



LETTER to SHAREHOLDERS

March 2006



Dear Shareholders,

Danone's excellent results for 2005 bear witness to the effectiveness of the strategies pursued by your Board of Directors and group management.

We achieved these targets in the face of strong headwinds, since conditions were difficult for consumer sales in France, our main market, and prices for raw materials went up sharply. Looking beyond this general satisfaction with results, I would like to draw your attention to some good reasons for confidence in the future.

- Firstly, there are the brisk performances reported from what we have called our new frontiers. These are the five countries that we have made a special focus of investment. Russia, China, Indonesia, the US (for dairy products) and Mexico, where sales grew by a average of 18% in 2005.
- Secondly, there is the continued momentum of our dairy brands Actimel, Activia (Bio), Petit Gervais and Tallefine/Vitalinea, which continue to post annual growth in excess of 15%. Each of these brands has the potential to generate sales of €1 billion in the near future.
- Thirdly, there is the rapid deployment of our new strategy in beverages which involves rounding out flavored waters and functional drinks. They already account for over a quarter of our total beverage sales.
- Finally, strategic reorientation of our Biscuit business is proving successful. Not only has there been a return to growth, but profitability has improved sharply and now tops our Group average.

All of these reasons make me confident that we will once again be able to achieve our targets for growth and margins in 2006. But most of all that confidence in the future, also illustrated by the dividend increase to be put to you, is founded on your continued trust.

Sincerely,

Franck Riboud

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RESULTS

Net Sales
2005
(like-for-like)
+ 6.7%

Steep rise in net income and net income per share for 2005

Groupe Danone posted 6.7% full-year organic growth in 2005, while trading operating margin rose 25 basis points and underlying earnings per share 15.9%.

Sales of the Fresh Dairy Product business line rose 7% at constant scope of consolidation and exchange rates, driven by growth averaging close to 15% for its blockbuster brands Actimel, Activia, Vitalinea and Danonino. Beverage sales were up 10%, buoyed by increases of 15% in Asia and 30% in Latin America. Flavoured waters and functional drinks made a significant contribution, with performances benefiting from new product launches on all markets. Finally, sales of the Biscuit and Cereal Products business line were up 1.5%, reflecting growth in Asia.

Overall sales growth in Europe came to only 2.8% due to a decline in France, where conditions on consumer markets were difficult throughout the year. Sales in Europe outside France did much better, with a rise of over 7% driven by business in Eastern Europe (particularly Russia) and in Northern Europe (United Kingdom and Germany).

In Asia, 12.9% growth was driven by growth of 15% in China and 25% in Indonesia. Firm trends for Fresh Dairy Products in North America and excellent performances from all businesses in Latin America brought an increase of over 15% for sales in the rest of the world.

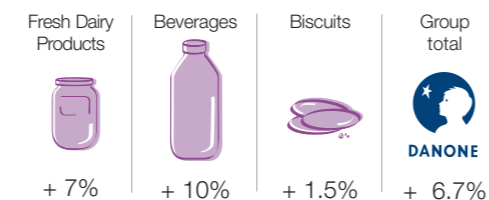
Operating margin was up for the eleventh year in a row, rising 25 basis points to 13.35% despite the higher raw material costs associated with the increase in oil prices. Margin growth remained very satisfactory in both Europe and the rest of the world.

Diluted net earnings per share on ordinary business rose 15.9%.

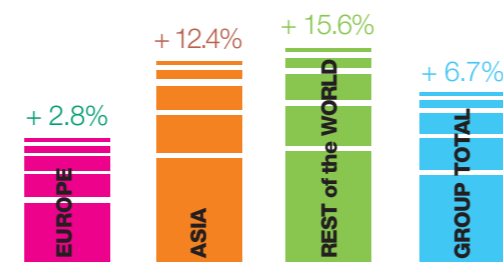
The Board of Directors is to propose a dividend of €1.7 per share at the Annual General Meeting, 26% higher than that paid for 2004. ●

Sales growth* (2005 results)

By business line



By region



*At constant exchange rates and scope of consolidation

Diluted net earnings per share
(like-for-like)
+ 15.9%

Financial highlights (in euro millions)

