholders may be identified in accordance with regulatory conditions.

## 9.2 Draft of resolutions presented at the Combined Shareholders' General Meeting of April 28, 2011

### Resolutions within the authority of the Ordinary Shareholders' General Meeting

#### First resolution

*(Approval of the statutory financial statements for the fiscal year ended December 31, 2010)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the reports of the Board of Directors and of the Statutory Auditors, hereby approves the statutory financial statements of the Company for the fiscal year ended

December 31, 2010, which include the balance sheet, the income statement and the notes, as presented, which show earnings of € 909,853,144.01, as well as the transactions reflected in the statutory financial statements and summarized in the reports.

#### Second resolution

*(Approval of the consolidated financial statements for the fiscal year ended December 31, 2010)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the reports of the Board of Directors and of the Statutory Auditors, hereby approves the

consolidated financial statements of the Company for the fiscal year ended December 31, 2010, as presented, as well as the transactions reflected in the consolidated financial statements and summarized in the reports.

#### Third resolution

*(Allocation of the earnings for the fiscal year ended December 31, 2010 and setting of the dividend at € 1.30 per share)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the reports of the Board of Directors and of the Statutory Auditors:

- acknowledges that the earnings for the fiscal year 2010 amount to € 909,853,144.01;
- acknowledges that retained earnings amount to € 3,744,461,736.83;
- totaling earnings available for allocation of € 4,654,314,880.84;

- decides to allocate the total earnings as follows:
  - to the legal reserve in the amount of € 23,274.75,
  - to dividends in the amount of € 842,298,392.00,
  - to retained earnings in the amount of € 3,811,993,214.09.

The Shareholders' General Meeting therefore decides to distribute a dividend of € 1.30 per share. The amount distributed among the shareholders is fully eligible for the 40% allowance provided for in Article 158-3.2 of the French Tax Code (*Code général des impôts*) for those shareholders who may benefit from it, unless they opt for the flat-rate withholding tax provided for in Article 117 *quater* of the French Tax Code.

The ex dividend date is May 10, 2011 and the dividend will be payable as from May 13, 2011.

In accordance with the provisions of Article L. 225-210 of the French Commercial Code (*Code de commerce*), the Shareholders' General Meeting decides that the amount of the dividend corresponding to the shares held by the Company on the payment date will be allocated to the "retained earnings" account.

The dividends distributed for the three previous fiscal years were as follows:

Fiscal year	Number of shares	Dividends distributed per share <sup>(1)</sup>
2007	512,851,460	1.1
2008	513,802,144	1.2 <sup>(2)</sup>
2009	646,990,850	1.2

(1) Distribution fully eligible for the 40% allowance.

(2) With an option to receive payment of the dividend in shares.

## Fourth resolution

*(Ratification of the co-opting of Mr. Yoshihiro KAWABATA as Director)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors, ratifies the co-opting of Mr. Yoshihiro KAWABATA as Director decided by the Board of Directors meeting of April 22, 2010 to

replace Mr. Naomasa TSURITANI, resigning Director, to serve for the remainder of his predecessor's term of office, i.e. until the Shareholders' General Meeting convened to approve the financial statements for the fiscal year 2010.

## Fifth resolution

*(Renewal of the tenure of Mr. Bruno BONNELL as Director)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors, renews the tenure of Mr. Bruno BONNELL as a Director for the period of three years as set in the by-laws.

Mr. Bruno BONNELL's term of office will expire at the end of the Shareholders' Ordinary General Meeting convened to approve the financial statements for the fiscal year 2013.

## Sixth resolution

*(Renewal of the tenure of Mr. Bernard HOURS as Director)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors, renews the tenure of Mr. Bernard HOURS as a Director for the period of three years as set in the by-laws.

Mr. Bernard HOURS's term of office will expire at the end of the Shareholders' Ordinary General Meeting convened to approve the financial statements for the fiscal year 2013.

## Seventh resolution

*(Renewal of the tenure of Mr. Yoshihiro KAWABATA as Director)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors, renews the tenure of Mr. Yoshihiro KAWABATA as a Director for the period of three years as set in the by-laws.

Mr. Yoshihiro KAWABATA's term of office will expire at the end of the Shareholders' Ordinary General Meeting convened to approve the financial statements for the fiscal year 2013.

## Eighth resolution

*(Renewal of the tenure of Mr. Jacques VINCENT as Director)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors, renews the tenure of Mr. Jacques VINCENT as a Director for the period of three years as set in the by-laws.

Mr. Jacques VINCENT's term of office will expire at the end of the Shareholders' Ordinary General Meeting convened to approve the financial statements for the fiscal year 2013.

## Ninth resolution

*(Appointment of Mrs. Isabelle SEILLIER as Director)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors, appoints Mrs. Isabelle SEILLIER as Director for the period of three years as set in the by-laws.

Mrs. Isabelle SEILLIER's term of office will expire at the end of the Shareholders' Ordinary General Meeting convened to approve the financial statements for the fiscal year 2013.

## Tenth resolution

*(Appointment of Mr. Jean-Michel SEVERINO as Director)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors, appoints Mr. Jean-Michel SEVERINO as Director for the period of three years as set in the by-laws.

Mr. Jean-Michel SEVERINO's term of office will expire at the end of the Shareholders' Ordinary General Meeting convened to approve the financial statements for the fiscal year 2013.

## Eleventh resolution

*(Approval of the agreements referred to in the special report of the Statutory Auditors)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the special report of the Statutory Auditors concerning the agreements referred to in

Article L. 225-38 *et seq.* of the French Commercial Code, acknowledges the conclusions of this report and approves the agreements referred to therein, other than this the subject of the twelfth resolution.

## Twelfth resolution

*(Approval of the agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code regarding Mr. Bernard HOURS)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the special report of the Statutory Auditors, acknowledges the conclusions of said report

and approves the agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code accepted in favor of Mr. Bernard HOURS as described in said report.

## Thirteenth resolution

*(Authorization granted to the Board of Directors to purchase, retain or transfer the Company's shares)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Ordinary General Meetings, having reviewed the report of the Board of Directors and the description of the program established in accordance with Articles 241-1 *et seq.* of the General Regulations of the French Financial Markets Authority (*Autorité des marchés financiers*):

1. Authorizes the Board of Directors to purchase, retain or transfer, on one or more occasions, the Company's shares, within the context of a share buy-back program, pursuant to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code and European Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

The purchase of the Company's shares may be executed for the purpose of:

- the allocation of shares with respect to the exercise of stock purchase options by the Company's employees and executive directors and officers (*mandataires sociaux*) as well as by employees, directors and officers of companies or economic interest groups in which the Company holds, directly or indirectly, at least 10% of the share capital or voting rights;
- the implementation of any plan for the allocation of free shares to eligible employees, executive directors and officers (*mandataires sociaux*), or to some of them;

- the sale of shares to employees (directly or through an employee savings mutual fund (in French, a "FCPE")) within the context of employee shareholding plans or savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the later delivery of shares as payment or for exchange in the context of acquisitions;
- the cancellation of shares, within the maximum legal limit;
- boosting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Within the limits permitted by the regulations in force, the shares may be acquired, sold, exchanged or transferred, in whole or in part, depending on the case, on one or more occasions, by any means on any stock market, including multilateral trading facilities (MTF), via a systematic internalizer, or over-the-counter, including by acquisition or disposal of blocks of shares. These means may include the use of any financial contract or financial futures, provided that the means so used comply with the regulations in force.

2. Decides that these transactions may be executed at any time, except during the period of a public tender offer for the Company's securities, within the limits allowed by applicable regulations.



3. Decides that the maximum purchase price may not be greater than € 65 per share.

In the event of a capital increase by the incorporation of issue premiums, reserves or earnings by allocating free shares or through a stock split or a reverse stock split or any other transaction concerning the share capital, the price indicated above will be adjusted by a coefficient equal to the ratio between the number of shares comprising the share capital before the transaction and the number of shares comprising the share capital after the transaction.

4. Acknowledges that the maximum number of shares that may be purchased under this authorization may not, at any time, exceed 10% of the total number of shares comprising the share capital (i.e., 64,792,184 shares as of December 31, 2010, without taking into account the shares already held by the Company, representing a maximum theoretical purchase amount of € 4,211,491,960), it being specified that this limit applies to an amount of the Company's capital that will be, if necessary, adjusted to take into account the operations affecting the share capital following this Shareholders' General Meeting. The acquisitions made by the Company may not, under any circumstances, result in the Company holding more than 10% of its share capital, either directly or indirectly through subsidiaries.

Notwithstanding the above, the number of shares acquired by the Company to be retained and later delivered for payment or exchange in the context of an acquisition may not exceed 5% of its share capital.

5. Delegates full powers to the Board of Directors to implement this authorization, with the right to sub-delegate, to:

- place all orders on any market or carry out any operation off the market;
- conclude all agreements, for purposes of, among other things, the maintenance of the share purchase and sale registries;
- allocate or re-allocate the shares acquired to the various objectives under the applicable legal or regulatory conditions;
- prepare all documents, file all necessary declarations, issue all official statements and carry out all necessary formalities with the French Financial Markets Authority or any other authority regarding the operations carried out pursuant to this resolution;
- define the terms and conditions under which, where applicable, the rights of holders of securities giving access to the Company's share capital will be preserved in accordance with the regulatory provisions; and
- carry out all other formalities and, generally, take any necessary measures.

The Board of Directors shall notify the Shareholders' General Meeting of the transactions carried out in application of this resolution.

This resolution cancels and replaces the authorization granted by the Shareholders' General Meeting of April 22, 2010 in its fourteenth resolution and is granted for an 18-month period as from the date of this Shareholders' General Meeting.

## Resolutions within the authority of the Extraordinary Shareholders' General Meeting

### Fourteenth resolution

*(Delegation of authority to the Board of Directors to issue ordinary shares and securities giving access to the Company's share capital, with preferential subscription right of the shareholders)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the Board of Directors' report and the Special Report of the Statutory Auditors and acknowledged that the share capital is fully paid up, and acting in accordance with Articles L. 225-129 to L. 225-129-6, L. 228-91 and L. 228-92 of the French Commercial Code, delegates to the Board of Directors the authority to decide on the issuance of, on one or more occasions, in the proportions and periods that it deems favorable, in France and abroad, either in euros or any

foreign currency, and with preferential subscription right of the shareholders, (i) ordinary shares of the Company and (ii) securities giving access by any means, immediately and/or in the future, to the Company's share capital, with said shares granting the same rights as the old shares subject to the ex dividend date of the shares.

The Shareholders' General Meeting decides that any issuance of preferred shares and securities giving a right to preferred shares is expressly excluded.

The Board of Directors may, within legal limits, delegate to the Chief Executive Officer, or with his approval, to one or more Co-Chief Operating Officers, the power to decide to carry out or to postpone the share capital increase. The securities giving access to the Company's share capital thereby issued may consist of debt securities or be combined with the issuance of such securities or allow their issuance as intermediate securities. They may take on the form of subordinated or unsubordinated securities, with or without a fixed term, and issued in either euros or a foreign currency.

a) The maximum nominal amount of the increase in the Company's share capital resulting from all issuances realized either immediately and/or in the future pursuant to this delegation is fixed at an amount of € 56.5 million, it being specified that the nominal amount of ordinary shares issued under the 15<sup>th</sup>, 16<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup> and 20<sup>th</sup> resolutions of this Meeting will be applied to this maximum amount.

It is noted that the limit indicated in paragraph (a) above is determined without having taken into account the nominal value of the ordinary shares of the Company to be issued, if applicable, pursuant to the adjustments made in order to protect the interests of the holders of rights attached to securities giving access to the Company's share capital, in accordance with applicable legal and regulatory provisions and contractual stipulations. To this end, the Shareholders' General Meeting authorizes the Board of Directors, when necessary, to increase the share capital proportionately.

b) All issuances of debt securities giving access to the Company's share capital carried out by virtue of this delegation shall not exceed a limit of € 2 billion in nominal value (or the exchange value of this amount for an issuance in a foreign currency or monetary unit determined by reference to several currencies); this limit is the same for all of the issuances of debt securities giving access to the Company's share capital, which may be carried out by virtue of the delegations granted in the 15<sup>th</sup>, 16<sup>th</sup> and 17<sup>th</sup> resolutions submitted to this Shareholders' General Meeting.

In calculating the limit set forth in paragraph (b) above, the exchange value in euros of the nominal value of debt securities giving access to the Company's share capital issued in foreign currencies shall be determined on the date of the issuance.

Shareholders may exercise, in accordance with the provisions provided for by law, their preferential subscription right by irrevocable entitlement (*à titre irréductible*). The Board of Directors may furthermore grant to shareholders a preferential subscription right subject to pro rata reduction (*à titre réductible*), in proportion to their subscription rights and, in any case, limited to the number of securities requested.

According to Article L. 225-134 of the French Commercial Code, if the amount of subscriptions exercised by irrevocable entitlement (*à titre irréductible*) or subject to pro rata reduction (*à titre réductible*), if applicable, by request as described above, does not attain the amount of the entire issuance of ordinary shares or of securities giving access to the Company's share capital, the

Board of Directors may use, at its option and in the order it finds most favorable, one or more of the following options:

- limit the issuance to the amount of subscriptions received, provided this amounts to at least three quarters of the approved issuance;
- allocate at its discretion all or part of the unsubscribed securities;
- offer to the public, on the French or international market, all or part of the unsubscribed securities.

The Shareholders' General Meeting acknowledges that this delegation entails *ipso jure* the waiver by the shareholders of their preferential subscription right to the Company's ordinary shares, to which the securities that would be issued on the basis of this delegation would give right, for the benefit of the holders of securities giving access to the Company's share capital and issued by virtue of this delegation.

The Board of Directors shall have the necessary powers to carry out this resolution, determine the conditions of the issuance, and in particular, the form and characteristics of the securities to be created, to acknowledge the resulting increases in share capital, and to proceed with, as necessary, any adjustments to take into account the impact of the transactions on the Company's share capital, determine the terms and conditions according to which the preservation of the rights of the holders of securities giving access to the Company's share capital shall be ensured, in accordance with applicable legal, regulatory and contractual provisions, amend the by-laws accordingly, charge the fees and expenses to the issue premium and take generally all necessary measures.

In the event of an issuance of bonds, the Board of Directors shall have all powers to decide whether or not they are subordinated, to set their interest rate, duration, the fixed or variable redemption price with or without a premium, the terms and conditions for their redemption in accordance with market conditions and the conditions according to which these securities shall give access to the Company's share capital.

The Shareholders' General Meeting decides that in the case of an issuance of ordinary Company warrants (*bons de souscription d'actions*), included in the maximum limit mentioned in paragraph (a) above, the issuance may take place either by cash subscription according to the conditions provided for below, or by a free allocation to the holder of existing shares.

The Board of Directors will set the issuance price of the ordinary shares or securities giving access to the Company's share capital. The sum received immediately by the Company, increased, if applicable, by the sum that may be received at a later date by the Company, shall be at least equal to the nominal value for each ordinary share issued as of the issue date of said securities.

This delegation is granted for a 26-month period as from the date of this Shareholders' General Meeting and voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 23<sup>rd</sup> resolution.

## Fifteenth resolution

*(Delegation of authority to the Board of Directors to issue ordinary shares and securities giving access to the Company's share capital, without preferential subscription right of the shareholders, but with the obligation to grant a priority period)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the Board of Directors' report and the Special Report of the Statutory Auditors and acknowledged that the share capital is fully paid up, and acting in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-136, L. 228-91 and L. 228-92 of the French Commercial Code, delegates to the Board of Directors the authority to decide on the issuance, on one or more occasions, in the proportions and periods that it deems favorable, in France and abroad, either in euros or any foreign currency, through a public offering of (i) ordinary shares of the Company and (ii) securities giving access by any means, immediately and/or in the future, to the Company's share capital.

