As filed with the Securities and Exchange Commission on May 18, 1999

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 1998

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-14734

GROUPE DANONE

(Exact name of Registrant as specified in its charter)

Not applicable	7, rue de Téhéran 75008 Paris France	Republic of France
(Translation of Registrant's name into English)	*(Address of principal executive offices)*	*(Jurisdiction of incorporation or organization)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
American Depositary Shares, each representing one-fifth of one Ordinary Share nominal value FF 10 per share	**New York Stock Exchange**
Ordinary Shares, nominal value FF 10 per share*	**New York Stock Exchange**

* Listed, not for trading or quotation purposes, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, nominal value FF 10 per Share: 73,924,810 Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

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* Omitted because item is not applicable.

PRESENTATION OF FINANCIAL AND STATISTICAL INFORMATION

GROUPE DANONE (the "Company") publishes its consolidated financial statements in euros ("euros" or "€"). The Company's financial statements for 1996, 1997 and 1998 were originally prepared in French francs ("FF"), and have been translated into euros for purposes of this document at the rate of FF 6.55957 = € 1.00, the applicable rate established on January 1, 1999. The euro did not exist during any of these periods, and the conversion rate used may not reflect the French franc/euro exchange rate that would have applied if the euro had existed at such times. Solely for the convenience of the reader, this annual report contains translations of certain euro and French franc amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated or at any other rate. Unless otherwise stated, the translations of French francs into U.S. dollars have been made at the rate of FF 5.62 to $1.00, or 17.79 cents to FF 1.00, the noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York ("the Noon Buying Rate") for French francs on December 31, 1998. The translations of euros into U.S. dollars have been made at the rate of € 0.8466 per $1.00, or $1.1812 per € 1.00, the Noon Buying Rate for euros on January 4, 1999. See "Exchange Rate Information" for information regarding the euro and French franc/U.S. dollar exchange rates from 1994 to the present. See also "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Changes in Exchange Rates" for a discussion of the effects on the Company and its consolidated subsidiaries (together hereinafter referred to as "Danone" or the "Group") of changes in the exchange rates between the euro, French franc and the U.S. dollar and certain other currencies.

All references herein to "U.S. dollars", "dollars", "cents" or "$" are to the currency of the United States, references to "France" are to the Republic of France and references to "French francs", "francs" or "FF" are to the currency of France.

Unless otherwise indicated, the financial information contained in this annual report has been prepared in accordance with French generally accepted accounting principles ("GAAP"), which differ in certain significant respects from U.S. GAAP. See Note 2 to the Company's consolidated financial statements as of December 31, 1997 and 1998 and for the years ended December 31, 1996, 1997 and 1998 (the "Consolidated Financial Statements") included elsewhere in this annual report for a description of the principal differences between French GAAP and U.S. GAAP, as they relate to the Company and its consolidated subsidiaries, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

Certain period-to-period comparisons provided in this annual report are given on a "comparable basis". In such context, "comparable basis" means that the Group recalculates the financial information with respect to the earlier period (for purposes of the comparison) to give effect to (i) the exchange rates applied in the later period to convert foreign currency amounts into euros ("constant exchange rates"); (ii) changes in the Group's scope of consolidation resulting from acquisitions and dispositions which, on a historical basis, first took effect in the later period; and (iii) accounting classifications first adopted, on a historical basis, during the later period. In the event that a change in the scope of consolidation is applicable to only a portion of the later period, the financial information for the earlier period is recalculated to give effect to such change for the corresponding portion of such earlier period. Also, for purposes of such recalculation, financial information with respect to acquired companies for the period preceding their acquisition by the Group is generally based on financial information for the relevant period prepared by such acquired companies prior to their acquisition by Danone. Period-to-period comparisons made herein in "constant currency terms" reflect changes in the euro value of the relevant financial information using constant exchange rates for both the earlier and the later periods.

Unless the context requires otherwise, all references herein to "markets" for particular products, or to market share, refer to markets for packaged products and exclude products which may be otherwise marketed or sold. All references herein to "dairy products" and the dairy products business or markets refer to processed dairy products and exclude milk, cream and butter. The market share and volume data contained in this annual report have been compiled by the Company based in part upon statistics and other information obtained from several third-party sources. In addition, the Company utilizes its own surveys of competitors' sales and customers' purchases and inventory levels. The main third-party sources of information are A.C. Nielsen, IRI, certain local market research companies specialized in specific markets and Food for Thought Information Services. The Company has also commissioned studies on specific matters by Zenith, Landell Mills International and ERC Consultancy. Unless indicated otherwise, information regarding market share and ranking is based on volumes of sales.

The Company maintains and publishes statistical information relating to its business in metric units, such as metric tonnes and hectoliters. One metric tonne equals 1,000 kilograms or 2,204 pounds, and one hectoliter equals one hundred liters or 26.4 gallons.

Certain financial and statistical information in this annual report has been subject to rounding adjustments. Accordingly, the sum of certain data may not amount to the stated total.

EXCHANGE RATE INFORMATION

Prior to January 1, 1999, the French franc was a part of the European Monetary System exchange rate mechanism (known as the "EMS"). Within the EMS, exchange rates fluctuated with permitted margins, fixed by central bank intervention. Under the provisions of the Treaty on European Union negotiated at Maastricht in 1991 and signed by the then 12 member states of the European Union in early 1992, a European Monetary Union (known as the "EMU") superseded the EMS on January 1, 1999 and a single European currency, known as the "euro", was introduced. The following 11 member states participate in the EMU and have adopted the euro as their national currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. The legal rate of conversion between French francs and euros was established on January 1, 1999 at FF 6.55957 = € 1.00.

Since January 1, 1999, the euro has been the lawful currency of the EMU states, although euro banknotes and coins are not expected to enter circulation during a transitional phase ending January 1, 2002. New public debt will be issued in euros. Outstanding obligations denominated in national currencies have been converted at the legal rates established on January 1,1999 (unless specific contracts provide for an alternative conversion rate). During a limited period of time, which is planned to begin on January 1, 2002 and end at the latest by July 1, 2002, national currencies, including banknotes and coins, will subsist as non-decimal denominations of the newly introduced euro banknotes and coins. There can be no assurance that these events will take place on time or otherwise as currently expected.

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate (i) for French francs for 1994 through 1998 (expressed in French francs per $1.00), and (ii) for euros for 1999 (expressed in dollars per € 1.00). These rates have been converted for informational purposes into dollars per € 1.00 for 1994 through 1998 and into French francs per $1.00 for 1999, at the French franc/euro conversion rate set on January 1, 1999. Such rates are provided solely for the convenience of the reader and are not the rates used by the Company in the preparation of its Consolidated Financial Statements included elsewhere in this Annual Report. The Group uses the Banque de France Rate for its internal financial reporting and for the presentation of certain U.S. dollar/French franc and U.S. dollar/euro translations set forth herein (see "—Presentation of Financial and Statistical

Information”). No representation is made that French francs or euros could have been, or could be, converted into U.S. dollars at these rates or any other rate.

Year	Period-end rate		Average rate(1)		High		Low	
	($/€)	(FF/$)	($/€)	(FF/$)	($/€)	(FF/$)	($/€)	(FF/$)
1999 (through April 30)	$1.06	FF 6.19	$1.09	FF 6.02	$1.18	FF 5.56	$1.06	FF 6.19
1998	1.17	5.62	1.11	5.90	1.06	6.21	1.22	5.39
1997	1.09	6.02	1.12	5.84	1.03	6.35	1.26	5.19
1996	1.26	5.19	1.28	5.12	1.24	5.29	1.34	4.90
1995	1.34	4.90	1.32	4.96	1.22	5.39	1.37	4.78
1994	1.23	5.34	1.19	5.51	1.10	5.98	1.28	5.11

(1) The average of the Noon Buying Rate for French francs or euros, as the case may be, on the last business day of each month during the relevant period.