	2004	2005	Variation
Consolidated net sales	12,273	13,024	+ 6.7%
Trading operating income	1,608	1,738	
Trading operating margin	13.10%	13.35%	+ 25 bp
Underlying net income (from continuing activities)	591	1,167	
Net income attributable to the parent	449	1,464	
Diluted net earnings per share ⁽¹⁾ (in euros)	3.57	4.14	15.9%
Free cash flow ⁽²⁾	1,204	1,303	
Shareholders' equity (incl. minority interests)	4,506	5,621	
Net debt	4,538	3,572	
Number of shares listed at Dec 1 st (in thousands)	268.1	244.5	
Closing price for the year (in euros)	67.95	88.25	
Market capitalization at Dec 1 st	18,217	21,577	

(1) Excluding exceptional items

(2) Free cash flow equals cash flow from operations minus working capital requirement minus capital expenditure

Operating margin
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rising 25 basis points to
+ 13.35%

Change in operating margin

By business line (in euro millions)	Operating margin	
	2004	2005
Fresh Dairy Products	14,1%	14,2%
Beverages	15,4%	13,7%
Biscuits & cereal products	10,9%	14,5%
Group total	13,10%	13,35%

By region (in euro millions)	Operating margin	
	2004	2005
Europe	14,9%	15,5%
Asia	13,2%	11,5%
Rest of the world	10%	12%
Group total	13,10%	13,35%

BUSINESS

Dividend per share
+26%
than 2004

Danimal :

healthy and affordable eating for all



In South Africa, 40% of the population have to get by with less than €1 a day for food. Not surprisingly, many children suffer from diet deficiencies, particularly a lack of zinc. Danimal, a yogurt enriched with vitamin A, zinc, and iron, was specially designed to meet their needs and began test marketing in Soweto in February 2005. It sells for just one rand — around €0.14 — per pot and the price is printed directly on the container, leaving little room for inflation to take hold. Danone-Clover took an unorthodox tack for distribution with a sales force made up of unemployed women from local communities, dubbed DaniLadies. The benefits are clear: local residents help overcome the difficulties associated with access to some townships, as well as the lack of refrigerators and a structured retailing base. At the same time, the DaniLadies get a job and training, and local children are better nourished, while the Danimal brand gains in recognition within the local community. Danimal sales are now being extended to Orange Farm, an area with a population of two million, soon to be followed by East Rand, a particularly difficult area with a population of one million. A move into the region around Durban is planned for 2007 and Danimal could later be launched in other markets, possibly in neighboring countries.

Baby food : new horizons for Fresh Dairy Products

Winning a leading place on the baby-food market is a strategic goal for the Fresh Dairy Product business line.

An important first step in this direction was taken in 1996 with the launch of the Mon Premier Danone brand in Spain. Products are suited to the tastes and nutritional requirements of infants from their sixth month, when dietary diversification begins. Now, nine years on, the brand posts excellent earnings and the highest growth in the Spanish subsidiary's line-up. Mon Premier Danone helps to bolster the Danone brand itself, reinforcing the association with health and nutrition as well as emotional

proximity to consumers. It also has the potential for development in new markets where retailer brands are not present and — most importantly — establishes the place of the Danone brand in family life from the earliest age. At the end of 2005, it was deployed in France with the support of Blédina's expertise in areas including food safety and the nutritional needs of infants. These synergies have enabled Danone to offer a full range of products without any equivalent on the baby-food market. Launches are now planned in Portugal and will be followed by others in at least four more countries by the end of the year.



Groupe DANONE sells Amoy sauce

Groupe Danone finalized the sale of Amoy to Ajinomoto Co. Inc. for an amount of approximately €190 million in January 2006. Amoy produces and markets Chinese sauces and frozen foods for sale mainly in Hong Kong, mainland China, the US and the UK. DANONE is focusing operations in Asia, as in other parts of the world, on its three core businesses: fresh dairy products, water and other non-alcoholic beverages, and biscuits.

Wahaha Nutri-express

Nutri-express was certainly Wahaha's biggest success in 2005, with 300 million bottles sold in China during the year. A dairy-based beverage with fruit juice enriched with 15 vitamins and minerals, Nutri-express is designed for active young adults intent on getting their day off to a good start with a charge of energy. Following test marketing launched in three provinces of northeastern China in October 2004, the product went nationwide in January 2005, gaining impetus from a major advertising drive centered on vitality.