The Shareholders' General Meeting decides to waive the preferential subscription right of the shareholders to these ordinary shares and securities giving access to the Company's share capital to be issued with the understanding that the Board of Directors will be required to grant shareholders a right of priority to the totality of the issuance, depending on the timing and under the conditions fixed by the Board of Directors pursuant to the legal and regulatory provisions. This subscription priority will not create negotiable rights but may be exercised, by irrevocable entitlement (*à titre irréductible*) or subject to *pro rata* reduction (*à titre réductible*), if the Board of Directors decides that it is opportune.

The securities giving access to the Company's share capital so issued may consist of debt securities or be combined with the issuance of such securities or allow their issuance as intermediate securities. They may take on the form of subordinated or unsubordinated securities, with or without a fixed term, and issued in either euros or a foreign currency.

The Board of Directors may, in accordance with legal limits, delegate to the Chief Executive Officer, or with his approval, to one or more Co-Chief Operating Officers, the authority that is delegated to it pursuant to this resolution.

**a)** The maximum nominal amount of the increase in the Company's share capital resulting from all issuances realized either immediately and/or in the future pursuant to this delegation is fixed at € 37.8 million; this limit is the same for the capital increases by virtue of the delegations granted in the 16<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup> and 20<sup>th</sup> resolutions submitted to this Shareholders' General Meeting. The capital increases carried out pursuant to this delegation will be applied to the global maximum amount mentioned in paragraph (a) of the 14<sup>th</sup> resolution of this meeting.

It is noted that the limit indicated in paragraph (a) above is determined without having taken into account the nominal value of the ordinary shares of the Company to be issued, if applicable, pursuant to the adjustments made in order to preserve the interests of the holders of rights attached to securities giving access to the Company's share capital, in accordance with applicable legal and regulatory provisions and contractual stipulations. To this end, the Shareholders' General Meeting authorizes the Board of Directors, when necessary, to increase the share capital proportionately.

**b)** All issuances of debt securities giving access to the Company's share capital carried out by virtue of this delegation shall not exceed a limit of € 2 billion in nominal value (or the exchange value of this amount for an issuance in a foreign currency or monetary unit determined by a reference of several currencies); this limit is the same for all issuances of debt securities giving access to the Company's share capital, which may be carried out by virtue of the delegations granted in the 14<sup>th</sup>, 16<sup>th</sup> and 17<sup>th</sup> resolutions submitted to this Shareholders' General Meeting.

In calculating the limit set forth in paragraph (b) above, the exchange value in euros of the nominal value of the debt securities giving access to the Company's share capital issued in foreign currencies shall be determined on the date of the issuance.

The Shareholders' General Meeting acknowledges that this delegation entails, *ipso jure*, the waiver by the shareholders of their preferential subscription right to the Company's ordinary shares, to which the securities that would be issued on the basis of this delegation would give right, for the benefit of the holders of securities giving access to the Company's share capital, and issued by virtue of this delegation.

The Board of Directors shall have the necessary powers to implement this resolution, determine the conditions of the issuance, and in particular, the form and characteristics of the securities to be created, acknowledge the resulting increases in share capital, amend the by-laws accordingly, charge the fees and expenses to the issue premium and take generally all necessary measures. It is specified that:

- the issuance price of the ordinary shares shall be at least equal to the minimum value provided in the applicable legal and regulatory provisions at the time that this delegation is implemented, after adjustment of this amount, if necessary, to take into account the difference in the ex dividend date of the shares. At this date, the minimum price corresponds to the weighted average price of the last three trading sessions on Euronext preceding the fixing of the subscription price and possibly subject to a maximum of 5% reduction;

- the issuance price of the securities giving access to the Company's share capital shall be such that the sum received immediately by the Company increased, if applicable, by the sum that may be received at a later date by the Company for each ordinary share issued as a result of the issuance of securities shall be at least equal to the amount set forth in the preceding paragraph after adjustment, if necessary, of this amount to take into account the difference in the ex dividend date of the shares.

In the event of an issuance of bonds, the Board of Directors shall have all powers to decide whether or not they are subordinated,

to set their interest rate, duration, the fixed or variable redemption price with or without a premium, the terms and conditions for their redemption in accordance with market conditions and the conditions according to which these securities shall give access to the Company's share capital.

This delegation is granted for a 26-month period as from the date of this Shareholders' General Meeting and voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 24th resolution.

## Sixteenth resolution

*(Delegation of authority to the Board of Directors to increase the number of securities to be issued in the event of a capital increase with or without preferential subscription right of the shareholders)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the Board of Directors' report and the Special Report of the Statutory Auditors, and acting in accordance with Article L. 225-135-1 of the French Commercial Code, delegates to the Board of Directors its authority to increase the number of securities to be issued, for any issuance approved by virtue of the above 14<sup>th</sup> and 15<sup>th</sup> resolutions, in accordance with the conditions of the abovementioned Article L. 225-135-1, up to a maximum of 15% of the initial issue and at the same price as that used for the initial issue.

The Shareholders' General Meeting decides that the amount of the capital increases that may be carried out pursuant to this

delegation will be applied to the capital increase limits stipulated in the 14<sup>th</sup> and 15<sup>th</sup> resolutions of this Shareholders' General Meeting.

The Board of Directors may delegate, in accordance with legal provisions, the power granted to it pursuant to this resolution to the Chief Executive Officer or, with his approval, to one or more Co-Chief Operating Officers.

This delegation is granted for a 26-month period as from the date of this Shareholders' General Meeting and voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 25th resolution.

## Seventeenth resolution

*(Delegation of authority to the Board of Directors to issue ordinary shares and securities giving access to the Company's share capital in the event of a public exchange offer initiated by the Company)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the Board of Directors' report and the Special Report of the Statutory Auditors, and acting in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-148, L. 228-91 and L. 228-92 of the French Commercial Code, delegates to the Board of Directors the authority to decide on the issuance of the Company's ordinary shares or securities giving access, by any means, immediately and/or in the future, to existing ordinary shares or shares to be issued by the Company, in consideration for securities tendered in a public exchange offer initiated by the Company in France or outside of France, according to local law, for another company's securities which are listed on one of the regulated markets provided in the above-mentioned Article L. 225-148, and decides, to the extent

necessary, to waive the shareholders' preferential subscription right to the ordinary shares and securities to be issued for the benefit of the holders of these securities.

The Board of Directors may, within legal limits, delegate to the Chief Executive Officer, or with his approval, to one or more Co-Chief Operating Officers, the authority to carry out or to postpone the share capital increase.

The Shareholders' General Meeting acknowledges that this delegation entails, *ipso jure*, the waiver by the shareholders of their preferential subscription rights to the Company's ordinary shares, to which the securities that will be issued pursuant to this delegation may give right, for the benefit of the holders of securities giving access to the Company's share capital issued by virtue of this delegation.

- a) The maximum nominal amount of the increase in the Company's share capital resulting from all issuances realized either immediately and/or in the future pursuant to this delegation is fixed at an amount of € 24 million, it being specified that the share capital increases that may be carried out as a result of this delegation must comply with the limits provided for in the 14<sup>th</sup> and 15<sup>th</sup> resolutions submitted to this Shareholders' General Meeting.
- b) All issuances of debt securities giving access to the Company's share capital carried out by virtue of this delegation shall not exceed a limit of € 2 billion in nominal value (or the exchange value of this amount for an issuance in a foreign currency or monetary unit determined by reference to several currencies); this limit is the same for all issuances of debt securities giving access to the Company's share capital, which may be carried out by virtue of the delegations granted in the 14<sup>th</sup>, 15<sup>th</sup> and 16<sup>th</sup> resolutions submitted to this Shareholders' General Meeting.

The Shareholders' General Meeting grants to the Board of Directors all necessary powers to carry out the issuances of ordinary shares and/or securities in consideration for the tendered shares pursuant to the abovementioned public exchange offers, in particular for:

- in the case of an issuance of securities as consideration for securities in an exchange offer (*offre publique d'échange* (OPE)), determine the list of securities to be exchanged, determine the

conditions of the issuance, the exchange parity as well as, if applicable, the amount of cash and determine the terms of the issuance in the context of an exchange offer, or an alternative tender or exchange offer, either a single tender or exchange offer for securities in exchange for shares and cash, or a principal public tender offer or exchange offer, together with a subsidiary exchange offer or tender offer, or an exchange offer carried out in France or outside of France according to local law (for example, in connection with a reverse merger in the United States) relating to securities meeting the conditions provided for in Article L. 225-148 of the French Commercial Code, or any other form of public offer in conformity with the laws and regulations applicable to the such public offer;

- determine the dates, conditions of issuance, notably the price and dividend entitlement date of new ordinary shares or, if need be, of securities giving access to the Company's capital;
- record as liabilities in the balance sheet in an "additional paid-in capital" account, to which all shareholders have rights, the difference between the issue price of new ordinary shares and their nominal value;
- charge, if the need arises, all expenses and rights incurred by such transaction to the "additional paid-in capital" account.

This delegation is granted for a 26-month period as from the date of this Shareholders' General Meeting and voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 26<sup>th</sup> resolution.

## Eighteenth resolution

*(Delegation of powers to the Board of Directors to issue ordinary shares in consideration for the contributions-in-kind granted to the Company and comprised of equity securities or securities giving access to share capital)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the Board of Directors' report and the Special Report of the Statutory Auditors, and acting in accordance with Articles L. 225-147 of the French Commercial Code, delegates to the Board of Directors the powers necessary to decide on, within the limit of 10% of the Company's share capital, according to the report of the special auditor(s) as provided in the 1st and 2nd paragraphs of the above-mentioned Article L. 225-147, the issuance of the Company's ordinary shares in consideration for the contributions-in-kind granted to the Company and comprised of equity securities or securities giving access to share capital, when the provisions of Article L. 225-148 of the French Commercial Code are not applicable, and decides, to the extent necessary, to waive, for the benefit of the holders of these securities, which are the object of these contributions-in-kind, the shareholders' preferential subscription right to the ordinary shares to be issued.

In addition to the legal limit of 10% of the Company's share capital provided in Article L. 225-147 of the French Commercial Code, the issuances carried out by virtue of this delegation should

comply with the limits set forth in paragraphs (a) and (b) of the 14<sup>th</sup> and 15<sup>th</sup> resolutions submitted for approval to this Shareholders' General Meeting.

The Board of Directors shall have full power, with the ability to subdelegate in accordance with legal provisions, to implement this resolution, in particular:

- to examine the report of the special auditor(s) as described in the 1st and 2nd paragraphs of the above-mentioned Article L. 225-147 on his or their assessment of the contributions and the grant of certain advantages and their values;
- to acknowledge the completion of the capital increases carried out by virtue of this delegation, amend the by-laws accordingly, carry out all necessary formalities and request all authorizations for the realization of these contributions, and to take generally all necessary measures.

This delegation is granted for a 26-month period as from the date of this Shareholders' General Meeting and voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 27<sup>th</sup> resolution.



## Nineteenth resolution

*(Delegation of authority to the Board of Directors to increase the Company's share capital through incorporation of reserves, profits, premiums or any other amounts that may be capitalized)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the Board of Directors' report, and acting in accordance with Articles L. 225-129 to L. 225-129-6 and L. 225-130 of the French Commercial Code, delegates to the Board of Directors the authority to decide on increasing the share capital, on one or more occasions, at the times and under the conditions that it deems favorable, through the incorporation of reserves, profits, premiums or any other amounts that may be capitalized, followed by the issuance and the free allocation of shares or the increase of the nominal value of the existing ordinary shares, or any combination of these two methods.

The Board of Directors may delegate, in accordance with legal provisions, the authority granted to it pursuant to this resolution to the Chief Executive Officer or, with his approval, to one or more Co-Chief Operating Officers, to decide to issue shares and to allocate shares free of charge, as well as to postpone such action.

The Shareholders' General Meeting decides that rights corresponding to fractional shares may neither be negotiable nor transferable and that the corresponding shares shall be sold. The amounts from the sale shall be distributed to the holders of the rights within the applicable legal time period.

The maximum nominal amount of the increase of share capital that may be achieved, immediately or in the future, pursuant to this resolution is fixed at € 41.6 million. This limit is set (i) without taking into account the nominal value of the Company's ordinary shares to be issued, if applicable, in relation to the adjustments carried out in order to protect the interests of holders of rights attached to the securities that shall be issued on the basis of this delegation, in accordance with legal and regulatory requirements

as well as applicable contractual provisions and (ii) independently from the limits on the share capital increases resulting from the issuances of the ordinary shares or securities giving access to the Company's share capital as authorized in the 14<sup>th</sup>, 15<sup>th</sup>, 16<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup> and 20<sup>th</sup> resolutions submitted to this Shareholders' General Meeting.

The Shareholders' General Meeting grants full authorization to the Board of Directors to implement this resolution, particularly with respect to:

- determining the terms and conditions of the authorized transactions and particularly deciding on the amount and the nature of the reserves and premiums to incorporate into the share capital, determining the number of new shares to issue or the amount to which the nominal value of the existing shares comprising the share capital will be increased, deciding on the ex dividend date (even retroactive) of the new shares or the date on which the increase in their nominal value will take effect;
- taking all necessary measures to protect the rights of the holders of securities giving access to the Company's share capital on the day of the capital increase;
- acknowledging the capital increase resulting from the issuance of shares; amending the by-laws accordingly and carrying out all necessary publicity formalities;
- and generally taking all measures and completing all formalities required to ensure the success of each capital increase.

This delegation is granted for a 26-month period as from the date of this Shareholders' General Meeting and voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 28th resolution.

## Twentieth resolution

*(Delegation of authority to the Board of Directors to increase the share capital in favor of employees who are members of a company's savings plan and/or to carry out reserved sales of securities)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the report of the Board of Directors as well as the Special Report from the Statutory Auditors, and acting in accordance with Articles L. 225-129-2, L. 225-129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-1 *et seq.* of the French Labor Code (*Code du travail*), delegates to the Board of Directors the authority to decide to increase the Company's share capital, on one or more occasions, at the times and under the conditions that it deems favorable, through the issuance of ordinary shares or securities giving access to ordinary shares reserved for the members subscribing to a company savings plan of the Company or of companies, French or foreign, related to the Company according to Articles L. 225-180 of the French Commercial Code and L. 3344-1 of the French Labor Code.

The maximum nominal amount of the increase of the Company's share capital that may be achieved pursuant to this resolution may not exceed the nominal amount of € 3.7 million, with the stipulation that the issues carried out pursuant to this delegation must comply with the limits stipulated in paragraph (a) of the 14<sup>th</sup> and 15<sup>th</sup> resolutions submitted to this Shareholders' General Meeting.

The Shareholders' General Meeting decides to waive in favor of the beneficiaries, as defined above, the shareholders' preferential subscription right to the ordinary shares or securities giving access to ordinary shares to be issued according to this resolution and to waive any right to the shares or other securities allocated free of charge on the basis of this delegation.

The Shareholders' General Meeting decides to set the discount offered under the Company's savings plan at 20% of the average of the Company's opening share prices listed on Euronext during the twenty trading sessions preceding the date of the decision setting the opening date for subscription. While this delegation is being implemented, the Board of Directors may decrease the amount of the discount on a case-by-case basis only for reasons of legal, tax or social constraints that may be applicable outside of France, in any of the countries in which the Group's entities employing the employees participating in the share capital increases are located. The Board of Directors may also decide to substitute the discount with a grant of bonus shares for subscribers of new shares.