For a discussion of the impact of exchange rate fluctuations on Danone’s results of operations, see “Item 9: Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of Changes in Exchange Rates”.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this annual report that are not historical facts, including, without limitation, certain statements made in the sections hereof entitled “Item 1: Description of Business” and “Item 9: Management’s Discussion and Analysis of Financial Condition and Results of Operations”, are statements of future expectations and other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in such statements due to, among other factors, (i) the risks of actual or alleged contamination or deterioration of food products, (ii) changes in exchange rates, including particularly the exchange rate of the euro to non-euro zone currencies, including the British pound, the U.S. dollar and U.S. dollar-influenced currencies, (iii) changes in economic trends and seasonality, (iv) increasing levels of competition in France and other international prepared food and beverage markets, (v) customers and market concentration, (vi) pricing and availability of raw materials, (vii) changes in laws and regulations, (viii) risks and uncertainties attendant to doing business in numerous countries which may be exposed to, or may have recently experienced, economic or governmental instability and (ix) general competitive and market factors on a global, regional and/or national basis.

PART I

Item 1: Description of Business

Overview

Danone is one of the world's leading producers of packaged foods and beverages, with worldwide sales and operating income of € 12.9 billion (FF 84.8 billion) and € 1.3 billion (FF 8.5 billion), respectively, in 1998. In terms of annual sales and production, Danone is the world leader in dairy products and cookies, the world's second largest producer of bottled water and Europe's second largest brewer. Danone's portfolio of brands and products includes national and international market leaders such as *Danone* (*Dannon* in the United States), the world's leading fresh dairy products brand; *Evian,* the world's leading brand of bottled still water, and *Volvic*, the Group's other major international brand of bottled still water; *LU* biscuits, one of Europe's major brands; *Galbani* cheeses, Italy's best-selling brand of cheese; and *Kronenbourg*, France's best-selling beer. In addition, the Group manufactures glass containers for food products and produces certain grocery products, mainly sauces, including the internationally known brand *Lea & Perrins*, and chilled and frozen ready-made meals.

Danone's principal geographic market is the European Union, which accounted for approximately 75.7% of net sales in 1998. France, Italy and Spain accounted for 37.0%, 12.4% and 9.8%, respectively, of net sales during such period. Primarily as a result of its external growth strategy, Danone's net sales from international operations outside the European Union, principally in North and South America, Eastern Europe, and the Pacific Rim, grew to 24.3% of net sales in 1998 from 7.0% of net sales in 1993.

In 1997, management adopted the strategic priority to focus on three core business lines: dairy products, beverages and biscuits. Consistent with this strategy, the Company sold in 1997 and 1998 a significant portion of its grocery business. See "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Divestitures". Danone's strategic activities now account for 86% of the consolidated net sales of the Group's remaining activities in 1998. This strategy is an important step in the consolidation of the Group's position as a world leader in its business lines and continues the Group's evolution from 1970, when the Group moved from being a glass manufacturer to being a major food company, to 1994, when the Group changed its name from BSN to Danone, marking its transformation into one of the world's leading producers of packaged foods and beverages. Since January 1, 1998, the Group is organized in three worldwide divisions: (i) dairy products, including yogurts, cheeses, dairy desserts and infant foods representing approximately 43% of net sales of the Group; (ii) beverages, including bottled water and beer representing about 23% of net sales; and (iii) biscuits, including cookies and savory snacks representing about 20% of net sales; the Group's remaining food businesses are presented as "other food businesses". The Group also produces glass containers. Information in this annual report is presented on the basis of the business structure implemented as of January 1, 1998 and prior period results have been restated as appropriate.

The Group believes that the population growth trend and socio-economic development in Asia and Latin America, which tend to improve the purchasing power of local populations and the demand for ready-made food and beverages, will lead to the expansion of its international market. In addition to its external growth strategy through acquisitions, the Group is pursuing its international development by improving and upgrading the range of products of recently acquired companies and by introducing products available in the European Union in the range of products offered by its foreign subsidiaries.

In addition, a single structure manages most of the Group's exports from the European Union to approximately 100 countries worldwide. Teams of sales representatives are located in more than 50 countries. Danone's main product for export is bottled water, under the brand names *Evian* and *Volvic*, which in 1998, accounted for 85% of exports. *Evian* was exported to more than 100 countries in 1998, where the Company maintains strong market shares, as in the United States and Canada. *Volvic* was the leader of mineral water imported into Germany, Japan and Taiwan in 1998. Biscuit activities represented approximately 10% of exports in 1998 and the Group created a specific brand for the export market under the name *LU*, in particular for the U.S. and Canadian markets. The other principal export products of the Group are sauces and condiments of the *Lea & Perrins* line of products.

Business Strategy

Management has adopted its business strategy to increase the Group's earnings and position the Group for future growth by (i) focusing on three core business lines worldwide (dairy products, beverages and biscuits); (ii) continuing the Group's international expansion outside the European Union; and (iii) enhancing profitability to create shareholder value. Consistent with this strategy, the Company sold in 1998 and 1997 certain portions of its grocery business and its confectionery business and is continuing its program of divestitures. See "Item 9: Management's Discussion and Analysis of Financial Conditions and Results of Operations".

Danone's three-point strategy is based on the fundamental belief that expanding the *Danone/Dannon* brandname and strengthening its other top brands is the vehicle by which it can achieve its goals. Management believes that profitable growth requires focused brand strategies to ensure that the Group achieves the highest sales possible with as few brands as possible. Danone believes that, in general, only leading brands will maintain their competitive position compared to second- and third-level brands, which are more vulnerable to loss of market share due to competing products. Management believes that Danone has a competitive advantage in its core areas through its leading market share, brand recognition, reputation for quality and marketing experience. Danone intends to focus on brands and products with the leading market share in their respective markets, and continually reviews the Group's portfolio of products, brands and businesses with a view towards eliminating products and brands and divesting, when appropriate, businesses without leadership positions that are not consistent with the Group's overall growth strategy.

Danone intends to strengthen the selling power and premium image of its best-known brands by consolidating under its key brandnames various existing product groups, and by increasingly launching new products and entering new markets using these key brandnames. In 1998 approximately 53% of sales were under five brands: *Danone, Galbani, LU, Evian* and *Kronenbourg. Danone* alone accounted for € 3.8 billion or more than 31% of total Group food sales. Growth in Group sales under the *Danone* brandname will come in part from growth in demand for dairy products, but even more from the extension of the brand to other existing products. First steps in this direction were taken in 1996 with the launch of *Dannon* bottled water in the United States and *Danone* biscuits in Asia and Eastern Europe. More recently, bottled water was put on the Turkish market under the *Danone* name following the acquisition of *Hayat*, and *Danone* biscuits made their debut in Brazil at the beginning of 1998. This strategy should create synergies in terms of image and consumption between different Group products, while at the same time increasing the efficiency of advertising expenditure. Danone was also named the official provider of fresh dairy products for the soccer World Cup held in France in 1998 and used this event as a major theme in advertising and promotion throughout the Group. By continuing these efforts, the Group will be able to pursue its strategic plan as described below.