Franck Riboud joins GAIN board

GAIN and DANONE are pleased to announce that Mr. Riboud will join the Board of Directors of GAIN (Global Alliance for Improved Nutrition). GAIN is a Swiss-based foundation whose vision is for all people, everywhere, to have the vitamins and minerals they need to live healthy and productive lives. GAIN and Groupe DANONE are delighted to take this partnership one step further to bring together the private and public sectors to open new markets for health-giving foods.

Danone et vous :

Groupe DANONE takes the lead in relational marketing targeting French consumers

Ten years after the launch of consumer magazine Danoé*, Danone has completely overhauled its relational marketing with the Danone et Vous program, which was launched this January. Core messages center on the group's expertise in nutrition, with information and advice to help consumers make diet an ally for good health. Related tools include a 68-page guide to health and diet, a magazine published three times a year, and a new Internet site. This new communications strategy sets out to consolidate leading positions and put a fresh shine on Group brands by leveraging know-how to build consumer loyalty and resist competition from retailer brands and hard discount chains.

* A pioneering initiative, Danoé was distributed to over four million households or one out of six in France. It generated an estimated €100 million in additional sales to show a healthy 25% return on investment.



Partnerships powering research

A good 85 years after the first Danone yogurts were made with ferments from the Pasteur Institute, the Danone Group has renewed ties to the same institute in a partnership over a period of at least four years for research into the way probiotics work. The results should make it possible to identify new probiotic strains and better understand how they influence health. A few months later, another R&D partnership was formed with the Heart and Arteries Foundation, this time dedicated to the prevention of cardiovascular disease, diabetes and obesity. The aim is to promote innovative research programs to better understand the contributions nutrition can make to the prevention of cardiovascular disorders.

* Live bacteria that positively influence the health by balancing the intestinal microflora when ingested in sufficient quantities.



Pure vegetable



Many consumers favor products made with purely vegetable ingredients, a source of protein without cholesterol and lactose (which some find hard to digest).

In response the Fresh Dairy Products division, drawing on the support of Group R&D teams, has developed a soy yogurt with taste, texture and other organoleptic properties as similar to natural yogurt as possible — important, since soy does not appeal to many European palates. The product made its market debut under the name Senja in France this January and is now being rolled out in Spain under the name Savia. Deployment should be extended to other parts of Europe between now and the end of the year.

New R&D center for Fresh Dairy Products in Asia

On October 31 last year, Danone inaugurated a new R&D center in Shanghai to back Fresh Dairy product business in Asia. Housed in a building with a floor area of 1,660 sq.m., the center already counts ten international researchers charged with developing products attuned to Asian tastes in ingredients, texture and other organoleptic properties, while at the same time offering nutritional benefits that match local needs. Danone already has a research center for biscuits in Shanghai, which continues to develop products with nutritional properties attuned to local markets, as well as two centers dedicated to beverages. One of these is specialized in high value-added functional drinks, the other in products that are highly affordable and suited to all distribution channels. All told, 150 researchers, engineers and development staff are working on new products for Asian markets.

- present in **30 countries in 2005**, up from **ten in 2000**
- 2005 sales **€840 million**, up from **€200 million in 2000**
- **124 servings** a second sold worldwide
- the quickest growth in the Danone line-up, with sales **rising 35% in 2005**

Activia builds worldwide reach

Activia, now present in 30 countries, saw sales soar between 2000 and 2005 with growth averaging 30% to reach a total of €340 million in 2005. Launched in France under the Bio name in 1987, then in Spain the following year, Activia is one of the four growth leaders for the group's Fresh Dairy Product business line (others are Actimel, Taillefine/Vitalinea and Danonino, the latter sold as Petit Gervais aux fruits in France). Success is due in large part to health claims backed by scientific evidence, since regular intake of the bifidus ferment used to produce the yogurts has been shown to have a beneficial effect on the digestive tract. Health is thus a central theme for all communications, with advertising harmonized for subsidiaries from Argentina to China and Turkey. Commercials feature the outline of a woman's body with a dark green arrow pointing downwards and a slogan that has become familiar to consumers around the world: "Active inside and it shows". At the end of January 2006 DANONE took an important step forward with the launch of this probiotic yogurt on the US market as part of a broader strategy to make Activia a driver to win recognition for the Danone brand as the worldwide name for health. This is a major draw for US consumers, particularly women, and

the target is to place Dannon first in the US for market share, ahead of Yoplait, a brand under license to General Mills.