The Shareholders' General Meeting grants the Board of Directors full power in implementing this resolution, particularly in regards to:

- determining the characteristics, the amount and terms of each issuance of shares or securities giving access to ordinary shares;
- determining if the subscriptions may be made directly by the beneficiaries or through a collective investment undertaking, and in particular through an employee savings plan (an "FCPE");
- determining the terms and conditions of paying up the issued securities;
- setting the ex dividend date of the shares;
- setting the opening and closing dates of the subscriptions, and deciding in general on all other conditions of each issuance;
- at its sole discretion and if it deems necessary, charging the expenses of capital increases to the amount of the premiums associated to these increases, and deducting from this amount the sums needed to bring the legal reserve to one-tenth of the new capital after each share capital increase;
- acknowledging one or more share capital increases through the issuance of ordinary shares up to the amount of ordinary shares that shall be subscribed, taking all measures necessary to carry out such increases, completing the subsequent formalities, in particular those related to the listing of the securities created, amending the by-laws accordingly, and generally taking all necessary measures.

The Board of Directors may delegate, in accordance with legal provisions, the authority granted to it pursuant to this resolution to the Chief Executive Officer or, with his approval, to one or more Co-Chief Operating Officers.

Pursuant to applicable legal provisions, the transactions planned in this resolution may also take the form of the selling of shares to members of a company savings plan.

This delegation is granted for a 26-month period as from the date of this Shareholders' General Meeting and voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 29<sup>th</sup> resolution.

## Twenty-first resolution

*(Authorization granted to the Board of Directors to reduce the share capital by canceling shares)*

The Shareholders' General Meeting, acting under the conditions of quorum and majority required for Shareholders' Extraordinary General Meetings, having reviewed the report of the Board of Directors as well as the Special Report of the Statutory Auditors, and acting in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code:

1. authorizes the Board of Directors to reduce the Company's share capital by canceling, on one or more occasions, within the limit of 10% of the Company's share capital on the date of this Shareholders' General Meeting and by 24-month periods, all or part of the Company's shares that the Company holds or may acquire within the framework of share buy-back programs authorized by the Shareholders' General Meeting;

2. decides that the excess of the repurchase price of the shares over their par value shall be charged to the "Additional paid-in capital" account or to any other available reserve account, including the legal reserve, within the limit of 10% of the reduction of share capital achieved; and
3. delegates full power to the Board of Directors, with the ability to subdelegate in accordance with legal provisions, to carry out, on its sole decision, the cancellation of shares thus acquired, to proceed with the resulting reduction of share capital, and the aforementioned deduction, as well as to modify Article 6 of the by-laws accordingly.

This authorization is granted for a 24-month period as from the date of this Shareholders' General Meeting and voids and replaces any previous authorization granted by the Shareholders' General Meeting of April 23, 2009 in its 32<sup>nd</sup> resolution.

## Twenty-second resolution

*(Powers to effect formalities)*

The Shareholders' General Meeting gives full authorization to any bearer of an original, a copy or an excerpt of these minutes to

make all legal and administrative formalities and carry out all filings and any publicity required by law.



## 9.3 Comments on the resolutions submitted to the Shareholders' General Meeting

### Approval of the Company and consolidated financial statements for the year ended December 31, 2010 (1<sup>st</sup> and 2<sup>nd</sup> resolutions)

We request that you approve the Company and consolidated financial statements for the year ended December 31, 2010.

#### Allocation of income (3<sup>rd</sup> resolution)

We request that you:

- note that the net income for the 2010 fiscal year amounts to € 909,853,144.01;
- note that retained earnings are equal to € 3,744,461,736.83;
- therefore corresponding to an available amount for the distribution of income of € 4,654,314,880.84;
- decide to allocate the total thus calculated between:
  - the legal reserve in the amount of € 23,274.75,
  - a dividend in the amount of € 842,298,392.00,

- and retained earnings in the amount of € 3,811,993,214.09.

The sum of € 842,298,392.00 divided among the shareholders will be eligible for the 40% tax reduction provided for in Article 158-3 2 of the French Tax Code, in payment of a dividend of € 1.30 per share.

The shares will be declared ex-dividend on May 10, 2011, with the dividend relative to fiscal year 2010 payable as of May 13, 2011.

In accordance with Article L. 225-210 of the French Commercial Code, dividends on any treasury stock held on the payment date will be allocated to retained earnings.

#### DIVIDENDS PAID IN RESPECT OF THE LAST THREE FISCAL YEARS

Fiscal year	Number of shares	Dividend paid <sup>(1)</sup>
2007	512,851,460	1.1
2008	513,802,144	1.2 <sup>(2)</sup>
2009	646,990,850	1.2

(1) Distribution fully eligible for the 40% reduction.

(2) With the option of payment of the dividend in shares.

### Ratification and renewal of the tenure of Directors (4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> resolutions)

We request that you ratify the appointment of Mr. Yoshihiro KAWABATA, which was approved by the Board of Directors' meeting of April 22, 2010, to replace Mr. Naomasa TSURITANI, who is stepping down as a Director, for the remainder of his term, i.e. until the close of the Shareholders' General Meeting called to approve the 2010 financial statements.

We are also asking you to renew the tenures of Mr. Bruno BONNELL, Mr. Bernard HOURS, Mr. Yoshihiro KAWABATA and Mr. Jacques VINCENT as Directors for the standard terms of three years. Their terms would expire at the close of the Shareholders' General Meeting called to approve the 2013 financial statements.

## Appointment of two new Directors (9<sup>th</sup> and 10<sup>th</sup> resolutions)

We request that you appoint Mrs. Isabelle SEILLIER and Mr. Jean-Michel SEVERINO as Directors for the standard term of three years. Their terms would expire at the close of the Shareholders' General Meeting called to approve the 2013 financial statements.

The Board of Directors, acting on the advice of its Nomination and Compensation Committee, reviewed the situation of Mrs. Isabelle SEILLIER and Mr. Jean-Michel SEVERINO with respect to the Group's Corporate Governance Code (the AFEP-MEDEF Code) and concluded that:

- Mrs. Isabelle SEILLIER should be considered a "non-independent" Director of the Board. Indeed,

Mrs. Isabelle SEILLIER holds an executive position in JP Morgan Chase banking group, which is among the banks which provide regular services to the Danone group; and

- Mr. Jean-Michel SEVERINO should be considered an "independent" Director as he satisfies to all of the independence criteria applied by the Board.

This list of positions and responsibilities held by Mrs. Isabelle SEILLIER and Mr. Jean-Michel SEVERINO as of December 31, 2010, as well as during the past five years, appears in Appendix 11.2 – Positions and responsibilities held by Directors.

## Approval of the agreements referred to in the special report of the Statutory Auditors (11<sup>th</sup> resolution)

We are asking you to approve the agreements described in the special report of the Statutory Auditors on the agreements referred to in Articles L. 228-38 *et seq.* of the French Commercial Code, with the exception of the agreement addressed in resolution 12.

We would like to point out that only one new agreement (other than the one addressed in resolution 12) was entered into during the 2010 fiscal year and until the date at which the 2010 financial statements were closed: a contribution-in-kind transaction

authorized by the Board of Directors as part of an internal reorganization, by which the Company contributes its stake in Danone Baby and Medical Nutrition BV to Danone Baby and Medical Holding.

This agreement is described in the special report of the Statutory Auditors on related party transactions and undertakings, in Section 5.4.

## Approval of related party transactions and undertakings involving an executive director and officer (*mandataire social*) of the Company (12<sup>th</sup> resolution)

Upon recommendation of the Nomination and Compensation Committee, your Board of Directors has decided to renew the rights to compensation for termination of office of Mr. Bernard HOURS in a manner strictly identical to that set by the Board of Directors' meeting of February 10, 2010 and approved by the Shareholders' General Meeting of April 22, 2010.

These agreements and undertakings are described in the special report of the Statutory Auditors (see Section 5.4).

## Purchase by the Company of its own shares (13<sup>th</sup> resolution)

It appears appropriate for your Board to continue to have the authority to purchase shares of the Company.

We are therefore asking you to authorize your Board to purchase, retain or transfer the Company's shares, within the context of a share repurchase program, pursuant to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code and European Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

The purchase of the Company's shares may be executed for the purpose of:

- the allocation of share purchase options to the Group's employees and to executive directors and officers (*mandataires sociaux*);
- the allocation of bonus shares to employees and to executive directors and officers (*mandataires sociaux*);
- the sale of shares to employees (either directly or through an employee savings mutual fund (FCPE)) within the context of employee shareholding plans or savings plans;

- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the subsequent delivery of shares as payment or for exchange in the context of acquisitions;
- the cancellation of shares, within the maximum legal limit; or
- supporting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

These transactions may be carried out at any time other than during periods of tender offers on the Company's stock. The maximum number of shares that could be repurchased would represent 10% of the share capital, or 64,792,184 shares as of December 31, 2010, at a maximum purchase price of € 65, resulting in a maximum theoretical total purchase amount of € 4,211,491,960. The latter figure is for information purposes only, as it does not include shares already held by the Company.

This authorization is given for a period of 18 months as from the present Shareholders' General Meeting.

## Delegation of authority to the Board of Directors to issue ordinary shares and securities giving access to the Company's share capital, with preferential subscription right of the shareholders (14<sup>th</sup> resolution)

We request that you renew the delegation of authority to your Board of Directors, for a 26-month period, to decide on the issuance of, **with preferential subscription right of the shareholders**, ordinary shares of the Company or securities giving access, immediately and/or in the future, to the Company's share capital.

In comparison with the preceding authorization which had been granted by the Shareholders' General Meeting in 2009 and that is soon to expire, the maximum amounts of this new authorization are as follows:

(i) for the ordinary shares to be issued by the Company:

a nominal amount of € 56.5 million (representing approximately **34.9% of the share capital, nearly unchanged from the 35% threshold authorized by the Shareholders' General Meeting of April 23, 2009**), it being specified that the nominal amount of ordinary shares issued under the 15<sup>th</sup> resolution (dilutive issuance without preferential subscription right of the shareholders, but

with the obligation to grant a priority period), 16<sup>th</sup> resolution (authorization to increase the number of securities to be issued), 17<sup>th</sup> resolution (dilutive issuance in the event of a public exchange offer), 18<sup>th</sup> resolution (dilutive issuance in consideration for contributions in kind) and 20<sup>th</sup> resolution (dilutive issuance in order to carry out capital increases reserved for employees) will be applied to this maximum amount; and

(ii) for securities giving access to the Company's share capital:

**an amount of € 2 billion** (unchanged from the amount authorized by the Shareholders' General Meeting of April 23, 2009) (maximum amount shared with the 15<sup>th</sup>, 16<sup>th</sup> and 17<sup>th</sup> resolutions).

**Pursuant to the above-mentioned authorization approved by your 2009 Shareholders' General Meeting, a nominal amount of € 30,809,088 was used.**

This new authorization would void and replace the 23<sup>rd</sup> resolution approved by the Shareholders' General Meeting of April 23, 2009.

## Authorization granted to the Board of Directors to issue ordinary shares and securities giving access to the Company's share capital, without preferential subscription right of the shareholders, but with the obligation to grant a priority period (15<sup>th</sup> resolution)

We also request that you renew the authorization granted to the Board of Directors, for a 26-month period, in order to issue ordinary shares of the Company or securities giving access, immediately and/or in the future, to the Company's share capital, **without preferential subscription right of the shareholders**, and by public offering, both in France and outside of France. When using this authorization, **a right of priority to the totality of the issuance must be granted to existing shareholders** (this right of priority will not create negotiable rights).

In comparison with the preceding authorization which had been granted by the Shareholders' General Meeting in 2009 and that is soon to expire, the maximum amounts of this new authorization are as follows:

(i) for the ordinary shares to be issued by the Company:

**a nominal amount of € 37.8 million** (representing approximately **23.3% of the share capital, nearly unchanged from the 23.4% threshold authorized by the Shareholders' General Meeting of April 23, 2009**), it being specified that (i) the nominal amount of ordinary shares issued under the 16<sup>th</sup> resolution (authorization to increase the number of securities to be issued), 17<sup>th</sup> resolution (dilutive issuance in the event of a public exchange offer), 18<sup>th</sup> resolution (dilutive issuance in consideration for

contributions in kind) and 20<sup>th</sup> resolution (dilutive issuance in order to carry out capital increases reserved for employees) will be applied to this maximum amount and (ii) this maximum amount will be applied to the global threshold of € 56.5 million set forth in the 14<sup>th</sup> resolution (non dilutive issuances with preferential subscription right of the shareholders); and

(ii) for securities giving access to the Company's share capital:

**an amount of € 2 billion** (unchanged from the amount authorized by the Shareholders' General Meeting of April 23, 2009) (maximum amount shared with the 14<sup>th</sup>, 16<sup>th</sup> and 17<sup>th</sup> resolutions).

Pursuant to the applicable legal and regulatory provisions, the issuance price of the ordinary shares and securities giving access to the Company's share capital shall be at least equal to the weighted average price of the Company share during the last three trading sessions on Euronext preceding the fixing of the issuance price, possibly subject to a 5% reduction.

**No amount was used for the preceding authorization granted by your Shareholders' General Meeting in 2009.**

This new authorization voids and replaces the authorization granted by the Shareholders' General Meeting of April 23, 2009 in its 24<sup>th</sup> resolution.

## Authorization granted to the Board of Directors to increase the number of securities to be issued in the event of a capital increase with or without preferential subscription right of the shareholders (16<sup>th</sup> resolution)

Due to the volatile current market conditions, it appeared advisable to your Board to renew, for a 26-month period, the authorization granted to the Board of Directors to increase the number of securities to be issued, for each of the issuances decided in application of the preceding 14<sup>th</sup> resolution (non dilutive issuances with preferential subscription right of the shareholders) and 15<sup>th</sup> resolution (dilutive issuances without preferential subscription right of the shareholders, but with the obligation to grant a priority period), in accordance with the conditions set in Article L. 225-135-1 of the French Commercial Code, and within a limit of **15%**

**of the initial issuance** and at the same price as that used for that issuance. Please note that this authorization will not result in the increase of the respective maximum amounts provided for in these two resolutions.

**No amount was used for the preceding authorization granted by your Shareholders' General Meeting in 2009.**

This new authorization voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 25<sup>th</sup> resolution.

## Delegation of authority to the Board of Directors to issue ordinary shares and securities giving access to the Company's share capital in the event of a public exchange offer initiated by the Company (17<sup>th</sup> resolution)

We request that you renew the delegation of authority to your Board of Directors, for a 26-month period, in order to issue ordinary shares or securities giving access to the Company's share capital, in the event of a public exchange offer initiated by the Company for another company's securities which are listed on a regulated market.

Maintaining this authorization appeared necessary to your Board as it allows your Company to maintain its capacity to acquire medium-sized holdings in companies listed on a regulated market and to finance these acquisitions in shares (rather than through indebtedness).

The issuance of ordinary shares or corresponding securities would be carried out without preferential subscription right of the shareholders.

In comparison with the preceding authorization which had been granted by the Shareholders' General Meeting in 2009 and that is soon to expire, the maximum amounts of this new authorization are as follows:

(i) for the ordinary shares to be issued by the Company:

**a nominal amount of € 24 million** (representing approximately **14.8% of the share capital, reduced relative to the 19.46% threshold authorized by the Shareholders' General Meeting of April 23, 2009**), it being specified that **issuances made pursuant to this authorization must comply with the thresholds set forth in the 14<sup>th</sup> resolution** (non dilutive

issuances with preferential subscription right of the shareholders) and 15<sup>th</sup> resolution (dilutive issuances without preferential subscription rights but with the obligation to grant a priority period); and

(ii) for securities giving access to the Company's share capital:

**an amount of € 2 billion** (unchanged from the amount authorized by the Shareholders' General Meeting of April 23, 2009) (shared amount with the 14<sup>th</sup> resolution (non-dilutive issuances with preferred subscription rights), 15<sup>th</sup> resolution (dilutive issuances without preferential subscription right of the shareholders, but with the obligation to grant a priority period) and 16<sup>th</sup> resolution (authorization to increase the number of securities to be issued).