Focusing on Three Core Business Lines Worldwide. In 1996 and 1997, Danone conducted a review of its various businesses in the light of three fundamental criteria: their worldwide position, return on invested capital and prospects for growth. Using its findings, management decided to concentrate human and financial resources on its three main activities on world markets: (i) dairy products targeted towards health-conscious consumers and including infant foods and diet specialties for adults; (ii) beverages, principally bottled water (still and sparkling) and beer; and (iii) biscuits, principally sweet and savory biscuits, packaged cookies and crispbreads and crackers, targeted towards snacking at any time of the day wherever consumers may be. Management intends to pursue growth in such areas by making selective acquisitions or alliances in its three core business lines, and divesting non strategic operations.

International Expansion Outside of the European Union. During 1998, Danone's net sales outside the European Union amounted to almost 25% of its consolidated net sales compared to 7% in 1993. Danone's objective is to increase its sales outside the European Union to one third of total sales. International expansion mainly concerns its three core business sectors, and targets all parts of the world where people buy packaged foods. However, the Group's priorities are emerging markets in Latin America (population 465 million), Central and Eastern Europe (140 million, excluding the former Soviet Union) and Asia (3.2 billion).

Eating habits set Asia apart and, while the Group will be maintaining its focus on its three core businesses in that region, it is prepared to develop products outside these areas.

In pursuing this strategy, Danone relies on acquisitions to gain market share quickly, as well as on the creation of new businesses and market growth. It places special emphasis on using a global brand with a consistent image guaranteeing quality and health, while at the same time positioning *Danone* as a national brand through local production in accordance with local tastes.

In addition to its external growth strategy, Danone is pursuing international growth through both (i) enhancing product portfolios of newly acquired companies and (ii) introducing products available in the European Union into the product portfolios of its foreign subsidiaries. Such European Union products are produced locally with established recipes and can generally be marketed at a substantial premium. Danone believes that the population growth trends and the patterns of socio-economic development in Asia and Latin America, which increases the buying power of the local population, and demand for prepared foods and beverages will also lead over the long term to the expansion of Danone's international markets.

Increasing Profitability to Create Shareholder Value. As part of its continuous efforts to increase operating margins and return on capital employed (operating profit divided by operating assets) both in the short and long term, management has undertaken a program to improve operational efficiencies and to reduce costs through (i) increased productivity (industrial, logistical, and in purchasing); (ii) developing synergies within the Group through the pooling of sales and administrative resources, including marketing and purchasing; and (iii) using return on capital employed and related economic value added, as key management tools and as measures of performance to determine bonuses for senior management in operating units both at the Group and divisional levels.

The Group expects that its shareholders will renew their approval to implement a share buy-back program, to the extent permitted by French law, and subject to certain conditions decided at the general meeting of shareholders scheduled for May 19, 1999. The Group believes that this program will enable it to create value for existing shareholders. See "Item 4: Control of Registrant".

In order to implement its strategy, Danone has modified its management structure so that its human resources reflect its strategic priorities. Danone has thus enlarged its Executive Committee so that each core area is represented by an executive officer and Asia is overseen by one executive officer. Danone also established an International Committee which will serve as a discussion forum between members of the Executive Committee and the principal representatives of large development and implementation zones in order to provide the Group with a more accurate perspective on the evolution of its markets.

Products and Markets

Through the end of 1997, Danone's business activities in the European Union were organized according to Danone's main business lines, while outside the European Union Danone's business was organized by geographic market. Starting in 1998, Danone's business activities were organized according to main business lines worldwide. The Group now also presents its global activities by main geographic zone (France, Rest of the European Union and Rest of World).

The contribution to consolidated net sales and operating income from Danone's activities within and outside the European Union for each of the years 1996 through 1998 is set forth in the table below, followed by a description of each of Danone's five main business lines.

Geographic Zones

	Year ended December 31,					
	1996		1997		1998	
			(€ in millions)			
Net Sales						
France[1]	5,815.6	43.3%	5,737.3	40.5%	5,041.6	37.0%
European Union (excluding France)[2]	5,229.5	39.0%	5,356.9	37.9%	5,266.7	38.7%
Rest of the World[3]	2,378.8	17.7%	3,058.3	21.6%	3,303.3	24.3%
Intragroup sales[4]	(627.3)	—	(664.4)	—	(676.6)	—
Total	12,796.6	100.0%	13,488.1	100.0%	12,935.0	100.0%
Operating Income						
France[1]	589.2	51.1%	591.9	48.3%	589.4	45.1%
European Union (excluding France)[2]	405.1	35.1%	430.5	35.1%	474.7	36.1%
Rest of the World[3]	159.3	13.8%	203.4	16.6%	247.7	18.8%
Unallocated income (expenses)[5]	(13.6)	—	(1.8)	—	(18.6)	—
Total	1,140.0	100.0%	1,224.0	100.0%	1,293.2	100.0%

(1) Net sales, or the operating income derived therefrom, of Danone's French subsidiaries after elimination of intercompany sales among French companies, but without elimination of intraregion sales.
(2) Net sales, or the operating income derived therefrom, of Danone's European Union subsidiaries after elimination of intragroup sales among companies in the European Union, but without elimination of intraregion sales.
(3) Net sales, or the operating income derived therefrom, of Danone's subsidiaries operating outside the European Union after eliminations of intragroup sales among companies in the rest of the world, but without eliminations of intraregion sales.
(4) Intragroup sales include sales between subsidiaries of different geographic regions (mainly sales of export products, principally bottled water, by Danone's European Union subsidiaries to its sales and distribution subsidiaries located outside this region).
(5) Unallocated income (expenses) represent the balance of Group expenses, mainly expenses relating to the Group's main office and Group-level management, which have not been allocated to any specific operating division.

Business Lines

The tables below set forth (i) the consolidated net sales and (ii) the consolidated operating income for Danone by main business line for each of the years 1996, 1997 and 1998.

	Year ended December 31,					
	1996		1997		1998	
	(€ in millions, except percentages)					
Net sales(1)						
Dairy products	4,843.2	37.3%	5,323.8	38.9%	5,665.3	43.2%
Beverages	2,447.0	18.9%	2,754.6	20.1%	3,004.0	22.9%
Biscuits(2)	2,600.0	20.0%	2,674.3	19.6%	2,606.6	19.9%
Other food businesses(2)	2,128.3	16.4%	1,986.8	14.5%	904.5	6.9%
Glass containers	957.1	7.4%	947.2	6.9%	932.2	7.1%
Intragroup sales	(179.0)	—	(198.6)	—	(177.6)	—
Total	12,796.6	100.0%	13,488.1	100.0%	12,935.0	100.0%
Operating income(1)						
Dairy products	502.8	43.6%	556.6	45.4%	620.9	47.3%
Beverages	277.1	24.0%	326.8	26.7%	368.3	28.1%
Biscuits(2)	175.0	15.2%	181.6	14.8%	203.4	15.5%
Other food businesses(2)	91.5	7.9%	71.0	5.8%	28.6	2.2%
Glass containers	107.2	9.3%	89.8	7.3%	90.6	6.9%
Unallocated income (expenses)	(13.6)	—	(1.8)	—	(18.6)	—
Total	1,140.0	100.0%	1,224.0	100.0%	1,293.2	100.0%

(1) Net sales, or the operating income derived therefrom, as the case may be, of Danone's European Union an subsidiaries after elimination of intercompany sales among companies within the same division, but without elimination of intragroup sales. Intragroup sales include principally sales of products between companies in the European Union that are in different divisions (principally sales of glass containers to the beer, bottled water and grocery products businesses).

(2) In 1997 and 1998, the Company sold certain portions of its grocery business and its confectionery business (part of the biscuits activities). The majority of divested activities contributed to net sales over eleven months in 1997 with the exception of pasta and ready-to-serve dish activities in Germany, which contributed to net sales for the entire in 1998. See "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview".