Activia has much to gain on the US market, not least from the growth potential that goes with what are still fairly low levels of consumption — americans eat an average of only 6 kg of yogurt a year compared with 33 kg for people in France. In addition, over 70 million americans, many of them women aged between 35 to 64, suffer from digestive problems and probiotics can give them real help.

On this very health-conscious market, Activia is thus being promoted with a campaign presenting it as a solution to common problems: "New Dannon Yogurt is Clinically Proven to Help Naturally Regulate the Digestive System." This statement based on the fact that Activia is the first and to date only probiotic yogurt on the market for which clinical tests have established that daily consumption, as part of a healthy, balanced diet, brings real benefits for the digestive system after two weeks.

* The four brands spearheading the offering of the Group's



In France, Activia replaces Bio name

In mid January, Dairy Product business in France underwent a minor revolution as the ever-popular Bio brand changed to Activia, the name already used in most countries. This reflects a new requirement of EU law that comes into force on July 1 this year, which will allow the use of labels referring to biological or organic farming methods only for products made using these methods. But as the commercials stress, only the name, not the substance, has changed.

Key facts and figures

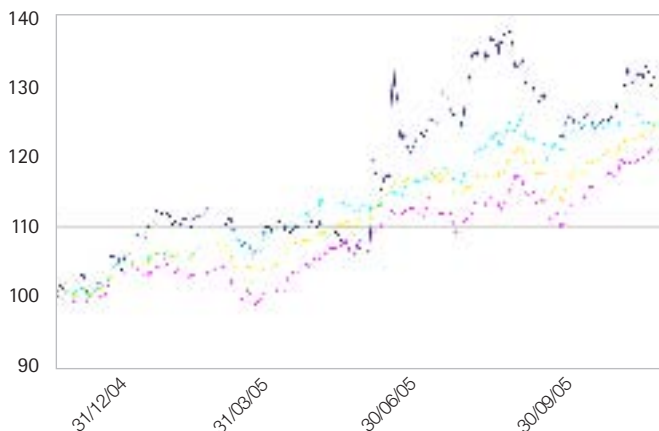
DANONE shares

- > **NUMBER OF SHARES AT DECEMBER 31, 2005** : 264 235 190
- > **PAR VALUE** : €0.50 per share at December 31, 2005
- > **DANONE SHARES** are listed on Euronext Paris, SWX Swiss Exchange, and in the form of American Depositary Shares on the New York Stock Exchange.

Stockmarket performance

DANONE share performances compared with CAC 40, Euro Stoxx 50 and DJ Stoxx Food & Beverage indices.

- DANONE
- EUROSTOXX SM
- CAC 40
- DJ STOXX F&B



- > **STOCK MARKETS** scored significant gains in 2005 and in this favorable context Danone shares put on 29.9%, beating rises of 23.4% for the CAC 40, 21.3% for the Eurostoxx 50 and 24.8% for the DJ Eurostoxx Food & Beverage index.

Dividends paid to Groupe DANONE shareholders

2005 : €1,70*
2004 : €1,35
2003 : €1,23 **
2002 : €1,15 **

- * To be proposed at the Annual General Meeting on April 27, 2006
- ** After adjustment for the two-for-one share split on June 15, 2004.

Bloc-notes

- > **April 20, 2006**
Announcement of first-quarter sales
- > **April 27, 2006**
Annual General Meeting of Groupe DANONE shareholders at the Carrousel du Louvre in Paris
- > **August 2, 2006**
Announcement of first-half sales and earnings

Contacts information

Read more about financial data at
www.finance.danone.fr
 Figures, news, presentation, agenda...
Toll free number : 0800 320 323
 Free call from metropolitan France