**No amount was used for the preceding delegation authorized by your Shareholders' General Meeting in 2009.**

Your Board of Directors will be responsible for determining, for each offer, the nature and characteristics of the securities to be issued, the amount of the capital increase depending on the result of the offer and on the number of securities of the target company presented to the exchange, taking into consideration the fixed rates of exchange and the shares or issued securities giving access to the share capital.

This new delegation voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 26<sup>th</sup> resolution.

## Delegation of powers to the Board of Directors to issue ordinary shares, in consideration for the contributions-in-kind granted to the Company and comprised of equity securities or securities giving access to share capital (18<sup>th</sup> resolution)

It is proposed to your Shareholders' General Meeting to renew, for a 26-month period, the authorization granted to the Board of Directors to decide on the issuance of ordinary shares or securities giving access to the Company's share capital, within the limit of 10% of the Company's capital, in consideration for the contributions-in-kind granted to the Company and comprised of equity securities or securities giving access to share capital.

Maintaining this authorization appeared necessary to your Board as it allows your Company to maintain its capacity to acquire holdings in non listed companies and to finance these acquisitions in shares (rather than through indebtedness).

The issuance of ordinary shares or securities giving access to the Company's share capital would be carried out without preferential subscription right of the shareholders.

In addition to the legal limit of **10% of the share capital**, the issuances carried out by virtue of this authorization must comply with the limits set forth in paragraphs (a) of the 14<sup>th</sup> resolution (non-dilutive issuances with preferred subscription rights) and the 15<sup>th</sup> resolution (dilutive issuances without preferential subscription right of the shareholders, but with the obligation to grant a priority period).

**No amount was used pursuant to the preceding authorization granted by your Shareholders' General Meeting in 2009.**

This new authorization voids and replaces the authorization granted by the Shareholders' General Meeting of April 23, 2009 in its 27<sup>th</sup> resolution.

## Delegation of authority to the Board of Directors to increase the Company's share capital through incorporation of reserves, profits, premiums or any other amounts that may be capitalized (19<sup>th</sup> resolution)

It is proposed to your Shareholders' General Meeting to delegate, for a 26-month period, to the Board of Directors the authority to decide to increase the share capital, on one or more occasions, at the times and under the conditions that it deems favorable, through the incorporation of reserves, profits, premiums or any other amounts that may be capitalized, followed by the issuance and the free allocation of shares and/or the increase of the nominal value of the existing ordinary shares.

The maximum nominal amount of issuances under this authorization is **€ 41.6 million, representing approximately 25.68% of the share capital, nearly unchanged from the 25.69% threshold authorized by the Shareholders' General Meeting of April 23, 2009**, it being specified that this maximum amount is independent of the limits set by the preceding 14<sup>th</sup> resolution (non-dilutive issuances with preferred subscription

rights), 15<sup>th</sup> resolution (dilutive issuances without preferential subscription right of the shareholders, but with the obligation to grant a priority period), 16<sup>th</sup> resolution (authorization to increase the number of securities to be issued), 17<sup>th</sup> resolution (dilutive issuance in the event of a public exchange offer), 18<sup>th</sup> resolution (dilutive issuance in consideration for contributions in kind) and 20<sup>th</sup> resolution (dilutive issuance in order to carry out capital increases reserved for employees) submitted to the present Shareholders' General Meeting.

**No amount was used for the preceding delegation granted by your Shareholders' General Meeting in 2009.**

This new delegation voids and replaces the delegation granted by the Shareholders' General Meeting of April 23, 2009 in its 28<sup>th</sup> resolution.

## Delegation of authority to the Board of Directors to increase the share capital in favor of employees who are members of a company savings plan and/or to carry out reserved sales of securities (20<sup>th</sup> resolution)

It is requested that you renew the delegation of authority granted to the Board of Directors, for a 26-month period, to decide to increase the Company's share capital through the issuance of ordinary shares, or securities giving access to ordinary shares, of your Company and reserved for the members subscribing to a

company savings plan of the Company or of companies, French or foreign, related to the Company according to Articles L. 225-180 of the French Commercial Code and L. 3344-1 of the French Labor Code.



The maximum nominal amount of the increase of the Company's share capital that may be achieved pursuant to this new authorization is **€ 3.7 million**. This limit represents approximately **2.28% of the share capital as of December 31, 2010, nearly unchanged from the 2.3% threshold authorized by the Shareholders' General Meeting of April 23, 2009**, it being specified that the issuances carried out under this authorization must comply with the thresholds set forth in paragraphs (a) of the 14<sup>th</sup> resolution (non-dilutive issuances with preferred subscription rights) and the 15<sup>th</sup> resolution (dilutive issuances without preferential subscription right of the shareholders, but with the obligation to grant a priority period).

Furthermore, as of December 31, 2010, employees held 8,984,242 shares, mainly through the "Fonds Danone" FCPE, representing approximately 1.39% of the Company's share capital.

The issuance of ordinary shares would be carried out without shareholder preferential subscription rights.

The discount offered within the framework of the company's savings plan would be set at 20% of the average of the opening prices of the Danone share listed on Euronext Paris during the 20 trading sessions preceding the date of the decision setting the opening date for subscription. It is specified that, while this

delegation is being implemented, the Board of Directors may only lower the amount of the discount on a case-by-case basis for reasons of legal, tax or social constraints that may be applicable outside of France, in any of the countries in which the Group's entities who employ the employees participating in the share capital increases are located. The Board of Directors may also decide to grant bonus shares to subscribers of new shares instead of a discount.

Pursuant to applicable legal provisions, the transactions planned in this resolution may also take the form of the selling of shares to members of a company savings plan.

Under the previous delegation of authority granted by your Shareholders' General Meeting in 2009, a capital increase in the nominal amount of € 232,747.50 was executed in 2010 upon the decision of the Board of Directors of February 10, 2010 (representing approximately 7.76% of the authorized total nominal amount), leaving an available balance of € 2,767,252.5 as of December 31, 2010, which will be drawn down by a new share capital increase contemplated in May 2011 reserved for employees participating in a company savings plan and decided by the Board of Directors of February 14, 2011.

This new authorization voids and replaces the 29th resolution approved by the Shareholders' General Meeting of April 23, 2009.

## Authorization granted to the Board of Directors to reduce the share capital by cancelling shares (21<sup>st</sup> resolution)

We request that you renew the delegation of authority to your Board of Directors, for a 24-month period, to reduce the share capital by cancelling, on one or more occasions, within the limit of **10% of the share capital** and by 24-month periods, all or part of the Company's shares that the Company holds or may acquire within the framework of share repurchase programs authorized by the Shareholders' General Meeting.

Under the previous authorization granted by your Shareholders' General Meeting in 2009, the Company did not implement any share cancellations.

This new authorization voids and replaces the 32nd resolution approved by the Shareholders' General Meeting of April 23, 2009.

## 9.4 Special reports of the Statutory Auditors presented at the Shareholders' General Meeting of April 28, 2011

### Statutory Auditors' special report on the authorizations to issue shares and marketable securities with or without cancellation of preferential subscription rights

#### SHAREHOLDERS' GENERAL MEETING OF APRIL 28, 2011

##### (14<sup>th</sup>, 15<sup>th</sup>, 16<sup>th</sup>, 17<sup>th</sup> and 18<sup>th</sup> resolutions)

To the Shareholders,

In our capacity as Statutory Auditor of your Company and pursuant to the provisions of the French Commercial Code (*Code de commerce*) and notably Articles L. 225-135, L. 225-136 and L. 228-92, we hereby present our report on the proposed delegations to the Board of Directors of different issuances of ordinary shares and marketable securities, as presented in the 14<sup>th</sup>, 15<sup>th</sup>, 16<sup>th</sup>, 17<sup>th</sup> and 18<sup>th</sup> resolutions, upon which you are called to vote.

Your Board of Directors requests, on the basis of its report:

- that it be delegated the authority, for a 26-month period, to decide on the following transactions and set the final terms and conditions of these issuances, and also proposes, if applicable, to cancel your preferential subscription rights:
  - issuance of ordinary shares and marketable securities giving access to the share capital, and/or giving right to the allocation of debt securities, without cancellation of preferential subscription right; these marketable securities may consist of debt securities or be combined with the issuance of such securities or allow their issuance as intermediate securities (14<sup>th</sup> resolution),
  - issuance of ordinary shares and marketable securities giving access to the share capital, and/or giving right to the allocation of debt securities, with cancellation of preferential subscription right, but with the obligation to grant a priority right, through a public offering; these marketable securities may consist of debt securities or be combined with the issuance of such securities or allow their issuance as intermediate securities (15<sup>th</sup> resolution),
  - issuance of ordinary shares and marketable securities giving access to ordinary shares in the event of a public exchange offer initiated by the Company (17<sup>th</sup> resolution);
- that it be empowered, for a 26-month period, to determine the terms and conditions of an issuance of ordinary shares, in consideration for the contributions in-kind granted to the Company and comprised of equity securities or marketable securities giving access to the share capital (18<sup>th</sup> resolution), within the limit of 10% of the share capital.

The maximum nominal amount of the increases of the share capital resulting from all issuances that can be implemented immediately or at a later date may not exceed:

- € 56.5 million, pursuant to the 14<sup>th</sup> resolution,
- € 37.8 million pursuant to the 15<sup>th</sup> resolution, it being specified that this limit is the same for the capital increases by virtue of the delegations granted in the 16<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup> and 20<sup>th</sup> resolutions,
- € 24 million pursuant to the 17<sup>th</sup> resolution, it being specified that this amount must comply with the limits provided for in the 14<sup>th</sup> and 15<sup>th</sup> resolutions.

These amounts will all be applied to the global maximum amount of € 56.5 million pursuant to the 14<sup>th</sup> resolution.

The total nominal amount of debt securities that may be issued shall not exceed € 2 billion for the 14<sup>th</sup>, 15<sup>th</sup>, 16<sup>th</sup> and 17<sup>th</sup> resolutions.

The number of securities to be issued for any issuance approved by virtue of the 14<sup>th</sup> and 15<sup>th</sup> resolutions can be increased in the conditions provided for in Article L. 225-135-1 of the French Commercial Code, if you adopt the 16<sup>th</sup> resolution.

It is the responsibility of the Board of Directors to prepare a report in accordance with Articles R. 225-113, R. 225-114 and R. 225-117 of the French Commercial Code. Our role is to report on the fairness of the financial information taken from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information relating to the transactions provided in the report.



We have performed the procedures that we deemed necessary in accordance with the professional guidance issued by the French Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) for this type of assignment. Those procedures consisted in verifying the information provided in the Board of Directors' report in respect of these transactions and the terms and conditions governing the determination of the issue price of securities to be issued.

Subject to a subsequent review of the terms and conditions for the issuances that may be decided, we have no matters to report on the terms and conditions governing the determination of the issue price of securities to be issued provided in the Board of Directors' report pursuant to the 15<sup>th</sup> resolution.

Besides, in the absence of information on the terms and conditions governing the determination of the issue price of securities to be issued pursuant to the 14<sup>th</sup>, 17<sup>th</sup> and 18<sup>th</sup> resolutions, we cannot express our opinion regarding the choice of figures used to determine the issue price.

As the issue price of securities to be issued has not been set yet, we do not express a conclusion on the final terms and conditions under which the issuances would be performed. As a result, we do not express a conclusion on the cancellation of preferential share subscription rights which the Board of Directors has proposed in the 15<sup>th</sup> resolution.

In accordance with Article R. 225-116 of the French Commercial Code, we will issue an additional report, if applicable, when your Board of Directors uses these authorizations in the case of the issuance of ordinary shares with cancellation of preferential subscription right or the issuance of marketable securities giving access to the share capital, and/or giving right to the allocation of debt securities.

Neuilly-sur-Seine, March 16, 2011

#### The Statutory Auditors

##### PricewaterhouseCoopers Audit

Etienne Boris

Philippe Vogt

##### Ernst & Young et Autres

Jeanne Boillet

Gilles Cohen

## Statutory Auditors' report on the increase in capital with cancellation of preferential subscription rights reserved for members of a company savings scheme

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To the Shareholders,

In our capacity as Statutory Auditors of your Company and pursuant to Articles L. 225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby report on the proposal to delegate to the Board of Directors the authority to decide whether to proceed with one or several increases in capital by issuing ordinary shares with cancellation of preferential subscription rights, reserved for members of a company savings scheme of the Company or companies, French or foreign, related to Danone in accordance with Articles L. 225-180 of the French Commercial Code, a transaction submitted to you for approval. The maximum nominal amount of the increase of the Company's share capital that may be achieved pursuant to this resolution may not exceed the nominal amount of € 3.7 millions, it being specified that the share capital increases that may be carried out must comply with the limits provided for in the 14<sup>th</sup> and 15<sup>th</sup> resolutions.

This increase in capital is submitted for your approval in accordance with Articles L. 225-129-6 of the French Commercial Code and L. 3332-18 *et seq.* of the French Labour Code (*Code du travail*).

Your Board of Directors requests, on the basis of its report, that you delegate to it, for a 26-month period, the authority to decide to increase the Company's share capital on one or more occasions, and proposes that you waive your preferential subscription rights to the securities to be issued. If applicable, it shall determine the final conditions of this operation.

It is the responsibility of the Board of Directors to prepare a report in accordance with Articles R. 225-113 and R. 225-114 of the French Commercial Code. Our role is to report on the fairness of the financial information taken from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information relating to the transaction provided in the report.

We have performed the procedures that we deemed necessary in accordance with the professional guidance issued by the French Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) for this type of assignment. These procedures consisted in verifying the information provided in the Board of Directors' report in respect of this transaction and the terms and conditions governing the determination of the issue price of securities to be issued.

Subject to a subsequent review of the terms and conditions of the capital increases that may be decided, we have no matters to report on the terms and conditions governing the determination of the issue price of securities to be issued provided in the Board of Directors' report.

As the issue price has not been determined yet, we do not express an opinion on the final conditions under which the share capital increases would be carried out and nor, consequently, on the proposed cancellation of preferential subscription rights.

In accordance with Article R. 225-116 of the French Commercial Code, we will issue an additional report, as necessary, when your Board of Directors exercises this authorisation.

Neuilly-sur-Seine, March 16, 2011

### The Statutory Auditors

#### PricewaterhouseCoopers Audit

Etienne Boris

Philippe Vogt

#### Ernst & Young et Autres

Jeanne Boillet

Gilles Cohen

## Statutory Auditors' report on the reduction in capital

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To the Shareholders,

In our capacity as Statutory Auditors of your Company and pursuant to Article L. 225-209 of the French Commercial Code (*Code de commerce*) on the decrease in share capital by the cancellation of repurchased shares, we hereby report on our assessment of the reasons and conditions of the proposed decrease in share capital.

Your Board of Directors requests the delegation of all powers, for a 24-month period starting from the date of this Shareholders' Meeting, to cancel the shares purchased following the granting of authority by your Company to purchase its own shares in accordance with the aforementioned article of the French Commercial Code, up to a maximum of 10% of its share capital.

We have performed the procedures that we deemed necessary in accordance with the professional guidance issued by the French Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) for this type of assignment. These procedures consisted in reviewing the fairness of the reasons for and conditions of the proposed decrease in share capital.

We have no matters to report on the reasons for and conditions of the proposed decrease in share capital.

