



LETTER to SHAREHOLDERS

March 2007



Dear Shareholders,

In many ways, 2006 was a remarkable year for DANONE.

With organic growth close to 10%, net earnings per share up 18% and a significant rise in operating margin for the twelfth year running, your Group has shown it can sustain and build on its dynamism. DANONE is therefore a company that performs. But also, and this seems to me to be just as important, a company that has shown that, year after year, it can calmly deliver the results it has committed to with shareholders. For management, as well as our Board of Directors, this reliability lies at the heart of the relationship of confidence and loyalty that we wish to build with stakeholders and, in first place, shareholders.

It is this confidence that enables us to advance, progress, invest and dare. It is this confidence that enables us to build and invent with energy the future of this fantastic economic and human adventure that is DANONE. It is this confidence that enables us to continue to pioneer and develop a corporate model that has shown itself to be “different”. Since it was created, DANONE, without ever compromising on the quality of its results, has always pursued economic and social development in parallel. Its mission (provide health through nutrition for as many as possible) illustrates well the company’s awareness that, over and beyond its economic role, it can and must have a utility for society. It is this conviction that has once again prompted us to innovate in conceiving the danone.communities project presented in the following pages. Besides the strategic interest it has, I am convinced that the initiative can, among other things, contribute to strengthening our relations. In any case, this is what lay behind its conception. Sincerely,

Franck Riboud

Results P. 02

News P. 04 to 07

Key figures P. 08

RESULTS

2006 Sales
2006
(like-for-like basis)
+ 9.7%

Diluted net earnings
per share
+ 17.9%

GROUP RESULTS

2006: objectives exceeded

Group organic growth amounted to 9.7% in 2006, one of the best figures in its history. Sales rose to 14,073 million euros. With operating margin up 10.1% – despite rising raw material prices, in particular PET –, net income from continuing operations up 15.8% and earnings per share growth of 17.9%, Groupe DANONE's performance has exceeded objectives.

All three Group businesses participated in the growth. Fresh Dairy Products sustained its momentum (+9.2%) with growth in particular coming from the Group's four leading products, Actimel, Activia, Danonino and Vitalinea, whose sales increased by more than 15%.

The Beverages division had a remarkable year with growth of 14.8% thanks to the strong performance of innovations in Asia. In the last quarter of 2006 in particular, Group sales growth was boosted substantially as a result of new beverages introduced in China.

Biscuits also performed well with growth of 3.1%, confirming the contribution of the division to the Group's profitable growth model.

In terms of geographic region, Asia jumped 20.6%, Europe rose 5.1% and the rest of the world 16%.

These excellent results were based on a range of drivers: the strategic priority given to innovation, the force of DANONE in health products, the leadership position of DANONE in its three business segments, and the geographic development of the Group (expansion to new countries and strengthened positions in markets where DANONE already has a presence).

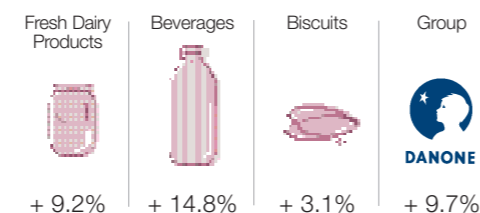
The Group's profitability improved at a satisfactory pace. Free cash flow continued to rise in 2006 (+16.4% compared to 2005), under the dual impact of higher cash flow and continued optimisation of working capital requirements.

Diluted net earnings per share rose 17.9%, rising from 4.14 euros in 2005 to 4.88 euros in 2006.

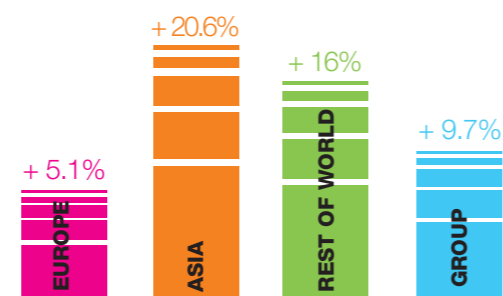
The Board of Directors intends to recommend a dividend of 2 euros per share for 2006 (i.e. an increase of 17.7% compared to that paid in respect of 2005) at the general shareholders meeting which will be held on 26 April 2007. ●

Sales growth* (2006 results)

By business division



By region



* At constant exchange rates and consolidation scope.