Dairy Products. With sales of dairy products in 1998 of approximately € 5.7 billion (FF 37.2 billion), representing approximately 2.6 million metric tonnes, or 15% of the market, Danone is the world's leading producer of dairy products. Danone's principal dairy products are yogurts, "fromage frais" (yogurt-style cheeses such as cottage cheese or "fromage blanc") and dairy desserts, which accounted for approximately 68% of Danone's net sales of dairy products in 1998. Danone also produces matured Italian cheeses under the *Galbani* brand name, which accounted for approximately 15% of net sales of dairy products in 1998, and infant food. In addition, Danone produces dairy beverages, such as drinkable yogurts.

Principal markets and brandnames. 25.2% of dairy products net sales are accounted for by sales in France, 47.4% by sales in the rest of the European Union and 27.4% by sales in the rest of the world. Danone's principal markets for dairy products are Italy, France and Spain, which together accounted for nearly 62% of Danone's sales of dairy products in 1998. In Italy, Danone has a 90% interest in Galbani, Italy's largest cheesemaker with specialties in soft cheeses (such as *Bel Paese* and the *Santa Lucia* brand of mozarella) and matured cheeses (such as *Dolcelatte* gorgonzola), as well as certain delicatessen products (under the brand name *Casa Romagnoli*). Through Danone SpA, Danone is also one of Italy's largest producers of yogurt with a market share of close to 20%. In France, Danone is the market leader for dairy products with approximately one-third of the total market. Danone markets yogurts, dairy desserts and other dairy products in France principally under the *Danone* brand name, as well as "fromage frais" and infant food under the brand name *Blédina*. In Spain, Danone has a 55.72% interest in Danone S.A., Spain's leading producer of dairy products with a market share of approximately 50%. Danone also markets its dairy products in Germany, Belgium and Portugal through locally established production subsidiaries and in The Netherlands, Denmark, the United Kingdom, Austria, Switzerland, Finland and Sweden through marketing subsidiaries and franchises handling the *Danone* product lines. In addition, Danone holds a significant interest in an important producer of dairy products in Turkey and a 20% interest in Delta Dairy, one of the leading producers of dairy products in Greece.

Danone is the leading producer of dairy products in Eastern Europe. Through purchases of local producers and new investments over the past five years, Danone has become the leading producer of dairy products in Poland, Hungary, the Czech Republic and Bulgaria. In all of these countries, the *Danone* brand has the highest level of brand awareness in the market. In addition, the Group has established production and distribution activities in Russia and Romania.

Danone is the leading producer of fresh dairy products, in terms of net sales and annual production, in North and South America. In the United States, the Dannon Company is the leading producer of yogurt. Through Aliments Delisle Ltée, Danone produces yogurt and other dairy products for the Canadian market.

Danone is also firmly implanted in Mexico and Brazil where its wholly-owned subsidiaries are market leaders in dairy products in their respective countries. In Argentina, Danone owns 51% (increased to 91% in 1999) of the leading Argentine producer of dairy products such as "fromage frais", yogurt and dairy desserts, which are marketed under the brandnames *Ser* and *La Serenisima*.

Finally, Danone also produces yogurt in Shangai and Canton in China and in other countries such as Malaysia, Australia and Japan through licences or joint ventures with local partners. Danone also took advantage of growth opportunities in emerging markets outside of Europe, in particular, Asia and Latin America. In South Africa, Danone exchanged its equity interest in Clover for a majority interest in Danone Clover, its subsidiary specialized in fresh dairy products. Danone also acquired a minority interest in major producers of dairy products in Morocco, Tunisia and Israel.

New products. Danone is involved on a continuing basis in introducing new dairy product concepts and flavors in the European Union and relaunching selected products with improved qualities. In 1998, Danone focused on extending the geographic range of products designed for the European market and on revamping local product ranges, as well as on relaunching certain products. Demand for new products was particularly strong for health-oriented products, desserts and infant and children's products.

In 1997, Danone introduced *Actimel* dairy products, which use a newly developed ferments, and extended this product throughout Europe in 1998. Danone also introduced several new products, including *Crème de yaourt*, a creamy yogurt, *Danette Liégeoise* and *Mousse de Danette,* two dessert products, and *Danette à boire* and *Danao*, two milky beverages, in France and Greek-style yogurt and *Postres Maestros,* a dessert line, in Spain. Danone introduced in France, Germany and Italy a version of *Petit Danone,* a "fromage frais" for children, that can be eaten without a spoon straight from the package. Finally, Danone began distributing two yogurt desserts for children in McDonald's "Happy Meals" pursuant to a partnership agreement with McDonald's. In 1997, Danone reintroduced its *Light* product line and introduced a calcium-enriched dairy product for the U.S. market. In Mexico, Danone introduced several new breakfast products, including *Gran Dia*, a cereal-based product, and *Gran Dia-Licuato*, a chocolate beverage. In China, Danone introduced spoonable yogurt, a convenient and healthy light product.

Market trends. Overall, the European Union market for dairy products has grown relatively steadily over the past five years. Management believes that the introduction of new dairy products, particularly with a focus on health-oriented products and desserts, will help Danone continue to improve its market position. In addition, management expects that the premium prices often associated with innovative products will help raise the average price of Danone's dairy products. Demand in the cheese market in

Italy is expected to remain relatively stable overall, and Galbani is increasing its efforts to expand its presence in cheese markets outside Italy. Since 1998, Danone's infant food activities have been included under dairy products and Danone expects to see significant growth in demand for infant food, despite relatively low birth rates, due to the trends toward an increased consumption of convenience foods and a general lengthening of the period for serving specially prepared foods to children.

Beverages. As part of the second phase of the Group's restructuring, Danone's beer and bottled water operations were brought together into a single world-wide beverage division, which management believes should result in significant synergies in purchasing, logistics, marketing and distribution. 49.4% of beverage activities net sales are accounted for by sales in France, 24.8% by sales in the rest of the European Union and 25.8% by sales in the rest of the world. With sales of beverages in 1998 of approximately € 3 billion (FF 19.6 billion) representing approximately 20.8 million hectoliters of beer and sales of beer of € 1.3 billion, Danone is the European Union's second largest brewer, and with approximately 5.2 billion liters of bottled water and sales of bottled water of € 1.7 billion, Danone is the European Union's second largest producer of bottled water.

In addition to its standard line of beers, Danone also produces premium and specialty beers, as well as non-alcoholic beers.

Principal markets and brandnames—Beer. Danone's principal market for beer is France, which accounted for approximately 63% of Danone's net sales of beer in 1998 and where Danone has a market share of nearly 50%. Danone's principal labels in France include *Kronenbourg, Kanterbräu,* and *1664.* Danone also has an important presence in Spain, where it holds an 80.51% interest in San Miguel and a 33.34% interest in Mahou S.A. Together, these two companies constitute Spain's largest brewery group. In Belgium, Danone owns Alken-Maes, Belgium's second largest brewer, with approximately 14% of the market. Danone also has a 24.42% interest in the Italian brewery Birra Peroni Industriale. In addition, *Kronenbourg* beer is marketed in the United Kingdom, Ireland and certain other European Union countries. In 1996, Danone also acquired controlling interests in Wuhan Dongxihu Beer Company, the sixth largest brewery in China, with approximately 2.9 million hectoliters produced in 1998, and in Haomen, a brewery in the Beijing region of China which produced approximately 2.5 million hectoliters in 1998. As a result of such acquisitions, Danone has become one of China's three largest producers of beer. In 1998, the Group's two Chinese breweries continued the reorganization of their production and marketing activities. In China, the Wuhan brewery successfully launched a "super-dry" beer, and the Haomen brewery relaunched canned beer lines.