Neuilly-sur-Seine, March 16, 2011

### The Statutory Auditors

#### PricewaterhouseCoopers Audit

Etienne Boris

Philippe Vogt

#### Ernst & Young et Autres

Jeanne Boillet

Gilles Cohen



## INFORMATION ON THE REGISTRATION DOCUMENT

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## 10.1 Incorporation by reference

Pursuant to Article 28 of Regulation (EC) No. 809/2004 of the European Commission dated April 29, 2004 and to Section 36 of IAS 1, *Presentation of Financial Statements*, requiring that at least one-year comparative information be presented, this Registration Document incorporates by reference the following information:

- the consolidated financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2008 on pages 88 to 141 of the Registration Document that was filed with the AMF on March 20, 2009 under filing number D.09-0143;
- the Company financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2008 on pages 156 to 168 of the Registration Document that was filed with the AMF on March 20, 2009;
- the key financial information, the Group operating and financial review, and all of the non-financial information pertaining to the fiscal year ended December 31, 2008 on pages 5, 17 to 18, and 37 to 48 of the Registration Document that was filed with the AMF on March 20, 2009;
- the Update to the 2008 Registration Document filed with the AMF on May 28, 2009 under filing number D.09-0143-A01;
- the consolidated financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2009 on pages 104 to 157 of the Registration Document that was filed with the AMF on March 19, 2010 under filing number D.10-0127;
- the Company financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2009 on pages 169 to 182 of the Registration Document that was filed with the AMF on March 19, 2009;
- the key financial information, the Group operating and financial review, and all of the non-financial information pertaining to the fiscal year ended December 31, 2009 on pages 5, 18 to 19, 39 to 52 of the Registration Document that was filed with the AMF on March 19, 2010.

## 10.2 Persons responsible for the Registration Document

### Person responsible for the Registration Document

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Franck RIBOUD  
Chairman and Chief Executive Officer  
Danone

### Statement by the person responsible for the Registration Document

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***This is a free translation into English of the Chairman and Chief Executive Officer's statement issued in French, and is provided solely for the convenience of English-speaking readers.***

Paris, on March 25, 2011

"We hereby certify, after having taken all reasonable measures, that to the best of our knowledge all of the information in this Registration Document is accurate, and that no information liable to alter its scope has been omitted.

We certify that, to our knowledge, the financial statements in this document have been prepared in accordance with applicable accounting standards and provide a faithful representation of the assets, the financial situation, and the results of the Company and of all companies within its scope of consolidation, and that the management report referred to in the cross-reference table in Section 10.3 presents a faithful representation of the business trends, results, and financial position of the Company and of all companies within its scope of consolidation, as well as a description of the principal risks and uncertainties that they face.

The consolidated financial statements for the fiscal year ended December 31, 2010 have been the subject of a report from the Statutory Auditors, set forth in Section 4.2 of this Registration Document, which contains an observation.

The Statutory Auditors have provided us with a letter (*lettre de fin de travaux*, or auditors' completion lettre) stating that their work has been completed, and in which they indicate that they have verified the information included in this registration document relative to the financial situation and the financial statements, and have read this registration document in its entirety."

The Chairman and Chief Executive Officer  
Franck RIBOUD

## 10.3 Cross-Reference Tables

### Cross-reference table to the annual financial report

In order to facilitate the reading of this Registration Document, the cross-reference table below enables to identify the main information required in accordance with Article L. 451-1-2 of the French Monetary and Financial Code.

<b>ANNUAL FINANCIAL REPORT</b>	<b>SECTIONS OF THE REGISTRATION DOCUMENT</b>
<b>1. COMPANY FINANCIAL STATEMENTS</b>	5
<b>2. CONSOLIDATED FINANCIAL STATEMENTS</b>	4
<b>3. MANAGEMENT REPORT (WITHIN THE MEANING OF THE FRENCH MONETARY AND FINANCIAL CODE)</b>	
3.1 INFORMATION REQUIRED BY ARTICLE L. 225-100 OF THE FRENCH COMMERCIAL CODE	
• Analysis of the business trends	3.1 to 3.8
• Analysis of the results	3.2, 3.4
• Analysis of the financial position	3.6, 3.7
• Major risk factors and uncertainties	2.3
• Table of the capital increases delegations	8.3
3.2 INFORMATION REQUIRED BY ARTICLE L. 225-100-3 OF THE FRENCH COMMERCIAL CODE	
• Elements that might have an impact in the event of a tender offer	8.9
3.3 INFORMATION REQUIRED BY ARTICLE L. 225-211 OF THE FRENCH COMMERCIAL CODE	
• Share buyback programs of the Company	3.3, 8.2
<b>4. STATEMENTS OF THE PERSONS RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT</b>	10.2
<b>5. STATUTORY AUDITORS' REPORT ON THE COMPANY'S FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS</b>	4.2, 5.3
<b>6. INFORMATION ON THE FEES OF THE STATUTORY AUDITORS</b>	4.3
<b>7. REPORT OF THE CHAIMAN OF THE BOARD OF DIRECTORS ON THE CORPORATE GOVERNANCE AND THE INTERNAL CONTROL PROCEDURES (ARTICLE L. 225-37 OF THE FRENCH COMMERCIAL CODE)</b>	6.11
<b>8. STATUTORY AUDITORS' REPORT ON THE REPORT OF THE CHAIRMAN ON THE INTERNAL CONTROL PROCEDURES</b>	6.11
<b>9. LIST OF ALL INFORMATION PUBLISHED BY THE COMPANY OR MADE PUBLICLY AVAILABLE DURING THE LAST 12 MONTHS</b>	11.1



## Cross-reference table to the provisions of Annex 1 of the 809/2004 Regulation of the European Commission

This cross-reference table identifies the main information required by Annex 1 of the 809/2004 Regulation of the European Commission dated April 29, 2004. This table refers to the pages of this Registration Document on which the information related to each item is indicated.

<b>DOCUMENT OF REGISTRATION RELATING TO SHARES</b>	<b>SECTIONS OF THE REGISTRATION DOCUMENT</b>
<b>1. PERSONS RESPONSIBLE</b>	
1.1 Identity	10.2
1.2 Statement	10.2
<b>2. STATUTORY AUDITORS</b>	
2.1 Identity	1.2
2.2 Potential change	1.2
<b>3. SELECTED FINANCIAL INFORMATION</b>	
3.1 Historical financial information	1.1
3.2 Financial information for interim periods	N/A
<b>4. RISK FACTORS</b>	
<b>2.3</b>	
<b>5. INFORMATION ABOUT THE ISSUER</b>	
5.1 History and development of the Company	2.1
5.2 Investments	3.3, 3.4
<b>6. BUSINESS OVERVIEW</b>	
6.1 Principal activities	3.2
6.2 Principal markets	3.2
6.3 Exceptional events	N/A
6.4 Dependence of the issuer	N/A
6.5 Competitive position of the issuer	3.2
<b>7. ORGANIZATIONAL STRUCTURE</b>	
7.1 Brief description of the Group	3.3, 4.1
7.2 List of the significant subsidiaries	3.3, 4.1
<b>8. PROPERTY, PLANTS AND EQUIPMENT</b>	
8.1 Material tangible fixed assets	2.2, 3.4, 4.1, 7.5
8.2 Environmental issues	2.2, 7.5
<b>9. OPERATING AND FINANCIAL REVIEW</b>	
9.1 Financial position	3.6 to 3.7, 4.1
9.2 Operating results	3.2 to 3.5, 4.1
<b>10. CAPITAL RESOURCES</b>	
10.1 Issuer's capital resources	3.7, 4.1, 8.1
10.2 Cash flows	3.6, 4.1
10.3 Information on the borrowing requirements and funding structure of the issuer	3.7, 4.1
10.4 Restrictions on the use of capital resources	3.7, 4.1
10.5 Anticipated sources of funds	3.7, 4.1
<b>11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES</b>	
<b>2.2, 3.4</b>	
<b>12. TREND INFORMATION</b>	
12.1 Most significant recent trends since the end of the last fiscal year	3.8, 3.9
12.2 Events that are reasonably likely to have a material effect on the issuer's prospects	3.8, 3.9
<b>13. PROFIT FORECASTS OR ESTIMATES</b>	
<b>3.8, 3.9</b>	

<b>DOCUMENT OF REGISTRATION RELATING TO SHARES</b>	<b>SECTIONS OF THE REGISTRATION DOCUMENT</b>
<b>14. ADMINISTRATIVE AND SENIOR MANAGEMENT</b>	
14.1. Information on the members	6.1 to 6.6, 11.2
14.2. Conflicts of interests	6.1
<b>15. REMUNERATION AND BENEFITS</b>	
15.1. Remuneration and benefits in kind	6.10, 7.2
15.2. Provisions for retirement obligations	6.10, 7.2
<b>16. FUNCTIONING OF THE BOARD AND MANAGEMENT</b>	
16.1. Expiration date of the terms of office	6.1 to 6.6, 11.2
16.2. Services agreements relating to the members of the Board and of the management	6.9
16.3. Information about the Audit Committee, the Nomination and Compensation Committee and the Social Responsibility Committee	6.2 to 6.4
16.4. Corporate governance	6.7
<b>17. EMPLOYEES</b>	
17.1. Number of employees	7.1
17.2. Shareholdings and stock options	6.10, 7.2
17.3. Arrangements involving the employees in the capital of the issuer	7.2
<b>18. MAJOR SHAREHOLDERS</b>	
18.1. Shareholding of the issuer	8.7
18.2. Voting rights	8.6
18.3. Control of the issuer	8.7
18.4. Change of control	8.10
<b>19. RELATED PARTY TRANSACTIONS</b>	
<b>3.4</b>	
<b>20. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES</b>	
20.1. Historical Financial Information	5.1, 5.2, 10.1
20.2. Pro forma financial information	N/A
20.3. Financial statements	4.1, 5.1, 5.2, 10.1
20.4. Auditing of historical annual financial information	4.2, 5.3, 10.1
20.5. Date of latest financial information	December 31, 2010
20.6. Interim and other financial information	N/A
20.7. Dividend policy	8.5
20.8. Legal and arbitration proceedings	3.4
20.9. Significant change in the issuer's financial or commercial position	3.8
<b>21. ADDITIONAL INFORMATION</b>	
21.1. Share Capital	8.1
21.2. Incorporation documents and by-laws	1.2, 6.1, 8.6, 9.1, 11.1
<b>22. MATERIAL CONTRACTS</b>	
<b>3.4</b>	
<b>23. THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST</b>	
23.1. Identity	5.5
23.2. Statement	5.5
<b>24. DOCUMENTS AVAILABLE TO THE PUBLIC</b>	
<b>11.1</b>	
<b>25. INFORMATION ON HOLDINGS</b>	
<b>3.3, 4.1</b>	

## Cross-reference table with the management report – mother company Danone

This Registration Document includes all the items of the management report as required pursuant to Article L. 225-100 and subsequent, L. 232-1, II and R. 225-102 and subsequent of the French Commercial Code.

<b>MANAGEMENT REPORT</b>	<b>SECTIONS OF THE REGISTRATION DOCUMENT</b>
Financial position and activity of the Company during the fiscal year	5.2
Information on trends and outlook	3.8
Material events occurred since the end of the fiscal year	3.8
Research and Development activities	N/A
Activities of the Company's subsidiaries	3.1 to 3.7
Acquisition of significant equity interests or control in companies headquartered in France	N/A
Amount of dividends distributed during the last three fiscal years	8.5
Changes to the presentation of the Company's financial statements	N/A
Injunctions or financial penalties for antitrust practices	N/A
Information relating to suppliers and clients' terms of payment	5.2
Directorship and offices held by each corporate officers	11.2
Indication on the use of financial instruments by the Company	5.2
Analysis of the business performance, results and financial position of the Company during the fiscal year	5.2
Description of the major risk factors and uncertainties	2.3
Company's exposure to price, credit, liquidity and cash flows risks	5.2
Information relating to the breakdown of the share capital	8.7
Shares held by the subsidiaries of the Company	8.2
Employee shareholding on the last day of the fiscal year	8.4
Summary statement of the transactions relating to shares carried out by executives	6.10
Table and report on the share capital increase delegations	8.3
Compensation and benefits of any kind paid to each corporate officer	6.10
Table of the Company's financial results over the last five years	5.2
Information required by Article L. 225-211 of the French Commercial Code in case of transactions carried out by the Company on its own shares	8.2
Information required by Article L. 225-100-3 of the French Commercial Code that may have an impact regarding a tender offer	8.9

## Cross-reference table with the management report – Danone group

This Registration Document includes all the items of the management report as required pursuant to Articles L. 233-26 and L. 225-100-2 of the French Commercial Code.

<b>MANAGEMENT REPORT</b>	<b>SECTIONS OF THE REGISTRATION DOCUMENT</b>
Financial position and activity of the Group during the fiscal year	3.1 to 3.7
Information on trends and outlook	3.8
Material events occurred since the end of the fiscal year	3.8
Research and Development activities	3.4
Indication on the use of financial instruments by the Group	2.3, 3.5, 4.1
Analysis of the business performance, results and financial position of the Group during the fiscal year	3.1 to 3.7
Description of the major risk factors and uncertainties	2.3, 3.8

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## 11.1 Documents available to the public

The by-laws, the minutes of Shareholders' General Meetings, reports of the Statutory Auditors, and other corporate documents may be consulted at the Company's registered office. Moreover, historical financial information and certain information regarding the organization and businesses of the Company and its subsidiaries are available on the Group's website in the section pertaining to regulated information.

The table below lists all of the regulated information published between January 1, 2010 and February 28, 2011:

Subject	Date	Place of consultation
Voting Rights Declaration (December 2009)	01/08/2010	www.danone.com, AMF
Six months after its creation, the Danone Ecosystem Fund is assessing around thirty projects and has commenced financing its first two initiatives	01/08/2010	www.danone.com, AMF
Voting Rights Declaration (January 2010)	02/10/2010	www.danone.com, AMF
Full Year Results 2009	02/11/2010	www.danone.com, AMF
Voting Rights Declaration (February 2010)	03/19/2010	www.danone.com, AMF
Danone publishes its Registration Document 2009	03/22/2010	www.danone.com, AMF
Danone and Chiquita start joint-venture to market fruit-based drinks	03/30/2010	www.danone.com, AMF
First Quarter Sales 2010	04/15/2010	www.danone.com, AMF
Danone's shareholders vote in favor of all resolutions at the AGM 2010	04/22/2010	www.danone.com, AMF
Voting Rights Declaration (March 2010)	04/23/2010	www.danone.com, AMF
Voting Rights Declaration (April 2010)	05/12/2010	www.danone.com, AMF
Danone to acquire Medical Nutrition USA, Inc.	06/11/2010	www.danone.com, AMF
Danone and Unimilk join complementary strengths to found a high-profile dairy leader in Russia and the CIS	06/18/2010	www.danone.com, AMF
Voting Rights Declaration (May 2010)	06/18/2010	www.danone.com, AMF
Voting Rights Declaration (June 2010)	07/01/2010	www.danone.com, AMF
First Half Year Results 2010	07/27/2010	www.danone.com, AMF
Voting Rights Declaration (July 2010)	08/17/2010	www.danone.com, AMF
Voting Rights Declaration (August 2010)	09/08/2010	www.danone.com, AMF
Voting Rights Declaration (September 2010)	10/04/2010	www.danone.com, AMF
Sales in the third quarter and the first nine months of 2010	10/21/2010	www.danone.com, AMF
Danone finalises the sale of its 18.4% stake in Wimm Bill Dann	10/28/2010	www.danone.com, AMF
Voting Rights Declaration (October 2010)	11/03/2010	www.danone.com, AMF
Danone has successfully lengthened its debt maturity pursuant to its bond exchange offer	11/17/2010	www.danone.com, AMF
Danone signs an agreement to acquire YoCream	11/24/2010	www.danone.com, AMF
Executive Committee appointments: Jordi Constans, Executive Vice-President, Fresh Dairy Products and Felix Martin, Executive Vice-President, Baby Nutrition	11/25/2010	www.danone.com, AMF
Danone and Unimilk finalize merger creating the new leader for dairy products in the CIS area	11/30/2010	www.danone.com, AMF
Voting Rights Declaration (November 2010)	12/03/2010	www.danone.com, AMF
EFSA opinion on the link between the consumption of Actimel and reduced risk of diarrhoea associated with the presence of Clostridium difficile (1) in hospital environments	12/08/2010	www.danone.com, AMF
Voting Rights Declaration (December 2010)	01/04/2011	www.danone.com, AMF
2010 Full-Year Results	02/15/2011	www.danone.com, AMF
Changes for Danone Board of Directors	02/15/2011	www.danone.com, AMF
Voting Rights Declaration (February 2011)	03/02/2011	www.danone.com, AMF

## 11.2 Positions and responsibilities of the Directors and the nominees to the Board of Directors

(Article R. 225-83 of the French Commercial Code)

Information relating to the Directors and the nominees to the Board of Directors

### **NOMINATIONS**

Isabelle SEILLIER

Jean-Michel SEVERINO

### **RENEWAL OF TERMS OF OFFICE**

Bruno BONNELL

Bernard HOURS

Jacques VINCENT

Yoshihiro KAWABATA

### **CURRENT DIRECTORS**

Emmanuel FABER

Richard GOBLET D'ALVIELLA

Christian LAUBIE

Jean LAURENT

Hakan MOGREN

Benoît POTIER

Franck RIBOUD

Gylaine SAUCIER

Michel DAVID-WEILL

Jacques Alexandre NAHMIAS

## Nominations



### ISABELLE SEILLIER

Born on January 4, 1960 – Age: 51  
 Business address: 14, place Vendôme – 75001 Paris – France  
 Number of Danone shares held as of December 31, 2010: 0  
 Non-independent Director  
 French nationality  
 Principal function: Chairman of JP Morgan for France

#### Personal background – experience and expertise

Isabelle SEILLIER is a graduate of Sciences-Po Paris (Economics-Finance, 1985) and holds a master's degree in business law.