Key figures (in millions of euros)

	2004	2005	2006
Consolidated sales	12,273	13,024	14,073
Trading operating income	1,608	1,738	1,914
Trading operating margin	13.10%	13.35%	13.60%
Net income from continuing businesses	591	1,167	1,406
Group share of net income	449	1,464	1,353
Diluted net earnings per share* (in euros)	3.57	4.14	4.88
Free cash flow**	1,204	1,303	1,516
Shareholders equity (including minority interests)	4,506	5,621	6,069
Net financial debt	4,538	3,572	2,902
Number of outstanding shares as of 31 Dec. (in millions)	268.1	264.3	260.9
Share price as of 31 December (in euros)	67.95	88	114.8
Stock market capitalisation as of 31 December (in euros)	18,217	23,252	30,000

* Excluding exceptional items.

** Cash flow - Changes in working capital requirements - Industrial investments (net of cash from sales).

Dividend per share
+ 17.7%
compared to 2005

The operating margin
continued its improvement over 2006 for the twelfth year running, rising to **+ 13.6%** up 32 basis points compared to 2005 on a like-for-like basis.

Changes in operating income and margin progression

By business division	Operating income		Like-for-like margin progression
	2005	2006	
Fresh Dairy Products	965	1,109	+ 68 bp
Beverages	448	504	- 20 bp
Biscuits & Cereal products	325	301	- 1 bp
Group	1,738	1,914	+ 32 bp

By region	Operating income		Like-for-like margin progression
	2005	2006	
Europe	1,204	1,295	+ 33 bp
Asia	239	244	- 15 bp
Rest of World	295	375	+ 125 bp
Group	1,738	1,914	+ 32 bp

The danone.communities project

Social and financial investment according to DANONE



Bogra plant / Bangladesh

The Grameen Danone project aims to offer children suffering from nutritional deficiencies a yoghurt adapted to their needs at a very low cost. In addition to its health benefits, the project has many other social impacts. Activity in the Bogra plant will enable around 1,500 jobs to be created and will also contribute to another of the project's objectives,

namely the reduction of poverty. In addition, Grameen Danone has focused on processes that reduce the environmental impact of the project as well as energy consumption. For 30 years, DANONE teams have pursued an approach that places social development and economic development at the same level. Groupe DANONE has grown rapidly in countries

with significantly different social and cultural realities. In its specific way, the group has become an active participant in the globalisation of the economy. Initiated 10 years ago, the refocusing of the company on its three core businesses has enabled it to bolster resources devoted to research and development and enhance the effectiveness of DANONE's corporate model. The corporate policy "health through nutrition for the greatest number" is now shared by company employees and widely recognized in its milieu, in particular shareholders. DANONE is recognized as the company which, among major agri-food companies, has the portfolio of products that contributes the most to health. Based on the experience of the last 10 years, a period during which the Group has been able to consolidate and develop its positions, the management and Board of Directors of DANONE now wish to take a step further in the area of social innovation.

Reinforcing social innovation

In 2006, a first initiative was launched in Bangladesh in association with the Grameen Group, the company of Muhammad Yunus, Nobel peace prize winner. After 12 months of work, the partnership is now operational and has opened up the way for a new "social

- On 26 April, Groupe DANONE will submit a resolution to shareholders for vote authorising it to invest in danone.communities.
- The project is designed to finance corporate projects which have a significant **social impact**.
- It will be structured in the form of a mutual fund (**SICAV**) managed and commercialised by an authorised financial institution belonging to the Crédit Agricole Group. The mutual fund will in particular be **open to all Group shareholders** who wish to invest their savings in a socially responsible investment, which, via a private equity fund (FCPR), will invest up to 10% in companies with a social character, located mainly in emerging countries.

business" corporate model. These are real businesses whose purpose is to generate a form of profitability but whose priority is maximisation of their positive impact on society (creation of jobs, reduction of poverty, development of public health etc). To go further, and given the interest generated by the project, DANONE has decided to associate all those who are interested by this innovative approach in the project. This is the idea behind danone.communities. Specifically, the concept is to create an investment fund whose purpose is to support and accompany the development of social businesses, in line with DANONE's mission. The first fundraising will finance part of the construction of the second and third fresh dairy products micro-plants in Bangladesh. Later, other projects will receive support in other countries.