New products—Beer. Danone has developed new beers principally along two themes: premium or specialty beers and beers with innovative taste. Danone's recent innovations were the *Ice* beers launched in France, Belgium and Spain, the refreshing cider *X-Cider* and the development of Belgian-style beers also launched on the French market.

Market trends—Beer. Demand for beer has remained relatively stable in Danone's principal European Union markets. Demand for beer is seasonal with consumption generally rising during the summer months and can be significantly affected by weather conditions, including cooler than normal temperatures which can cause demand to decline. Demand may also be affected by changes in governmental regulations, such as the increase of the excise tax on sales of beer in France in 1993 and in early 1997, which temporarily adversely affected the level of demand. Similar taxes or other government regulations concerning beer sales and consumption could, if adopted, affect the overall level of demand.

Principal markets and brandnames—Bottled water. In bottled water, the Group maintains high market shares in the European Union, where there is a long tradition of consumption of still and sparkling bottled water. Danone's principal market for bottled water is France, where Danone has approximately 25% of the national market in terms of volume and sales, mainly through its *Evian, Volvic* and *Badoit* brands. Danone is also the leading supplier of bottled water in Spain, with more than 20% of the Spanish market through its *Lanjarón, Font Vella* and *Fonter* brands. In Italy, Danone is the leading supplier of sparkling water, with nearly 12% of the Italian market, through its ownership of Italaquae SpA, which markets the *Ferrarelle* (sparkling water) and *Boario* (still and sparkling water) brands. Danone also holds a significant interest in an important bottled water producer in Turkey.

Through Great Brands of Europe, Danone markets and distributes the Group's bottled water brands, including *Evian* and *Volvic*, in the United States. *Evian* is the leader in that market in terms of sales. In mid-1996, Danone launched *Dannon* brand natural spring bottled water in certain regions of the United States and since that time has rolled out this product nationally. After a successful introduction in the United States, by the end of 1998, *Dannon* had become one of the major national brands of the market for convenience still bottled water (bottles up to 2 liters). At the end of 1998, Danone acquired Aquapenn and now offers a broad range of brand-named products. In Canada, Danone owns Aquaterra Corporation, a major supplier of bottled water in Canada (*Crystal Springs* and *Labrador* brands).

In Latin America, Danone owns Bonafont, a major Mexican producer of bottled water. Danone also holds a controlling interest in Aguas Minerales S.A., a leading producer in the Argentine bottled water market, and recently introduced the crushable bottle concept used in Europe.

In Asia, in 1996, Danone made its largest investment in China by acquiring a controlling interest in the leading Chinese producer of dairy drinks, which are marketed under the *Wahaha* brandname. Wahaha is also one of the main producers of bottled water in China. The volume of *Wahaha* dairy drinks sold in 1998 was 500,000 tonnes. In addition, bottled water volumes reached 490 million liters in 1998. In addition, the Group improved its market position in Southern China by acquiring the Health company at the end of 1998.

New products—Bottled water. In 1995, Danone began marketing *Evian* in a crushable plastic container to facilitate the disposal of empty bottles. The crushable plastic container has now been extended to other Danone water brands, such as *Volvic*. In 1997, Danone also expanded its *Volvic fruit* line of flavored waters with new tea-based flavors. Danone also seeks to meet trends in market demand for bottles of different quantities by systematically developing a range of sizes for individual or restaurant consumption. As an example, Danone introduced the one liter *Volvic* product package, launched to respond to the needs of the active population.

Market trends—Bottled water. Market demand for bottled water has shown relatively steady growth since 1991, with strongest growth in Spain and more moderate growth in France and Italy, despite already relatively high levels of per capita consumption. Demand for bottled water has also increased in the European Union outside Danone's three principal European Union markets. In any particular market, demand for bottled water is seasonal, with consumption generally rising during the summer months, and is also affected by weather conditions. However, Danone has bottled water activities throughout the European Union and, therefore, the Group's bottled water business is less sensitive to weather than is its beer business. The premium prices established for brandname bottled water and the overall growth of market demand has encouraged intense price competition by less expensive bottled water producers. Brandname producers have nevertheless generally not reduced prices, relying on the strength of demand for water with specific mineral and nutritional characteristics to support the existing price structure.

Biscuits. With sales of biscuits in 1998 of approximately € 2.6 billion (FF 17.05 billion), representing approximately 960,000 metric tonnes, Danone is the world's leading producer of sweet biscuits. Danone's biscuit products include cookies and sweet snack products, which represent more than half of net sales of biscuits, savory snacks, crispbreads and crackers, and packaged cakes and confectionery products.

Principal markets and brandnames. 36.2% of biscuit net sales are accounted for by sales in France, 34.6% by sales in the rest of the European Union and 29.2% by sales in the rest of the world. Danone's principal market for biscuits is France, where Danone is the leader with more than one-third of the market in 1998. Danone's main product lines are marketed under the *LU* brandname and, with respect to crispbreads, the *Heudebert* brandname. Danone also has significant biscuit sales in the United Kingdom, where Danone markets its products under the *Jacob's* brand name. Danone is the market leader in Belgium, Ireland and Greece. Danone is the second largest producer of biscuits in The Netherlands, and it has approximately 5% of the market in Germany.

In Eastern Europe, Danone is present in the markets of Russia, the Czech and Slovak Republics and Poland. At the end of 1994, Danone acquired control of Bolshevik, a major producer of biscuits in Russia. Through a 50/50 joint venture with Nestlé, Danone controled Cokoládovny A.S., the largest producer of biscuits and chocolates in the Czech and Slovak Republics. In 1999, two separate entities were established and the biscuit company will become a wholly-owned subsidiary of the Group. In 1997, Danone launched a new product line for high-end cookies under the *Danone* brand in Eastern Europe and a salty snack line under the brandname *Tuc* in Russia.

In Latin America, Danone is the third largest biscuit producer with a presence in Brazil and Argentina. The Brazilian biscuit market is the fourth largest in the world by volume, with nearly 900,000 tonnes. Danone owns Cia. Campineira de Alimentos and, in 1996, Danone increased its presence by taking a 25% interest in Aymoré, another major Brazilian biscuit producer, where Danone now has approximately 15% of the market in terms of volume. In Argentina, Danone acquired slightly over 50% (which was increased progressively to an interest of 64% at the end of 1998 and 91% in 1999) in Bagley S.A., one of the major producers of biscuits in Argentina. In 1997, Danone launched in Argentina *Tenta Light,* a "light" cookie line, and in early 1998 launched in Brazil a complete line of biscuits under the *Danone* name.

In Asia and the Pacific Rim, together with an Indian partner, Danone shares joint control over Britannia Industries Ltd, the leading producer of biscuits in India, the third largest market in the world. In China, the second largest market in the world by volume for biscuits, Danone is a major producer of biscuits. Danone is the leading producer of biscuits in New Zealand, with approximately 50% of the market. Danone is also involved, through a joint venture with a local partner, in biscuit production in Indonesia. In addition, Danone is also a major producer of biscuits in Malaysia.

New products. Danone has developed new biscuit products, principally along three lines: the European geographic extension of certain products, the introduction of low-calorie biscuits and confectionary products. At the end of 1997, Danone launched a full range of low-calorie products in The Netherlands and Belgium, with sales later extended to France, Italy and Spain, using brands that are already familiar for low-calorie dairy products in each country: *Taillefine* in France, *Vitasnella* in Italy and *Vitalinea* in other countries. In New Zealand, Danone launched two new important products; a line of "by-compartment" products, mixing dairy products and biscuits and *Cruncheese,* a new line of salted snacks. With respect to confectionary products, the *Oursons* line was extended during the year to Greece and the U.K. and two new products were successfully launched in France during the year, the chocolate cookie *Napolitain Carré Fondant* and the *Hello Familial* brownie. In Asia, Danone launched *Tiger* in India, a milk, calcium and glucose rich cookie, and *Chit Chat* in South East Asia, a new chocolate bar under the brandname *Danone*.

