----------------------------------------------------------------------------------------------- Groupe Danone 2012

The year 2012 confirmed in spectacular manner the profound shift in the global economy that is gathering pace. On the one hand, new economic powers such as China, India and Brazil are growing as other economies such as Indonesia and Nigeria are emerging as future powers. On the other, many countries of the so-called developed world are marked by stagnation, recession and a worrisome financial situation.

This trend is also reflected in Danone’s activity. The group continued to record strong, and in some cases very strong growth in numerous countries, further strengthening its positions in the emerging economies. In Europe, however, sales and margins in 2012 were affected in several of the group’s major historical countries such as Spain and France. Given this situation, management’s responsibility consists in adjusting its strategies quickly and rethinking its company organization in order to take advantage of the growth momentum in the new economies while regaining maneuvering room in Europe, which remains a major region for the group. Significant changes are under way to enable Danone to “reinvent” itself in response to this new global environment.

In this rapidly changing world, Danone’s actions are guided by its “dual economic and social project,” which celebrated its 40th anniversary in 2012. When visionary Antoine Riboud conceived this “dual project” back in 1972, he felt that economic and social (or societal) interests should not be pitted against one another, but instead that a company’s duty was to find a way to combine the two and to make the necessary adjustments for a given context. This vision does not lock the company into a straightjacket of rigid social or environmental obligations, but enables it to adapt to local environments in order to come up with the right models that create both economic value as well as social and environmental value.

The success of the Danone Ecosystem Fund provides a useful illustration of this approach. In three years, this fund has invested in 43 projects, some of which have already become sizeable in their own right. These projects are all conceived and managed locally by Danone subsidiaries in partnership with Non-Governmental Organizations. They all have a direct relationship with Danone’s economic ecosystem. They include, for example, the development of a high-quality milk supply chain with small producers in Ukraine, Egypt, Brazil and China, the recycling of plastic bottles in Indonesia and Mexico, and local distribution in several countries that creates numerous jobs and helps market products to new customer bases.

These projects are breaking new ground. They are sustainable because they are connected to Danone’s economic activity and bring economic value to the company which finances them (supplying milk or the raw materials used to manufacture bottles, sales development). They are also sustainable because they create considerable social and environmental value (improving the income and social condition of milk producers, waste-pickers and salesmen, as well as their families while making a positive environmental impact).

In the environmental area, Danone continued its efforts despite a generally unfavorable international context and in 2012 achieved the ambitious goals set in 2008, namely to reduce the group’s greenhouse gas emissions by 30% worldwide. Certain Danone brands such as Evian have achieved reductions that exceed 40% and are striving to achieve carbon neutrality thanks to the innovative measures of the Livelihoods Fund. This fund was launched by Danone at end-2011 and has now been joined by other large corporations. Here again, this carbon reduction target was achieved by striving for the right combination of productivity gains and environmental impact. Energy efficiency and innovation in logistics and packaging materials must serve our two-fold objective of being competitive and transforming our production methods.

Upstream from its processing activity, Danone is conscious of the strategic role played by agriculture both now and in the future and of the challenges involved in securing its agricultural raw materials. The sustainable agriculture project launched in 2012 will play an increasingly central role in the group’s strategy. The idea is to promote sustainable agricultural models based on their economic viability and agricultural practices that ensure food quality, health and taste while respecting soil and plant quality, the water cycle or animal well-being.

Here and in other areas, the compass of the dual economic and social project will enable Danone to stay the course pragmatically so as to continue making progress while taking into account the diversity of situations.

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The events that occured in 2013, convinced me, more than ever before, of two things. Firstly, that sustainable development is not a virtue in business, but rather a business wisdom. To mention just a few examples, soaring raw materials prices and the complexity of processes across the supply chain, for which we paid the price in 2013, call for global reflection with regard to issues that are well beyond the scope of the company’s strict legal responsibility.

And secondly, that nothing can be taken for granted. Danone has long been committed to an approach that puts sustainable development at the heart of its strategies and business processes. Yet, the progress we make is never consistent or permanent. In 2013, for instance, Danone ranked world number one in the ATNI (Access to Nutrition Index) which positions food and beverage companies based on consumer access to healthy nutrition. This achievement confirms the group’s strengths in this area but also highlights certain points that demand our attention.

Another example in a different field: workplace safety. After improving consistently over ten years thanks to a very proactive policy, results took a downturn in 2013. We must revise our approach and make further progress.