In 1987, she began her professional career in the options division of Société Générale in Paris, where she headed the Sales Department for options products in Europe until 1993.

Isabelle SEILLIER joined J.P. Morgan in Paris in 1993 as the head of the Sales Department for derivative products in France for industrial companies. In 1997, she became an investment banker at JPMorgan & Cie SA as a banking advisor providing coverage for large industrial clients. In March 2005, she was appointed the joint head of investment banking before being named sole head of this activity beginning in June 2006.

In September 2008, she was named Chairman of J.P. Morgan for France while still remaining in charge of investment banking for France and North Africa. She is a member of the management team and decision-making committee for credit authorizations at the European level.

Isabelle SEILLIER is actively involved in philanthropic activities, in particular children's support associations. Under her direction, JP Morgan France has developed a philanthropic program by helping these associations.

#### POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010

Position	Company	Country
Director	CLUB MÉDITERRANÉE <sup>(1)</sup>	France
Position	Associations/Foundations/Other	Country
Member of Board of Directors	EUROPLACE	France

(1) Listed company.

#### POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS

Position	Associations/Foundations/Other	Country
None		



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**JEAN-MICHEL SEVERINO**

Born on September 6, 1957 – Age: 53

Business address: 37, rue de Vouillé – 75015 Paris – France

Number of Danone shares held as of December 31, 2010: 0

Independent Director

French nationality

Principal responsibility: Head of Research of the “*Fondation pour les Études et Recherches sur le Développement International*”

**Personal background – experience and expertise**

Jean-Michel SEVERINO was born on September 6, 1957 in Abidjan, Ivory Coast. He is a graduate of the École Nationale d'Administration, ESCP, IEP Paris and holds a postgraduate degree (DEA) in economics and a “*licence*” degree in law.

After four years working at the French General Inspection of Finance (1984-1988), he was named technical advisor for economic and financial affairs at the French Ministry of Cooperation (1988-1989) and later became the head of that ministry's Department of Economic and Financial Affairs and then its Development Director. In all these positions, he was very active in the conduct of macroeconomic and financial relations, as well as the management of political and humanitarian crises, with sub-Saharan Africa.

In 1996, he was recruited by the World Bank as the Director for Central Europe at a time when this region was marked by the end of the Balkans conflict and reconstruction. He became the World Bank's Vice-President in charge of Far East Asia from 1997 to 2001 and focused on the management of the major macroeconomic and financial crisis that shook these countries.

After a brief stint working once again for the French government as Inspector General of Finance, he was named Chief Executive Officer of the *Agence Française de Développement* (AFD), where from 2001 to 2010 he led the expansion efforts to cover the entire emerging and developing world, notably in the Mediterranean region, Asia and Latin America while still maintaining its strong roots in sub-Saharan Africa. He significantly expanded the bank's development activities and expanded its areas of responsibility to a large number of new countries as well as contemporary global subjects: climate, biodiversity, poverty, growth, etc. He also implemented a fundamental restructuring of the AFD by entering into close partnerships with the local and international industrial and financial private sector.

In 2010, he returned once again to the French General Inspection of Finance, where he is responsible for the French partnership for water.

In addition to his professional duties, he has significant experience in the educational and research areas, notably as an associate professor at CERDI (*Centre d'Études et de Recherches sur le Développement International*). He was elected as a member of the *Académie des Technologies* (2010); he is currently a senior fellow of the *Fondation pour la Recherche sur le Développement International* (FERDI) and of the German Marshall Fund (GMF). He has published numerous articles and books, including, in 2010, “*Idées Reçues sur le Développement*” and “*Le Temps de l'Afrique*”.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director	danone.communities (SICAV)	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Chairman	Institut d'Étude du Développement Économique et Social French Partnership for Water	France France
Vice-President	Comité National Français	France
Director	Centre de coopération international en recherche agronomique pour le développement (Public-sector institution with industrial and commercial activities)	France
	Fondation Chirac	France
	Fondation Sanofi Espoir	France
	Conservation International (Foundation)	United States
Senior fellow	The German Marshall Fund of the United States (Foundation)	United States
Research Director	Fondation pour les Études et Recherches sur le Développement International	France
Member	Scientific steering committee, Fondation Jean-Jaurès	France
	Independent assessment committee on sustainable development, Veolia Environnement	France
	Académie des technologies (Public-sector institution with administrative activities)	France

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Chief Executive Officer	Agence Française de Développement (Public-sector institution with industrial and commercial activities)	France
Chairman	Société de Promotion et de Participation pour la Coopération Économique	France
Director	European Investment Bank	Luxembourg
	Institut de Recherche pour le Développement (French public-sector institution with scientific and technological activities)	France

## Renewal of terms of office



### BRUNO BONNELL

Born on October 6, 1958 – Age: 52  
 Business address: 11, avenue Albert Einstein – 69100 Villeurbanne – France  
 Number of Danone shares held as of December 31, 2010: 4,000  
 Independent Director  
 French nationality  
 Principal responsibility: Chairman of Sorobot SAS

#### Personal background – experience and expertise

Bruno BONNELL was born in Algiers, Algeria in 1958. He received a degree in chemical engineering at CPE (Chimie Physique Electronique de Lyon) and another in applied economics from the University of Paris-Dauphine (class of 1982).

He began his career at Thomson SDRM as a business engineer responsible for launching and marketing the company's first computer, the T07.

In June 1983, Bruno BONNELL founded Infogrames, which in 2000 merged with Atari (listed on the NYSE Euronext). In 1995, he co-founded Infonie, the first Internet service provider in France.

He left Infogrames in April 2007 and headed Robopolis, which he purchased in 2006 to specialize the company in service robotics. Robopolis develops and distributes robots aimed at the household, educational and healthcare markets. In 2010, the company began to diversify internationally by entering the Spanish and South Korean markets.

Bruno BONNELL has written two books on new technologies: “*Pratique de l'Ordinateur Familial*” (1983); and “*Viva La Robolution*” (2010). He is a member of the Management Board of Pathé SAS and of the Board of Directors of ANF Immobilier.

#### POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010

Position	Company	Country
Director (term of office from February 18, 2002 to the close of the Shareholders' General Meeting to approve the 2013 financial statements) <sup>(2)</sup> Member of the Social Responsibility Committee (since February 14, 2007)	DANONE SA <sup>(1)</sup>	France
Chairman	I-VOLUTION SAS SOROBOT SAS	France France
Member of the Supervisory Board	ANF IMMOBILIER <sup>(1)</sup>	France
Member of the Management Board	PATHÉ SAS	France

(1) Listed company.

(2) Subject to renewal of his term of office by the Shareholders' General Meeting of April 28, 2011.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman of the Board of Directors	INFOGRAMES ENTERTAINMENT SA	France
Chairman	I-VOLUTION SA	France
	ROBOPOLIS	France
Chairman of the Board and Chief Executive Officer	ATARI, INC.	United States
	CALIFORNIA U.S. HOLDINGS, INC.	United States
Director	ATARI INTERACTIVE, INC.	United States
Director	CALIFORNIA US HOLDINGS, INC.	United States
	INFOGRAMES FRANCE SA	France
	INFOGRAMES EUROPE SA	France
Member of the Supervisory Board	EURAZEO SA	France
	ZSLIDE SA	France
Permanent representative of Infogrames Entertainment SA	ATARI EUROPE SAS	France
	EDEN STUDIO SAS	France
Permanent representative of Atari Europe SAS	ATARI FRANCE SAS	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**BERNARD HOURS**

Born on May 5, 1956 – Age: 54  
 Business address: 17, boulevard Haussmann – 75009 Paris – France  
 Number of Danone shares held as of December 31, 2010: 6,435  
 French nationality  
 Principal responsibility: Co-Chief Operating Officer of Danone (\*)  
 Seniority in Danone group: March 1985

**Personal background – experience and expertise**

A graduate of HEC, Bernard HOURS began his career at Unilever as a product manager. He joined Danone in 1985 as Evian's Head of Marketing in France. He later became Kronenbourg's Head of Marketing and in 1990 Head of Marketing for Danone France.

In 1994, he was named Chairman of Danone Hungary, and then Chairman of Danone Germany in 1996. He then returned to France as the Chairman of LU France in 1998.

In November 2001, he was named Vice-President of the Fresh Dairy Products business line.

In March 2002, he was named Chairman of the Global Fresh Dairy Products business line, then Head of the Group's Research and Development division and joined the Group's Executive Committee.

Since January 1, 2008, he has been a Co-Chief Operating Officer of Danone, responsible for the Group's four operating Business Lines: Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Co-Chief Operating Officer (since January 1, 2008) Director (term of office from April 22, 2005 to the close of the Shareholders' General Meeting to approve the 2013 financial statements) (3) Member of the Executive Committee (since November 1, 2001)	DANONE SA (1)	France
Director	ESSILOR INTERNATIONAL (1) FLAM	France France
Permanent representative of Danone on the Board of Directors and the Executive Board	DANONE SA (2)	Spain
Non-voting advisor ("Censeur")	CEPRODI SA	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Director	FONDATION D'ENTREPRISE DANONE	France
Member of the Fund Steering Committee	Fonds Danone pour l'Écosystème (Endowment fund – Law of August 4, 2008)	France

(1) Listed company.

(2) Company consolidated by Danone.

(3) Subject to renewal of his term of office by the Shareholders' General Meeting of April 28, 2011.

(\*) Subject to renewal of his term of office, Bernard HOURS will be appointed as Vice-Chairman of the Board of Directors at the close of the Shareholders' General Meeting of April 28, 2011.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Vice-Chairman and Director	DANONE SA TIKVESLI SÜT ÜRÜNLERİ SANAYİ VE TİCARET A.S.	Turkey
Chairman of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION BV	Netherlands
	DANON BABY AND MEDICAL NUTRITION NEDERLAND B.V.	Netherlands
	DANONE GmbH	Germany
	DANONE HOLDING AG	Germany
Director	COLOMBUS CAFÉ	France
	GRUPO LANDON	Spain
	STONYFIELD FARM, INC.	United States
	THE DANNON COMPANY	United States
Member of the Supervisory Board	CEPRODI SA	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**JACQUES VINCENT**

Born on April 9, 1946 – Age: 64  
 Business address: 28, quai du Louvre – 75001 Paris – France  
 Number of Danone shares held as of December 31, 2010: 5,123  
 French nationality  
 Principal responsibility: Chairman of Compassionart

**Personal background – experience and expertise**

Jacques VINCENT is a graduate of École Centrale de Paris, Faculté de Sciences Économiques of Panthéon-Assas in Paris and Stanford University in the United States.

He joined the Group in 1970 and held positions in Management Control, Sales and Distribution.

He was appointed General Manager of Stenval in 1979 and was later, in succession, General Manager of Danone Italy, Danone Germany, Italaquae, Dannon USA and the Group's Fresh Dairy Products business line.

In 1996, he was named Co-Chief Operating Officer of Danone.

In 1998, he was named Vice-Chairman of the Board of Directors of Danone.

In 2007, he became the Chairman's Advisor for Strategy and stepped down from his position as Co-Chief Operating Officer in April 2010 in the context of his retirement.

Jacques VINCENT manages the UnMétierVocation foundation and Art For Smile gallery. He is also a Director of Yakult, Syngenta, Biophytis, Cereplast and Mediaperformances.

**Positions and responsibilities as of December 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from March 17, 1997 to close of the Shareholders' General Meeting to approve the 2013 financial statements) <sup>(3)</sup>	DANONE SA <sup>(1)</sup>	France
Vice-Chairman of the Board of Directors (term of office from September 15, 1998 to the close of the Shareholders' General Meeting to approve the 2010 financial statements)		
Chairman	COMPASSIONART SAS	France
Director	AVESTHAGEN Ltd.	India
	CEREPLAST, INC. <sup>(1)</sup>	United States
	MEDIAPERFORMANCES PUBLIC'AD SA	France
	SYNGENTA AG <sup>(1)</sup>	Switzerland
	WEIGHT WATCHERS DANONE CHINA LTD. <sup>(2)</sup>	China
	YAKULT HONSHA <sup>(1)(2)</sup>	Japan
	YAKULT DANONE INDIA PVT LTD.	India
	INSTITUT BIOPHYTIS SAS	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Founding member and manager	UnMétierVocation foundation	France

(1) Listed company.

(2) Company consolidated by Danone.

(3) Subject to renewal of his term of office by the Shareholders' General Meeting of April 28, 2011.

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman	DANONE RESEARCH	France
Chairman of the Board of Directors General Manager	COMPAGNIE GERVAIS DANONE	France
Deputy General Manager Permanent representative of Danone on the Board of Directors	GÉNÉRALE BISCUIT SA	France
Director and Member of the Executive Committee	DANONE SA	Spain
Director	CENTRALE LAITIÈRE	Morocco
	DANONE WATERS OF CANADA INC	Canada
	DASANBE AGUA MINERAL NATURAL SA	Spain
	THE DANONE SPRINGS OF EDEN BV	Netherlands
	WIMM-BILL-DANN FOODS OJSC	Russia
Member of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION B.V. DANONE BABY AND MEDICAL NUTRITION NEDERLAND B.V.	Netherlands Netherlands
Board representative	DS WATER GENERAL PARTNER, LLP	United States
Permanent representative of Danone on the Board of Directors	DANONE FINANCE SA	France
Member of the Executive Committee Deputy General Manager	DANONE SA	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Chairman of the Board of Directors	ÉCOLE NORMALE SUPÉRIEURE DE LYON (ENS)	France



**YOSHIHIRO KAWABATA**

Born on January 5, 1949 – Age: 62

Business address: 1-19, Higashi-Shinbashi, 1-Chome, Minato-Ku, Tokyo, 105-8660 Japan

Number of Danone shares held as of December 31, 2010: 4,000

Japanese nationality

Principal responsibility: Senior Managing Director and Head of International Business Division of Yakult Honsha Co., Ltd.

**Personal background – experience and expertise**

Yoshihiro KAWABATA is a graduate of the University of Meiji in Tokyo, Japan.

He joined Yakult Honsha in 1971 and worked in the delivery business (Yakult Ladies) within the sales division. He was appointed Director of Yakult Philippines, Inc. in 1981 and made a significant contribution to that company's expansion. In 1987, he returned to Japan and worked for the delivery business of the Kyushu branch (southern Japan). In 1990, he was named Director of Yakult Indonesia and helped to found the company.