Grocery Products. Total sales of grocery products in 1998 amounted to approximately € 904 million (FF 5.9 billion), representing approximately 396,000 metric tonnes.

1997 and 1998 Divestitures. Consistent with the Group's strategy to focus on three core areas of food and beverage consumption (dairy products, beverages and biscuits), in 1997 the Company sold almost half of its grocery products activities in the European Union (in terms of 1997 net sales) for total consideration of approximately € 750 million. Danone sold the pasta and canned ready-to-serve dish business conducted in France by Panzani William Saurin and in Italy by Agnesi, as well as the sauce, condiment and cooking preparation operations of Liebig Maille Amora and Liebig Benelux. Danone also sold the soup business conducted in France by Liebig Maille Amora, in particular under the brand *Pur Soup' de Liebig.*

In 1998, the Group sold its pasta and canned ready-to-serve dish activities in Germany and in Spain, its Alsatian delicatessen operations in France, and its sauce business in New Zealand. See "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview".

Remaining activities. Danone's remaining grocery products at the end of 1998 include frozen and chilled ready meals in France and Spain, sauces in the United Kingdom, the United States and China, and exotic dishes. These activities represented net sales of € 750 million in 1998. Danone is a major producer of chilled prepared foods and of frozen ready-to-serve dishes under the *Marie* brandname in France and in 1997, Danone transferred all of its chilled and frozen food activities under the *Marie* brandname. Outside France, Danone's principal markets for grocery products are the United Kingdom, where its product line includes *HP Sauce* and *Lea & Perrins*; and Spain, where its *La Cocinera* brand is a major producer of frozen ready-to-serve dishes. Danone also markets Asian-style grocery products under the *Amoy* brandname, which are exported to the European Union from Hong Kong.

New products. In recent years, Danone has focused its innovations for grocery products on extending its ranges in sauces and convenience foods, in particular by taking advantage of the success of sauces and foods with ethnic flavors. With respect to convenience foods, the main product launch on the French market for chilled ready-to-serve dishes was *Récoltes Gourmandes*, a range of dishes made exclusively from grain and cooked vegetables that is marketed under the *Marie* name.

Market trends. Overall, demand for grocery products other than pasta has increased relatively steadily in the European Union in the past five years. While the market for traditional sauces such as *HP* and *Lea & Perrins* in the United States and the United Kingdom has remained stable, the market in European Union for ethnic sauces such as those offered by *Amoy* has shown strong growth. Demand for frozen ready-to-serve dishes has stabilized after a period of strong growth.

Glass Containers. With total sales in 1998 of € 932 million (FF 6.1 billion), representing approximately 2.5 million metric tonnes, Danone is a major producer of glass containers in Europe. Danone produces glass products with technology under license from Owens-Illinois, and thus has access to advanced manufacturing methods and procedures. Glass bottles, manufactured principally for wine, beer, spirits, soft drinks and mineral water, account for nearly three quarters of Danone's net sales of glass containers. Danone also produces glass jars, which are used principally for grocery products such as infant foods, sauces and condiments. € 156 million, or approximately 16%, of Danone's sales of glass containers were accounted for by intra-group sales in 1998.

Principal markets. Danone's principal market for glass containers is France, which accounted for approximately 64% of Danone's net sales of glass containers and where Danone has a market share of approximately 40%. Danone is the leading producer of glass containers in The Netherlands, with approximately half the market, and the second largest producer in Spain, with a market share of approximately 18%. In addition, the Group announced in 1998 its intention to create a European glass containers' business by integrating the activities of the Gerresheimer German group and by opening the capital of this entity to a financial investor.

New products. Danone's product innovation in the glass container market is often in response to specific customer needs for containers with specific shapes or qualities. In addition, Danone has in recent years developed lighter-weight and less expensive products to assist customers in reducing bulk materials and transportation costs.

Market trends. Demand for Danone's glass containers has historically grown at a moderate pace and is subject principally to changes in the volume of production of wine, champagne, beer and soft drinks that are marketed in glass containers. The market for glass containers is also price sensitive, with cyclical trends linked to overcapacity.

Research and Development

Danone's overall research and development objectives are (i) to improve the nutritional, taste and shelf-life qualities of its products, often resulting in product revamping, and (ii) to respond effectively to changing consumer demand in order to increase market share, often resulting in new products. In order to conduct basic research related to nutrition, taste, and food processing and preservation, Danone usually collaborates with outside groups such as universities and specialized public research centers. The Danone Group, together with the Centre National de la Recherche Scientifique (CNRS), the major French public research organization, has set up the European Center for Taste Sciences to carry out fundamental research regarding the basic mechanisms of perceiving and responding to taste. Danone has also established an international prize for research in nutrition. Product development and improvement is the responsibility of research and development teams within Danone, which apply the results of both internal and outside research.

Danone spent approximately € 120 million, € 116 million and € 102 million on research and development in 1998, 1997 and 1996, respectively. Danone's research and development staff, which numbered approximately 1,250 people on average in 1998, is located principally in the European Union, as well as in certain other locations around the world. Recent new products include products using new active cultures in yogurt, for example the *Actimel* yogurt line introduced in several European countries, new savory snacks, low-calorie cookies lines and new crushable plastic bottles for *Evian* and other bottled waters which were developed in collaboration with other outside groups. Moreover, the Group's existing products are continuously being reviewed and revamped.

Raw Materials

Danone's principal raw material needs consist of (i) materials needed to produce Danone's food and beverage products, including mainly fresh milk, flour and wheat, fruit, sugar and cocoa (collectively, "food raw materials"), and (ii) materials needed for packaging its products, including mainly plastics and light cardboard for cartons and glass containers (collectively, "packaging raw materials"). The Company does not believe that the termination of its relationship with any one of its major suppliers would have a material adverse affect on its business. However, a substantial increase in raw material prices (if not passed on to customers through price increases) or a continued interruption in supply could have a material adverse effect on the Company's financial condition and results of operations. The risk, however, is mitigated by the diversity of materials that Danone purchases as well as the geographical spread of its sources and supplies.

In each country where Danone requires fresh milk for the production of its dairy products, Danone's operating subsidiaries establish contracts with individual local milk producers or dairy cooperatives.

Danone purchases relatively small amounts of sugar and cocoa as compared to the other food raw materials discussed above. Unlike the markets for other food raw materials, the international sugar and cocoa markets are highly concentrated, with a small number of intermediaries controlling a substantial portion of total supply. Danone's three most important suppliers of sugar represented in the aggregate approximately 50% of Danone's total needs in 1998. The major portion of Danone's sugar purchases are made in the European Union where the European Commission fixes the minimum price for sugar and where the market price generally reflects a slight premium over that minimum price. Danone's sugar purchases are fairly evenly spread among its major sugar suppliers. Danone's two most important suppliers of cocoa represented over 90% of Danone's total cocoa needs. The cocoa market is particularly concentrated with one supplier completely dominating the market. Sugar is generally purchased pursuant to annual contracts and cocoa pursuant to contracts covering several years.