Regarding environmental issues, 2013 was a year of review. Following six years of efforts in which the group exceeded its targets and achieved a 37% reduction in global carbon emissions per metric ton produced, Danone’s ultimate goal is to cut emissions by more than 50% by 2020. In 2013, we also meticulously examined our agricultural supply to define and test a sustainable agriculture approach in a dozen countries, incorporating economic, ecological and social aspects as well as impact on nutrition and health.

We still firmly believe that for a food group like Danone, reducing our carbon footprint, securing sustainable farming supplies, managing water resources and innovating in recyclable packaging will increasingly contribute to build competitive advantages. They will be the cornerstones of the group’s Nature platform and goals for 2020.

The funds we dedicate to social innovation with our shareholders’ agreement also continued their development in 2013: the Danone Ecosystem Fund, for instance, supported 47 projects carried out by Danone subsidiaries in partnership with local organizations.

Relating directly to the company’s businesses, i.e. milk supply from small-scale farmers, packaging recycling and local distribution, these projects allowed the group to develop models delivering both business and social impacts. Some of them will be expanded on a large scale in the years ahead. The Livelihoods carbon investment fund created by Danone and which now involves nine major French and European corporations is another example. Agroforestry investments already made by Livelihoods in Africa, Asia and Latin America will enable eight million tons of carbon to be stored while creating value for rural communities.

These innovation programs are rooted in Danone’s culture and its dual economic and social project. They are crucial to continue building Danone for the future.

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At Danone we believe that what we do is as important as how we do it.

So in order to fulfill our mission to bring health through food to the largest number of people, we embarked on a passionate journey towards a socially responsible growth model for a long time now.

This journey started in 1972 when Antoine Riboud set the parameters of Danone’s dual economic and social project. Since then, many years went by. We have grown and profoundly transformed our company while always honoring our dual commitment to business success and social progress.

Looking back, we have many reasons to be proud of what we have accomplished in all these years but we are also conscious of the great challenges that lie ahead. Indeed, in a world that is growing increasingly complex, volatile and fragmented, today more than ever before we need to resync economic performance and social development.

We need to transform Danone while remaining Danone

That is why in 2014 we have reaffirmed our mission, enhancing our profound conviction that food is health’s most significant partner. This mission is embodied in our Danone 2020 plan which will enable us to strengthen our foundations for the years to come. Finally, both this mission and plan are supported by a new governance where us, the Chairman and the CEO of the company share the same passion for the Danone way of doing business.

Because we believe that our mission is uniquely positioned to address health issues in today’s society, we have put in place a Product Compliance Board, whose mission is to supervise Danone’s engagement on health and nutrition. Also, in order to systematically assess the relevance of our local offers, we have reinforced our three major research programs: Nutriplanet, Nutriways and Nutri-Impact.

Because we believe that healthy food can only come from healthy nature and that the energy and raw materials that we consume change the nature of our planet, we continue our efforts to reduce our environmental footprint, reaching a -41,6% reduction in CO2 intensity since 2007. And because we cannot do it alone, we hold regular meetings with our Nature Key Opinion Leaders Board, a panel of environmental external experts that inspire and challenge us.

Because we believe our employees are Danone’s best competitive advantage, and the key to long-term value-creation and since safety at work is our first priority, lost time injuries frequency rate has dropped for the 10th year in a row, dividing by 5 since the inception of the WISE program. We have also extended our Dan’Cares program, which standards now cover 70% of the company’s total headcount. Also, we have launched the One Learning a Day program, thus enabling the experience of digital learning for all of our workers around the world. Finally, two employees have been appointed to sit at our Board of Directors.

Because we believe that a company cannot thrive in isolation from its community and its ecosystem, we have continued our investments through our three social business platforms: Danone Communities, Livelihoods Fund and Ecosystem Fund, reaching today almost 4 million beneficiaries. Especially regarding our supply chain, we published a Sustainable Agriculture White Paper, the objective being to kick start an open discussion with civil society on the issues that matter most on this field. Finally, we have carried out a materiality analysis, consulting more than 20 stakeholders, with the objective to ensure the topics we address through our strategy are also the most relevant and material to society.

We believe in our mission and in the power of the solutions that arise from co-creation processes between Danoners and the communities that surround us. So we invite you to join us in this exciting journey.

See you on the road!