In 1992, Yoshihiro KAWABATA was named Manager of the International Department of Yakult Honsha and helped with the expansion of Yakult's activities in Australia. In 2003, he was appointed Director of Yakult Honsha and was responsible for the International Affairs Department and the Liaison Office between Yakult Honsha and Danone.

Since 2009, he has been a Senior Managing Director of Yakult Honsha as the Head of the International Affairs Department. He is also a Yakult representative at the liaison office between Yakult and Danone and is responsible for this cooperation.

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

## POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010

Position	Company	Country
Director (term of office from April 22, 2010 to the close of the Shareholders' General Meeting to approve the 2013 financial statements) <sup>(2)</sup>	DANONE SA <sup>(1)</sup>	France
Senior Managing Director	YAKULT HONSHA CO., LTD <sup>(1)</sup>	Japan
Chairman	YAKULT (SINGAPORE) PTE. LTD.	Singapore
	YAKULT (MALAYSIA) SDN BHD	Malaysia
	YAKULT S.A. DE C.V.	Mexico
	CORPORACION VERMEX, S.A. DE C.V.	Mexico
Representative Chairman	YAKULT EUROPE B.V.	Netherlands
	YAKULT UK LTD.	U.K.
	SHANGAI YAKULT CO., LTD.	China
	YAKULT (CHINA) CORPORATION	China
	GUANGZHOU YAKULT CO., LTD.	China
	TIANJIN YAKULT CO., LTD	China
	YAKULT USA INC.	United States
	YAKULT DEUTSCHLAND GMBH	Germany
	YAKULT OESTERREICH GMBH	Austria
HONG KONG YAKULT CO., LTD	China	
Vice-President	KOREA YAKULT CO., LTD	Korea
Director	YAKULT PHILIPPINES, INC.	Philippines
	YAKULT NEDERLAND BV	Netherlands
	YAKULT ESPANA, SA	Spain
	YAKULT CO., LTD.	Taiwan
	SHANGHAI YAKULT MARKETING CO., LTD.	China
	YAKULT (THAILAND) CO., LTD.	Thailand
	YAKULT AUSTRALIA PTY. LTD.	Australia
	YAKULT DANONE INDIA PVT. LTD.	India
	YAKULT VIETNAM CO., LTD.	Vietnam
	DISTRIBUIDORA YAKULT GUADALAJARA SA DE CV	Mexico
	YAKULT ARGENTINA SA	Argentina
	YAKULT BELGIUM S.A./N.V.	Belgium
	YAKULT ITALIA SRL	Italy
Chairman of the Audit Committee	P.T. YAKULT INDONESIA PERSADA	Indonesia

(1) Listed company.

(2) Yoshihiro KAWABATA was co-opted as a Director by the Board of Directors on April 22, 2010 to replace Naomasa TSURITANI (who was himself co-opted as a Director on February 14, 2007 to replace Mr. HIRANO and whose appointment was ratified by the Shareholders' General Meeting of April 26, 2007) subject to ratification of this appointment by the Shareholders' General Meeting of April 28, 2011.

## POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS

Position	Company	Country
Vice-Chairman	SHANGHAI YAKULT CO., LTD.	China
	YAKULT (CHINA) CORPORATION	China
Managing Director	YAKULT HONSHA CO., LTD.	Japan
Director	YAKULT HONSHA CO., LTD.	Japan
	HONG KONG YAKULT CO., LTD.	China
	KOREA YAKULT CO., LTD.	Korea
	YAKULT (SINGAPORE) PTE. LTD.	Singapore
	YAKULT (MALAYSIA) SDN. BHD.	Malaysia
	YAKULT EUROPE BV	Netherlands
	YAKULT SA DE CV	Mexico
	CORPORACION VERMEX, S.A. DE C.V.	Mexico
	TIANJIN YAKULT CO., LTD.	China
Representative Director	YAKULT UK LTD.	U.K.
Auditor	P.T. YAKULT INDONESIA PERSADA	Indonesia

## Current Directors



### EMMANUEL FABER

Born on January 22, 1964 – Age: 47  
 Business address: 17, boulevard Haussmann – 75009 Paris – France  
 Number of Danone shares held as of December 31, 2010: 4,940  
 French nationality  
 Principal responsibility: Co-Chief Operating Officer (\*)  
 Seniority in Danone group: October 1997

#### Personal background – experience and expertise

After graduating from HEC, Emmanuel FABER began his career as a consultant at Bain & Company and later Baring Brothers.

In 1993, he joined Legris Industries as Chief Administrative and Financial Officer before being named Chief Executive Officer in 1996.

He joined Danone in 1997 as Head of Finance, Strategies and Information Systems. He became a member of the Executive Committee in 2000.

In 2005, while Danone was strengthening its management structure in the Asia-Pacific region, Emmanuel FABER was named Vice-President for the Asia-Pacific region in charge of the Group's operational activities.

Since January 1, 2008, he has been a Co-Chief Operating Officer of Danone, responsible for major corporate functions (Finance, Human Resources, etc.).

Since 2008, he has served as a Director of the danone.communities mutual fund (SICAV) and since 2009 as a member of the Steering Committee of the Fonds Danone pour l'Écosystème.

#### POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010

Position	Company	Country
Co-Chief Operating Officer (since January 1, 2008) Director (term of office from April 25, 2002 to the close of the Shareholders' General Meeting to approve the 2012 financial statements) Member of the Board of Directors' Social Responsibility Committee (since February 14, 2007) Member of the Executive Committee (since January 1, 2000)	DANONE SA <sup>(1)</sup>	France
Director	GRAMEEN DANONE FOODS LIMITED <sup>(2)</sup> danone.communities (SICAV)	Bangladesh France
Member of the Supervisory Board	LEGRIS INDUSTRIES SA <sup>(1)</sup>	France
Position	Associations/Foundations/Other	Country
Member of the Fund Steering Committee	Fonds Danone pour l'Écosystème (Endowment fund – Law of August 4, 2008)	France

(1) Listed company.

(2) Company consolidated by Danone.

(\*) Emmanuel FABER will be appointed as Vice-Chairman of the Board of Directors at the close of the Shareholders' General Meetings of April 28, 2011.

## POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman of the Board of Directors	MECANIVER SA	Belgium
Chairman and Chief Executive Officer, Director	DANONE WATERS HOLDINGS, INC.	United States
President Commissioner	PT DANONE BISCUITS INDONESIA PT DANONE DAIRY INDONESIA	Indonesia Indonesia
Managing Director – Director	DANONE ASIA Pte Ltd. JINJA INVESTMENTS Pte Ltd.	Singapore Singapore
Chairman Vice-Chairman and Director	PARTNERSHIP COMPANIES WAHAHA/DANONE	China
Director Member of the Audit Committee	RYANAIR HOLDINGS Plc	Ireland
Director	ABI HOLDINGS LTD. (ABIH) ASSOCIATED BISCUITS LTD. (ABIL) BRITANNIA INDUSTRIES LTD. (BIL) CONTINENTAL BISCUITS LTD. FESTINE Pte LTD. MYEN Pte LTD. NOVALC Pte LTD. RYANAIR LTD. WADIA BSN INDIA LTD. YAKULT DANONE INDIA PVT LTD. YAKULT HONSHA CO, LTD.	U.K. U.K. India Pakistan Singapore Singapore Singapore Ireland India India Japan
Member of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION BV	Netherlands
Board representative of Danone Waters Holdings, Inc. (Chairman)	DS WATERS GENERAL PARTNER, LLC	United States
President, Board of Commissioners	P.T. TIRTA INVESTAMA	Indonesia
Permanent representative of Danone on the Board of Directors	ALFABANQUE SA	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**RICHARD GOBLET D'ALVIELLA**

Born on July 6, 1948 – Age: 62  
 Business address: Rue de l'Industrie 31 – 1040 Brussels – Belgium  
 Number of Danone shares held as of December 31, 2010: 4,394  
 Independent Director  
 Belgian nationality  
 Principal responsibility: Vice-Chairman of the Board of Directors and Deputy Director of Sofina SA

**Personal background – experience and expertise**

Richard GOBLET D'ALVIELLA was born on July 6, 1948 in Brussels, Belgium and is of Belgian nationality.

He received a commercial engineering degree from the Free University of Brussels and an MBA from Harvard Business School. For 15 years, Richard GOBLET D'ALVIELLA was an investment banker specializing in international finance in London and New York.

He was a Managing Director of Paine Webber group before joining Sofina, where he has been Vice-Chairman of the Board of Directors and Deputy Director since 1989.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

Position	Company	Country
Director (term of office from April 11, 2003 to the close of the Shareholders' General Meeting to approve the 2011 financial statements) Member of the Board of Directors' Audit Committee (since April 11, 2003)	DANONE SA <sup>(1)</sup>	France
Vice-Chairman of the Board of Directors and Deputy Director	SOFINA SA <sup>(1)</sup>	Belgium
Deputy Director	UNION FINANCIÈRE BOËL SA	Belgium
Director – Member of the Compensation Committee	DELHAIZE GROUP <sup>(1)</sup>	Belgium
Director – Member of the Audit Committee	CALEDONIA INVESTMENTS <sup>(1)</sup>	U.K.
Director	HENEX SA <sup>(1)</sup> SOCIÉTÉ DE PARTICIPATIONS INDUSTRIELLES SA	Belgium Belgium
Member of the Supervisory Board Member of the Accounts Committee Member of the Compensation Committee	EURAZEO SA <sup>(1)</sup>	France
Non-voting advisor (“Censeur”)	GDF SUEZ <sup>(1)</sup>	France

(1) Listed company.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

Position	Company	Country
Chairman	SIDRO SA	Belgium
Director	DANONE ASIA PTE LTD. FINASUCRE SA GLACES DE MOUSTIER-SUR-SAMBRE SES GLOBAL SUEZ-TRACTEBEL	Singapore Belgium Belgium Luxembourg Belgium
Director and Member of the Audit Committee	SUEZ SA	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**CHRISTIAN LAUBIE**

Born on August 19, 1938 – Age: 72  
 Business address: 8, rue Guynemer – 75006 Paris – France  
 Number of Danone shares held as of December 31, 2010: 188,768  
 Independent Director  
 French nationality  
 Principal responsibility: Member of the *Collège du Haut Conseil du Commissariat aux Comptes*

**Personal background – experience and expertise**

Christian LAUBIE has a degree in Economics from the Faculté de Droit de Paris and is a graduate of the Institut d'Études Politiques de Paris. He also has an MBA from the University of Kansas (USA).

He joined Danone in 1961, and from then through 2011 was, in succession, a Finance Department manager, Chief Financial Officer of Evian and Kronenbourg, Head of Group Strategy and Development (1971/1980), General Manager for Financial Affairs (1980/1998) and Chief Executive Officer (1998/2001).

He has been a Director of Danone since 1985 and a member of the Audit Committee since 2001.

He is a former judge at the Paris Commercial Court (Tribunal de Commerce de Paris) and since 2003 has been a member of the *Haut Conseil du Commissariat aux Comptes*.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from December 19, 1985 to the close of the Shareholders' General Meeting to approve the 2011 financial statements) Member of the Board of Directors' Audit Committee (since January 30, 2001)	DANONE SA <sup>(1)</sup>	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Member	Haut Conseil du Commissariat aux Comptes	France

(1) Listed company.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Company</b>	<b>Country</b>
None		

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**JEAN LAURENT**

Born on July 31, 1944 – Age: 66  
 Business address: 9, quai du Président Paul Doumer – 92920 Paris La Défense Cedex – France  
 Number of Danone shares held as of December 31, 2010: 5,000  
 Independent Director  
 French nationality  
 Principal responsibility: Chairman of the Board of Directors of Foncière des Régions

**Personal background – experience and expertise**

Jean LAURENT is a graduate of the École Nationale Supérieure de l'Aéronautique (1967) and has a Master of Sciences degree from Wichita State University.

He spent his entire career at Crédit Agricole group, first with Crédit Agricole de Toulouse, and later with Crédit Agricole du Loiret and then Crédit Agricole de l'Île de France, where he exercised or supervised various retail banking business activities.

He then joined Caisse Nationale du Crédit Agricole, first as Deputy General Manager (1993-1999) and later as Chief Executive Officer (1999-2005). In that capacity, he was responsible for the public offering of Crédit Agricole S.A. (2001) and the acquisition and integration of Crédit Lyonnais in Crédit Agricole group.

A company Director, he was recently named Chairman of the Board of Directors of Foncière des Régions.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

Position	Company	Country
Director (term of office from February 10, 2005 to the close of the Shareholders' General Meeting to approve the 2011 financial statements)	DANONE SA <sup>(1)</sup>	France
Member of the Board of Directors' Nomination and Compensation Committee (since April 22, 2005)		
Chairman of the Board of Directors' Social Responsibility Committee (since February 14, 2007)		
Chairman of the Board of Directors	FONCIÈRE DES REGIONS SA <sup>(1)</sup>	France
Director	CRÉDIT AGRICOLE EGYPT SAE UNIGRAINS SA	Egypt France
Vice-Chairman and Member of the Supervisory Board	EURAZEO SA <sup>(1)</sup>	France
Member of the Audit Committee		
Member of the Supervisory Board	M6 SA <sup>(1)</sup>	France
Position	Associations/Foundations/Other	Country
Chairman of the Board of Directors	INSTITUT EUROPLACE DE FINANCE (Foundation)	France

(1) Listed company.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

Position	Companies/Associations/Foundations/Other	Country
Chairman	"FINANCE INNOVATION" COMPETITIVE CLUSTER (Association)	France
Chairman of the Board of Directors	CALYON	France
Vice-Chairman	BANCA INTESA SpA BANCO ESPIRITO SANTO SGPS	Italy Portugal
Member of the Board	ASSOCIATION FRANÇAISE DES BANQUES CONSEIL NATIONAL DU CRÉDIT ET DU TITRE PARIS EUROPLACE	France France France
Member of the Board	A.F.E.C.E.I.	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**HAKAN MOGREN**

Born on September 17, 1944 – Age: 66  
 Business address: Investor AB, Arsenalsgatan 8 C, SE-103 32 Stockholm – Sweden  
 Number of Danone shares held as of December 31, 2010: 4,000  
 Independent Director  
 Swedish nationality  
 Principal responsibility: Company Director

**Personal background – experience and expertise**

Hakan MOGREN is a graduate of the Royal Institute of Technology of Stockholm, where he received a Ph.D in biotechnology in 1974.

In 1969 he joined Marabou group, where he held various positions in the laboratories.

From 1977 to 1988, he was the Chairman and Chief Executive Officer of Marabou group. In 1988 he was named Chairman and Chief Executive Officer of Astra, the international pharmaceutical company, a position he held until 1999. He then initiated the merger between Astra and the U.K. pharmaceutical company Zeneca. The new company, AstraZeneca, was based in London. Hakan MOGREN was named its Vice-Chairman, a position he held until his retirement in 2008.

Hakan MOGREN has also held several positions as Director, notably at Investor AB and Stora in Sweden, Reckitt Benckiser plc in the United Kingdom and Norsk Hydro ASA in Norway.

He is active in various organizations such as the Sweden-Japan Foundation, the Marianne and Marcus Wallenberg Foundation and the Sweden-America Foundation. He is the Chairman of the Swedish-British Society. From 1993 to 2003, he was Chairman of the Research Institute of Industrial Economics (Sweden).

He was made a Knight of the Légion d'Honneur in 1995 (France), received the King's Medal of the Order of the Seraphims in 1998 (Sweden), made a Knight Commander of the Order of the British Empire in 2005 and received the Order of the Rising Sun in 2007 (Japan). He was named an Honorary Doctor of Science, Leicester University in 1998 (United Kingdom) and an Honorary Doctor of Medicine, Karolinska Institute in 2009 (Sweden).