Danone purchases most of its dairy, wheat and sugar needs at prices essentially set by the European Union or maintained by various national governments through quotas and duties, with only a relatively small proportion purchased at fluctuating world prices. With respect to all food raw materials, changes in the global or regional levels of supply and demand, weather conditions and government controls can substantially influence price, and Danone's overall cost of production remains subject to such price shifts. Danone has not experienced and does not anticipate any difficulty in obtaining adequate supplies of food raw materials for its operations.

Danone's needs for other raw and packaging materials are met through local or regionally centralized purchasing processes.

Danone has studied the possibility of using certain genetically engineered food raw materials such as soy and corn, and, after extensive research undertaken in the framework of safeguarding consumer safety and environmental protection, has determined that it has no reason to doubt the safety of these food products, as confirmed by the regulatory authorizations granted for their use. The Group will therefore include references on the packaging of certain products to genetically engineered ingredients.

Advertising/Promotion and Sales

The Group intends to continue to build on the *Danone* brandname as a sign of healthy, convenient and indulgence food products, and has extended the use of the *Danone* brandname to certain of its biscuits, bottled water and infant foods. Management believes that the expanded use of the *Danone* brandname across a broader range of products will both reinforce the brandname's marketing strength and improve marketing efficiencies and cross-product synergies.

Danone's individual operating companies in each business line and geographic market are responsible for developing advertising and promotional and sales strategies adapted to local consumption patterns and marketing needs, including the development of publicity campaigns, the management and compensation of their sales staff, the development and introduction of new products and specific pricing decisions. Danone intends to maintain a decentralized marketing and sales structure in order to provide its operating companies with the flexibility to respond to a broad variety of market conditions and local consumption patterns. Management also believes that such decentralization helps promote innovation and efficiency at the operating company levels.

Danone's overall advertising and promotional strategy is nevertheless coordinated at the Group level. Danone has also successfully developed a number of "cross-division" marketing campaigns to enhance customer loyalty. Since 1994, Danone has conducted an annual direct mailing campaign using a database of over two million households in France to encourage the purchase of a range of products and brandnames. Danone has begun publishing specialized quarterly magazines in France featuring articles on nutrition and cooking, with special promotions for readers, and established a telephone-based consumer information service in France. Danone was also named the official provider of fresh dairy products for the soccer World Cup which was held in France in 1998, and used this event as a major theme in advertising and promotion throughout the Group.

The Danone Group has registered trademarks and brandnames throughout the world and is the owner of numerous licenses, patents and proprietary recipes, as well as substantial know-how and technologies related to its products and the processes for their production, to the packages used for its products and to the design and operation of various processes and equipment used in its business. Such trademarks, brandnames, licenses, patents, proprietary recipes and know-how, which are held by the Company and different operational entities throughout the Group, represent one of Danone's major commercial assets. Danone is committed to taking appropriate legal steps to protect and exploit such intellectual and industrial property.

Customers and Distribution

Customers. While the final consumers of Danone products are individual retail customers, Danone sells its products principally to major retail and grocery chains. This distribution market has become increasingly concentrated and in many major national markets, the top three retailers in such market cover nearly or more than 40% of the market. Danone's largest customers in terms of net sales are in France, Italy and Spain. In 1998, Danone's 10 largest customers worldwide accounted in the aggregate for approximately 34% of Danone's consolidated net sales and included, in particular, seven French retail chains. As a result of the development of private labels by grocery chains, certain of Danone's customers also offer their own competing products. See "—Competition".

Certain French retail chains such as Carrefour and Auchan have grown rapidly in recent years through international expansion. The Group benefits from this expansion by using existing commercial ties to introduce its products in certain international markets. Increased concentration of retail chains may, however, also increase such customers' bargaining leverage, and thus might have an adverse impact on the Group's results. Danone has established its strategy to concentrate its resources on products with leadership positions because it believes that the major supermarket chains must offer such products to its customers. The Group believes that the most vulnerable products are in second, third or fourth position in their respective markets.

Distribution. Although distribution policies vary in different countries and product markets, Danone's operating subsidiaries generally stock their completed products either at storage facilities located at the production site or at a separate warehouse. An important aspect of the Group's restructuring program involves the rationalization of the Group's distribution facilities, particularly in Spain and Italy, to anticipate and respond to changing patterns in wholesale purchasing due to the growth of high-volume supermarket chains.

The Group has undertaken several initiatives to work with its customers to accelerate the development of product categories, to optimize the flow of merchandise and the inventory levels of its customers. These include "ECR", efficient consumer response, to achieve stock management, automatic stock replenishments and just-in-time delivery using "EDI", electronic data interchange, to coordinate stock levels in stores and at Danone's warehouses. ECR is also a tool used to work with customers in order to manage consumer demand and expectations. Danone also works with its customers to develop marketing concepts to enhance its customers' sales, such as joint promotions with Carrefour (targeted around "health"), Casino ("soccer passion") and Auchan ("infants").

Euro. Adoption of the euro raises concerns about the consequences for consumers of changing the price ranges to which they have become accustomed, including psychological price thresholds. Product presentation also varies from country to country within the same brand line (varieties, portion sizes, packaging) due to local habits of consumption. These habits remain very different from one country to another, which has led to different product lines being offered depending on the market. While this variety may evolve over time, it is likely to occur slowly. The majority of the Group's product lines in Europe will remain more local than international. In addition, differences in pricing for consumers from country to country for the same type of product are linked to objective, structural differences, e.g., variations in wages and salaries, legal or fiscal differences (e.g. consumption taxes, V.A.T. and other specific taxes) or logistical differences leading to cost disparities. Finally, price levels are also linked to marketing choices made in certain countries, even for the same product, or sales choices made by brand managers themselves in the context of local competition. The adoption of the euro could lead in the medium term to the review of certain pricing and marketing strategies adopted by the Group.

Since January 1, 1999, the Group has been equipped to fully integrate the euro through its complete commercial relationship with any distributor who chooses that currency: in negotiation, ordering, billing and delivery. In addition, the Group hopes to adhere to a single rule for each distributor of "one customer, one currency", and thereby avoid as much as possible the development of complex systems to deal with multiple currencies.

Quality Control

The Group monitors and audits the quality of its products at all levels from the raw materials stage to manufacturing and transportation. Particular emphasis is placed on preventive measures. Quality control is generally divided between quality control for the Group's food business and quality control for glass containers. In both cases, quality control teams operate separately from production personnel. The Group's major quality principle is traceability which allows the Group to trace each product to its place of production, its time of manufacturing and, in some cases, the people who worked on the product. The Group is increasingly involved in upstream traceability, which includes detailed monitoring of its suppliers (products and manufacturing practices). For certain products, such as yogurt, the Group has strengthened its ability to trace a particular product through the production chain to the herd of cows which produced the milk.

For Danone's food businesses, quality control teams oversee the quality systems and their implementation at each of Danone's subsidiaries. These teams meet regularly to share information and training. The Group has brought these teams under a central manager who is in charge of defining Group-wide quality standards for each business and co-ordinating the monitoring of compliance therewith. Danone has implemented a similar system for its glass container activities.

In both the container and food sectors, these quality systems have resulted in an ISO 9002 certification for a vast majority of Danone's industrial sites.

Regulatory and Environmental Matters

Regulatory Matters. In terms of production standards, ingredient and product quality and finished product labelling and sale, each of Danone's operational facilities is subject to applicable laws and regulations concerning prepared foods and beverages, in addition to Danone's own quality standards. Compliance with such laws and regulations is ensured internally by specialized personnel. Quality control teams, which operate separately from the production personnel, ensure that Danone's product quality standards are maintained. See "—Quality Control" above.