The approach

At its next general meeting on 26 April, the Group will present the initiative to shareholders, who will have the opportunity to participate in the project. Danone.communities targets all those who, whatever their financial resources may be, wish to give a meaning to their savings that is not purely financial. This is responsible investing, not charity. In order to embrace as wide a public as possible, and to avoid



Sales began in a few pilot sectors around Bogra (first plant) at the beginning of 2007. The reception was extremely encouraging. From an economic and financial standpoint, the objective is to develop a business that is sufficiently profitable to finance the construction of new plants.

discriminating wealth profiles, the danone.communities project has been structured by a major bank, the Crédit Agricole, in the form of a mutual fund - sicav whose purpose is to invest 90% of its assets in money market products and a maximum of 10% in a private equity fund (simplified procedures) which will in turn invest in companies located for the most part in emerging countries. While it makes a lot of sense socially, investment in social enterprise in emerging countries nevertheless remains potentially risky.

Thanks to the structure adopted, the yield of the fund will be close to money market rates, less actual management expenses. As for the social performance of the private equity fund, this will be subject to an ongoing dialogue between managers in charge of projects, social entrepreneurs and members of danone.communities. Social performance will be measured by objective performance indicators which will be reviewed regularly by experts. Further information will be available shortly, in particular from Crédit Agricole.

Associating consumers in product development



The “Ateliez” is a new consumer test centre which was inaugurated at the Daniel-Carasso Centre in September 2006. Involving all three Group business divisions in a cross-functional manner, the centre is designed to facilitate co-development of products (French as well as foreign) with consumers, significantly reducing the time needed for innovations to be introduced on to the market. By helping R&D engineers to understand consumer needs better, the Ateliez enables them to gain time and focus more effectively on products and packaging developments. The new test centre will also enable new approaches and methods to be tried out for deployment in other regions such as the United States and China.

Dialert now has an Internet site

In 2006, DANONE reinforced its fraud alert system by integrating an Internet site designed to facilitate utilisation by employees. The intranet site was made possible thanks to an authorisation received from the CNIL* to computerise the alert system. Dialert enables DANONE employees to report violations of accounting and financial rules (affecting the reliability of the accounts), failures to respect internal control procedures and principles and any violations of anti-corruption regulations, to Group management. Designed to comply with the Sarbanes-Oxley act, Dialert enables users to act confidentially by telephone, fax or internet.

* Freedom of Information Commission.

A fifth line for Mikado

Inaugurated last November at the Cestas (France) plant, a fifth production line will enable production capacity to be boosted in response to the growing success of the brand in France and abroad. The brand's success reflected strong performance in innovation (Milk Chocolate in 2003, Caramel Chocolate in 2005 and Chocolate and Hazelnut chips in 2006), and a repositioning of Mikado in the young adults target segment. An off-beat communications campaign, illustrated by the advertising slogan “Keep cool”, has proven very successful. To find out more, visit www.mikado.fr

A must read

«Antoine Riboud : Un patron dans la cité» has just been published by Cherche Midi, Paris. The book contains a selection of the texts and speeches of Antoine Riboud, highlighting the groundbreaking nature of his corporate vision. A translation into English is being prepared.

Danone brand recognition

The last GFK* survey on Danone FDP brand recognition and image indicates that the presence of Danone in the mind of consumers remained stable at 48% on average, despite some national disparities. The rising force of blockbusters was a key factor in 2006 with Activia and Actimel in the lead. Danone's image is generally well balanced between health and pleasure and the survey demonstrates that the impact of events such as Danone Nations Cup is real in terms of brand recognition.

*Surveys carried out every two years in 28 countries by GFK, a consultancy firm specialised in market and consumer research.

DANONE strengthens its position in Asia

In 2006, DANONE made a number of acquisitions designed to enable the Group to lay the acceleration of the development of fresh dairy products in Asia. In China, DANONE created a joint venture with Mengniu, an FDP leader in the Chinese market and in Thailand, a Danone subsidiary was created in partnership with Dutch Mill Co. DANONE has entered into associations with carefully selected partners in order to make the most of the high-growth potential in these countries.