He has also been a member of the Swedish Gastronomic Academy since 1984 and of the Royal Technical Institute since 1988.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from April 11, 2003 to the close of the Shareholders' General Meeting to approve the 2011 financial statements) Member of the Board of Directors' Nomination and Compensation Committee (since April 22, 2005)	DANONE SA <sup>(1)</sup>	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Director	MARIANNE AND MARCUS WALLENBERG FOUNDATION	Sweden
Academy Member	THE ROYAL SWEDISH ACADEMY OF ENGINEERING SCIENCES (IVA) (Association)	Sweden
	GASTRONOMIC ACADEMY (Association)	Sweden

(1) Listed company.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Companies/Associations/Foundations/Other</b>	<b>Country</b>
Chairman	AFFIBODY AB	Sweden
Deputy Chairman	ASTRA ZENECA	United Kingdom
Director	INVESTOR AB <sup>(1)</sup>	Sweden
	NORSK HYDRO ASA	Norway
	RÉMY COINTREAU SA	France
Vice-Chairman	GAMBRO AB	Sweden



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**BENOÎT POTIER**

Born on September 3, 1957 – Age: 53  
 Business address: 75, quai d'Orsay – 75007 Paris – France  
 Number of Danone shares held as of December 31, 2010: 8,178  
 Independent Director  
 French nationality  
 Principal responsibility: Chairman and Chief Executive Officer of L'Air Liquide SA

**Personal background – experience and expertise**

A graduate of the École Centrale de Paris, Benoît POTIER joined the Air Liquide group in 1981 as a Research and Development engineer. He then held positions as Project Manager in the Engineering and Construction Department and Head of Energy Development within the Large Industry segment. In 1993 he was named Head of Strategy-Organization and in 1994 he was appointed Head of Chemicals, Steel, Refining and Energy Markets. He became Deputy General Manager in 1995, and added to the aforementioned responsibilities that of Head of Construction Engineering and Large Industry for Europe.

Benoît POTIER was appointed Chief Executive Officer in 1997, a Director of Air Liquide in 2000 and Chairman of the Management Board in November 2001. In 2006, he was named Chairman and Chief Executive Officer of Air Liquide SA.

In 2002, Air Liquide acquired the assets of Messer Griesheim in Germany, the United Kingdom and the United States.

In 2007, the Company expanded its technology portfolio by acquiring the Lurgi engineering company and in 2008 launched the Alma company project aimed at accelerating its growth. The Group is continuing to diversify internationally, notably through its growing presence in developing economies: Asia, Russia, Central and Eastern Europe, the Middle East and Latin America.

In 2008, Benoît POTIER initiated the creation of Fondation Air Liquide and has served as its Chairman since inception. Fondation Air Liquide supports research projects in the environmental and healthcare fields and contributes to local development by encouraging micro-initiatives in those areas of the world where the Company is present.

Benoît POTIER is also a member of the Michelin Supervisory Board. Since October 2010, he has also been the Vice-Chairman of the European Roundtable of Industrialists (ERT).

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from April 11, 2003 to the close of the Shareholders' General Meeting to approve the 2011 financial statements)	DANONE SA <sup>(1)</sup>	France
Chairman and Chief Executive Officer	L'AIR LIQUIDE SA <sup>(1)</sup> AIR LIQUIDE INTERNATIONAL	France France
Chairman, President & Chief Executive Officer	AIR LIQUIDE INTERNATIONAL CORPORATION (ALIC)	United States
Director	AMERICAN AIR LIQUIDE HOLDINGS, INC.	United States
Member of the Supervisory Board Member of the Audit Committee	MICHELIN <sup>(1)</sup>	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Vice-Chairman	EUROPEAN ROUNDTABLE OF INDUSTRIALISTS (ERT)	Europe
Chairman	FONDATION D'ENTREPRISE AIR LIQUIDE	France
Director	ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES (AFEP) CERCLE DE L'INDUSTRIE ASSOCIATION NATIONALE DES SOCIÉTÉS PAR ACTIONS (ANSA) ÉCOLE CENTRALE DES ARTS ET MANUFACTURES	France France France France
Member of Conseil France	INSEAD	France

(1) Listed company.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman of the Executive Board	L'AIR LIQUIDE SA	France
Director	SOAEO	France
	AIR LIQUIDE ITALIA SRL	Italy
	AL AIR LIQUIDE ESPAÑA SA	Spain
Chairman	AMERICAN AIR LIQUIDE Holdings, Inc.	United States
Member and Chairman of the Audit Committee	DANONE	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**FRANCK RIBOUD**

Born on November 7, 1955 – Age: 55  
 Business address: 17, boulevard Haussmann – 75009 Paris – France  
 Number of Danone shares held as of December 31, 2010: 183,132  
 French nationality  
 Principal responsibility: Chairman and Chief Executive Officer of Danone  
 Seniority in Danone group: October 1981

**Personal background – experience and expertise**

Franck RIBOUD is a graduate of the École Polytechnique Fédérale de Lausanne.

He joined the Group in 1981, where he held successive positions through 1989 in management control, sales and marketing. After serving as Head of Sales at Heudebert, in September 1989 he was appointed to head up the department responsible for the integration and development of new companies in the Biscuits branch. He then participated in the largest acquisition made by a French company in the United States, namely that of Nabisco's European activities by BSN. In July 1990, he was appointed General Manager of Société des Eaux Minérales d'Evian. In 1992, Franck RIBOUD became Head of the Group Development Department.

The Group then launched its international diversification marked by increased development in Asia and Latin America and through the creation of an Export Department. In 1994, BSN changed its name to Danone in order to become a global brand.

Since May 2, 1996, he has been Chairman and Chief Executive Officer of Danone.

Since 2007, he has been the Chairman of the Board of Directors of the danone.communities mutual fund (SICAV), a financing entity aimed at promoting the development of profitable companies whose primary goal is to maximize socially responsible objectives as opposed to profit.

Since 2009, he has also served as the Chairman of the Steering Committee of Fonds Danone pour l'Écosystème.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman and Chief Executive Officer (since May 2, 1996) to the close of the Shareholders' General Meeting to approve the 2012 financial statements)	DANONE SA <sup>(1)</sup>	France
Director (term of office from September 30, 1992)		
Chairman of the Executive Committee (since July 4, 1997)		
Director	RENAULT SA <sup>(1)</sup>	France
Chairman of the Compensation Committee		
Chairman of the Board of Directors	danone.communities (SICAV)	France
Director	ACCOR SA <sup>(1)</sup>	France
	BAGLEY LATINOAMERICA, SA <sup>(2)</sup>	Spain
	DANONE SA <sup>(2)</sup>	Spain
	LACOSTE FRANCE SA	France
	RENAULT SAS	France
	ROLEX SA	Switzerland
	ROLEX HOLDING SA	Switzerland
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Chairman of the Fund Steering Committee	Fonds Danone pour l'Écosystème (Endowment fund – Law of August 4, 2008)	France
Member representing Danone	CONSEIL NATIONAL DU DEVELOPPEMENT DURABLE (Association)	France
Director	ASSOCIATION NATIONALE DES INDUSTRIES AGROALIMENTAIRES	France
	INTERNATIONAL ADVISORY BOARD HEC	France
Member of the Supervisory Board	FONDATION ELA	France

(1) Listed company.

(2) Company consolidated by Danone.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Companies/Associations/Foundations/Other</b>	<b>Country</b>
Chairman of the Board of Directors	COMPAGNIE GERVAIS DANONE SA GÉNÉRALE BISCUIT SA	France France
Chairman and Director	DANONE ASIA PTE LTD.	Singapore
Director	L'ORÉAL SA OMNIUM NORD AFRICAIN (ONA) QUIKSILVER SOFINA WADIA BSN INDIA LTD.	France Morocco United States Belgium India
Member of the Supervisory Board	ACCOR	France
Director	FONDATION GAIN (GLOBAL ALLIANCE FOR IMPROVED NUTRITION)	Switzerland

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**GUYLAINE SAUCIER**

Born June 10, 1946 – Age: 64  
 Business address: 1000 rue de la Gauchetière Ouest – Bureau 2500 – Montréal QC H3B 0A2 – Canada  
 Number of Danone shares held as of December 31, 2010: 5,130  
 Independent Director  
 Canadian nationality  
 Principal responsibility: Company Director

**Personal background – experience and expertise**

Guyline SAUCIER has a Bachelor of Arts degree from Collège Marguerite-Bourgeois and a graduate business degree from HEC Montreal. A Fellow de l'Ordre des Comptables Agréés du Québec, Guyline SAUCIER was Chairman and Chief Executive Officer of Gérard SAUCIER Ltée, a leading company specializing in forest products from 1975 to 1989. She is also a Director of the Institute of Corporate Directors.

She was the Chairman of the Board of CBC/Radio-Canada (1995 to 2000), Chairman of the Board of the Canadian Institute of Chartered Accountants (1999 to 2000) and a member of the Board of Directors of the Bank of Canada (1987 to 1991). She was the first woman to be appointed to chair the Quebec Chamber of Commerce.

She was named a Member of the Order of Canada in 1989 for her exemplary civic-mindedness and significant contribution to the business world. In 2004, she was named a Fellow of the Institute of Corporate Directors; in 2005 she received the 25th Management Prize from McGill University; in 2010 she was named an Emeritus Company Director of the Institute of Corporate Directors College.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from April 23, 2009 to the close of the Shareholders' General Meeting to approve the 2011 financial statements)	DANONE SA <sup>(1)</sup>	France
Member of the Board of Directors' Audit Committee (since April 2009) and Chairman of this Committee (since April 2010)		
Member of the Supervisory Board Co-Chairman of the Audit Committee	AREVA GROUP <sup>(1)</sup>	France
Member of the Board of Directors Member of the Verification Committee Member of the Risk Management Committee	BANK OF MONTRÉAL <sup>(1)</sup>	Canada
Member of the Board of Directors Member of the Verification Committee	AXA ASSURANCES INC.	Canada
Chairman	2158-4933 Québec Inc. 9155-4676 Québec Inc.	Canada Canada
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Member of the Board of Directors	MONTREAL MUSEUM OF FINE ARTS FOUNDATION MONTREAL SYMPHONY ORCHESTRA FOUNDATION INSTITUTE FOR GOVERNANCE OF PRIVATE AND PUBLIC ORGANIZATIONS INSTITUTE OF CORPORATE DIRECTORS	Canada Canada Canada Canada

(1) Listed company.

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Member of the Board of Directors Chairman of the Governance Committee Member of the Management Succession and Compensation Committee	PETRO-CANADA	Canada
Member of the Board of Directors Member of the Verification Committee	CHC HELICOPTER CORPORATION	Canada
Member of the Supervisory Board Member of the Verification Committee Member of the Compensation Committee	ALTRAN TECHNOLOGIES	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Member of the Board of Directors	FONDATION DES CANARDS ILLIMITÉS - QUÉBEC	Canada
	FOUNDATION OF THE MONTREAL MUSEUM OF ARCHAEOLOGY AND HISTORY, POINTE-À-CALLIÈRE	Canada
	PUBLIC POLICY FORUM	Canada

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**MICHEL DAVID-WEILL**

Born on November 23, 1932 – Age: 78  
 Business address: 32, rue de Monceau – 75008 Paris – France  
 Number of Danone shares held as of December 31, 2010: 207,455  
 French nationality  
 Principal responsibility: Chairman of the Supervisory Board of Eurazeo

**Personal background – experience and expertise**

Until May 2005, Chairman of Lazard LLC, Michel DAVID-WEILL was the Chairman and Chief Executive Officer of Lazard Frères Banque, and Chairman and Managing Partner of Maison Lazard SAS.

Michel DAVID-WEILL has developed a worldwide reputation as a leading investment banker.

In the United States, he is a member of the Board of Directors of the Metropolitan Museum of Art and a Director of the New York Hospital. In France, he is a member of the Institute (Academy of Fine Arts), Chairman of the *Conseil Artistique des Musées Nationaux* and exercises various responsibilities at several artistic and cultural institutions.

Michel DAVID-WEILL is a graduate of the Lycée Français of New York and the Institut des Sciences Politiques.

After 41 years on the Board of Directors of Danone, Michel DAVID-WEILL does not wish to renew his term of office. In order for the Group to continue to benefit from his assistance, the Board of Directors of Danone has decided to appoint him as honorary Vice-Chairman of the Board.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

Position	Company	Country
Director (term of office from June 26, 1970 to the close of the Shareholders' General Meeting to approve the 2010 financial statements)	DANONE SA <sup>(1)</sup>	France
Vice-Chairman of the Board of Directors (from July 10, 1987 to the close of the Shareholders' General Meeting to approve the 2010 financial statements)		
Chairman of the Board of Directors' Nomination and Compensation Committee (since April 22, 2005)		
Chairman of the Supervisory Board	EURAZEO SA <sup>(1)</sup>	France
Manager	PARTEMAN SNC	France
Director	GRUPO BANCA LEONARDO S.p.A.	Italy

(1) Listed company.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

Position	Company	Country
General partner and manager	PARTENA	France
Manager	BCNA SNC	France
Member of the Audit Committee	PUBLICIS	France
Member of the Supervisory Board	PUBLICIS GROUPE SA	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**JACQUES ALEXANDRE NAHMIAS**

Born on September 23, 1947 – Age: 63  
 Business address: 42 Avenue Raymond Poincaré – 75116 Paris – France  
 Number of Danone shares held as of December 31, 2010: 4,536  
 Independent Director  
 French nationality  
 Principal responsibility: Chief Executive Officer of Pétrofrance SA

**Personal background – experience and expertise**

Jacques NAHMIAS is a graduate of the Institut d'Études Politiques de Paris and the Massachusetts Institute of Technology.

After five years at the Institut de Recherche des Transports (currently I.N.R.E.T.S.), Jacques NAHMIAS joined his family's company Pétrofrance in 1978.

At the time Pétrofrance was present in three business lines – oil and gas research and production (Canada, France, Italy, United States); petrochemical services (France, Spain); real estate development (France). There he held positions in management control for the Spanish subsidiaries and was later Chairman and Chief Executive Officer of the French oil and chemicals storage subsidiary.

Appointed to the Group's Executive Board in 1982, he assumed responsibility for the entire industrial logistics activity.

From 1999 to 2002, Jacques NAHMIAS actively participated in refocusing Pétrofrance on three countries (France, Spain, Italy) and two business segments. He then became Chief Executive Officer of the company and Chairman of its largest subsidiary, TEPSA (now wholly owned), Spain's leading independent company for storing oil and chemical products and biofuels.

Jacques NAHMIAS became a Director of Danone (at the time BSN Gervais Danone) in 1981.

After 30 years on the Board, he does not wish to renew his term of office. He nevertheless remains a Director of the Spanish subsidiary (Danone's historical company). He has also been the Vice-Chairman of the Carasso Foundation since its inception in late 2009.

**POSITIONS AND RESPONSIBILITIES AS OF DECEMBER 31, 2010**

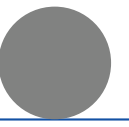
<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from June 12, 1981 to the close of the Shareholders' General Meeting to approve the 2010 financial statements)	DANONE SA <sup>(1)</sup>	France
Chief Executive Officer and Director	PETROFRANCE SA PETROFRANCE CHIMIE SA	France France
Chairman	CASAS ALTAS S.A. PETROFRANCE CHIMIE SA TERMINALES PORTUARIAS S.L.	Spain France Spain
Director	PETROREP SA PETROPEP ITALIANA SPa TERMINALES PORTUARIAS S.L. DANONE SA	France Italy Spain Spain

(1) Listed company.

**POSITIONS AND RESPONSIBILITIES HELD DURING THE PAST FIVE YEARS**

<b>Position</b>	<b>Company</b>	<b>Country</b>
None		

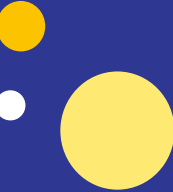








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