Essensis: beauty innovation

Truly a revolution in the ultra-fresh market: Danone has launched Essensis, the first yoghurt which brings together the worlds of nutrition and cosmetics.

Thanks to ProNutris®, an exclusive complex of essential nutrients contained in the yogurt, Essensis represents a scientific and marketing innovation which should enable Danone to assert itself in the promising nutricosmetics market. With its scientifically proven benefits, the new product was launched in February simultaneously in several countries. An unprecedented advertising campaign accompanied the launch.

The virtues of Essensis for the skin have been scientifically proven by a clinical study carried out in collaboration with two independent laboratories – one specialised in dermatology and the other in nutrition – on 72 women over a period of six months. It enables water loss in skin cells to be reduced by 15% over six weeks, and by 25% over a period of 18 weeks. Essensis is the first Danone yoghurt to enable the skin to be nourished from the inside. It is complementary therefore to creams which act locally and from the outside.

These scientific arguments were highlighted during the simultaneous launch of Essensis in Belgium, Spain, Italy and France. The communications campaign put in place for Essensis is designed to solicit consumers from a number of angles: women's press, organisation of exceptional events with major distributors, information campaigns with opinion leaders with a particular effort towards the scientific community, and above all dermatologists... In addition, besides its taste qualities, Essensis also perfectly reconciles beauty and pleasure thanks to a creamy texture, audacious flavours and finely mixed fruits.



Key facts and figures

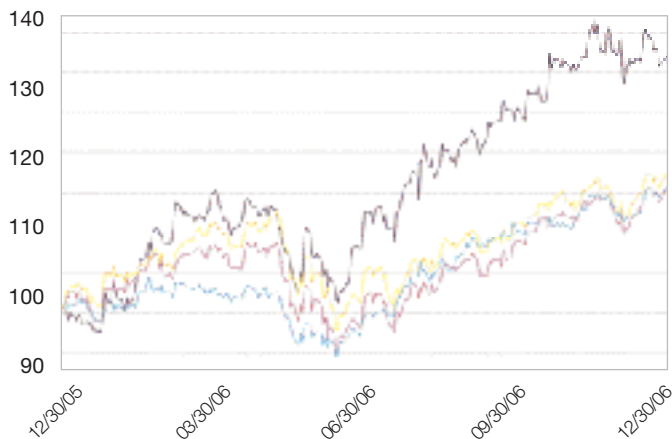
DANONE SHARES

- > **NUMBER OF SHARES as of 31 December 2006:** 260 864 476
- > **NOMINAL VALUE:** 0.50 euro per share as of 31 Dec. 2006
- > **QUOTED STOCKMARKETS:** company shares are quoted on Euronext Paris, the SWX Swiss Exchange and the New York Stock Exchange in the form of American depositary shares (ADS).

Stockmarket performance

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

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



- > **STOCK MARKETS PERFORMED** extremely strongly in 2006. After reaching a low point around mid-June, markets recovered strongly over the rest of the year generating gains of +17.5% for the CAC 40, +15.1% for the Eurostoxx and +15% for the DJ Stoxx Food & Beverage. In this context, the DANONE share price managed to outperform its benchmarks, which rose +30.1% over the year. This performance once again confirms the solidity of Groupe DANONE's profitable growth model.

DIVIDENDS paid to Groupe DANONE shareholders

2006: 2 €*
2005: 1.70 €
2004: 1.35 €**
2003: 1.23 €**

*Proposal submitted to the general meeting of 26 April 2007.

**Taking into account the division of the nominal share price by two on 15 June 2004.

Notepad

- > **24 April 2007:**
First quarter of 2007 results
- > **26 April 2007:**
General meeting of shareholders of Groupe DANONE (at the Carrousel du Louvre, Paris)
- > **31 July 2007**
2007 first-half results

Contact information

Find financial information on

www.finance.danone.fr

Figures, news, presentation, calendar...

Freephone: 0800 320 323

Free call from metropolitan France using a fixed phone.

The **LETTER TO SHAREHOLDERS** is a publication of Groupe DANONE: 17, boulevard Haussmann, 75009 Paris.
 Publication Management: Stéphanie Rismont Wargnier.
 Translation: Allingua.fr.
 Design and Production: **100%**
 +33 1 55 34 46 00 (réf. 1DANACT037)