Danone's activities are also affected by changes in regulations concerning sales or marketing. For example, in late 1996, the French government enacted the Galland Law regulating certain sales practices and prohibiting, in particular, selling products below cost by retailers. The Galland Law caused temporary market disruption in early 1997 as retailers and distributors sought to adapt their purchasing and selling practices, including their pricing structures, to comply with the law.

In addition, sales of heavily regulated products such as beer are highly sensitive to changes in regulation, including consumption, price, tax or advertising regulations. For example, an increase in the excise tax on beer took place in France in 1993 and again in 1997. A similar excise tax increase on beer took place in Belgium in 1990 and in 1996.

Environmental Matters. Danone places considerable importance on ensuring that its products and operations are environmentally safe. Danone's production facilities in France, Italy, Spain, Germany, the United States and other jurisdictions are subject to stringent laws and regulations concerning the protection of the environment. In certain cases, Danone sells products which may be, or become, the object of specific environmental legislation, most frequently regarding packaging, such as the requirement adopted in Germany in 1988 and 1991, and proposed in certain other European countries, that bottled water be sold only under a mandatory deposit system, including for disposable bottles. Similar regulations exist in the United States. Possible changes in regulations regarding product packaging pose the most significant issue with respect to market access, and may, in certain cases, require additional production costs or the temporary cessation of sales to particular markets in order to adjust packaging methods to meet the new standards. This type of situation was encountered in Germany and Danone successfully adapted to the new demands. Danone thus actively participates in discussions both at the European and national levels regarding evolving concern over packaging materials, reusability and disposal. As a general matter, the commercial importance of the *Danone* brandname representing health and well-being makes it also particularly important for Danone to demonstrate its concern for the quality of the environment.

As a consequence, Danone's management has established internal rules and procedures with regard to environmental protection. In 1991 Danone created an Environmental Policy department to help define and coordinate overall policy and environmental measures, including tracking changes in regulations, monitoring industrial sites, reducing organic waste and energy and fresh water consumption and examining environmental issues related to packaging in all of the countries where Danone operates. In 1996 Danone's management reaffirmed the basic principles of the Group's commitment to environmental issues through the adoption of Danone's "Charter for the Environment", which provides for, among other objectives, annual quantitative targets for each Group production facility and division. The Group has also made an active contribution to the creation of the recycling organizations Eco-Emballages and Adelphe in France, as well as in certain other countries. The establishment and maintenance of appropriate environmental standards is also particularly important in light of the Group's external expansion policy, since plants acquired in emerging markets often were built, operated or maintained according to different norms for environmental protection.

The Group's capital expenditures for environmental protection represented approximately € 20 million in 1998. Management does not expect such expenditures to have a material impact on Danone's financial condition in the foreseeable future, although it is not possible to determine precisely the level of costs which may be necessary to ensure compliance with evolving environmental regulations. In addition, capital expenditures which may be necessary to reduce the environmental impact of certain operations, such as installing modernized production equipment with lower emission levels, frequently also result in lower-cost, more efficient production, thus offsetting in part the initial cost of such investments.

Competition

Competitors in Danone's prepared food and beverages businesses include other large international food and beverage groups, smaller companies with focused markets or product lines and, to an increasing extent, food retailing chains offering generic or private label products. See "—Customers and Distribution". Prepared food processors, such as Danone, operate in highly competitive markets with, among other consequences, significant pressure on margins. In addition, as a result of the development of private labels by major retail and grocery chains, certain of Danone's customers also offer their own competing products, which could pose a commercial conflict between Danone's customers as such and as direct competitors. Management believes that Danone's strategy to maintain and improve its profitability is based principally on differentiating its products from lower-priced brands mainly on the basis of Danone brands' eating quality, nutritional value and convenience. Such differentiation becomes increasingly challenging if consumers tend to view a particular product as a relatively undifferentiated commodity, such as pasta, or where there is little opportunity to bring added value to the product. Danone thus focuses on those products and markets where it believes it has the best opportunity to establish or strengthen its leadership position through both (i) focused marketing and the management of its brand portfolio to strengthen brand recognition and (ii) the development of premium products responsive to consumer needs or wants. Danone also operates almost exclusively in markets where it has a leading market share in order to maintain a sufficient volume of production to produce and distribute its products at competitive costs.

Because the markets served by Danone in the European Union tend to be relatively mature, competition for market share is particularly intense. Danone intends to continue to expend substantial resources on advertising and marketing and on product quality and innovation to maintain its market share. In addition, the Group must continually strive to improve the efficiency and management of its operations in order to decrease its production and distribution costs so as to be able to offer competitive prices while maintaining or increasing profit margins.

With respect to the Group's activities outside the European Union, certain international food and beverage groups which are larger than Danone also have important positions in certain emerging markets and seek to expand such positions and enter new markets. The Group's strategy has been to target geographic and product markets for expansion where Danone believes it has the maximum opportunity to successfully take advantage of the strength of its brands and the Group's expertise.

Employees

At December 31, 1998, Danone had a total of 78,945 employees worldwide. The table below sets forth the total number of employees at year-end and the percentage of such employees by geographical market at December 31, 1996, 1997 and 1998.

	At December 31,		
	1996	1997	1998
Total number of employees	81,579	80,631	78,945
By geographical market:			
France	31.3%	26.3%	25.8%
Italy	9.5%	8.5%	8.2%
Spain	7.5%	7.4%	7.4%
Rest of Europe	16.8%	16.4%	15.2%
Asia-Pacific	22.6%	28.7%	29.9%
North and South America	12.3%	12.7%	13.5%
Total	100.0%	100.0%	100.0%

Danone has historically placed considerable importance on ensuring the personal commitment of its employees to the Group's success. Danone has also developed apprenticeship and on-the-job training programs targeted toward young employees, and has focused on ensuring safe and healthy working conditions, particularly as Danone expands into developing markets. In addition, in most of the companies of the Group, the employees are given an interest in operational results through profit-sharing programs.

In connection with the restructuring of its European Union operations outside France, certain of Danone's subsidiaries have effected a significant reduction in their number of employees through early retirement incentives and voluntary and involuntary severance programs. See "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Restructuring program". In order to help alleviate employee difficulties related to the restructuring program, Danone has instituted special programs to provide employee assistance and help develop alternative employment opportunities in affected regions.

Most of Danone's non-managerial staff in France are represented by the major national labor unions, as are such staff in Italy and Spain, the two other major jurisdictions where the Group has operations. In general, each operating subsidiary negotiates and establishes collective employment agreements with the appropriate unions on an annual basis. While the Group has experienced some strikes in the past five years, particularly in France, Danone has not experienced any strikes, walk-outs or work stoppages which have had a material negative impact on its financial condition or results of operations. Annual meetings between the representatives of Danone and the International Union of Food Industry Employees ("IUF") have led to the adoption of joint programs related to equality between men and women in the workplace, the availability of business and economic information and the recognition of union rights. On May 9, 1997, the Group signed an agreement with the IUF with respect to future restructurings of Group entities internationally and is currently preparing a new agreement with respect to workplace safety and working conditions. Danone believes that its relations with its employees are good.

In order to implement its strategy, Danone has modified its management structure so that its human resources reflect its strategic priorities. Danone has thus enlarged its Executive Committee so that each core area is represented by an executive officer and Asia is overseen by one executive officer. Danone also established an International Committee which will serve as a discussion forum between members of the Executive Committee and the principal representatives of large development and implementation zones in order to provide the Group with a more accurate perspective on the evolution of its markets.

Corporate Background and Development

The Group's origins date back to 1966 when two French glass manufacturers merged to form Boussois Souchon Neuvesel ("BSN"). In 1967, BSN had sales of flat glass and glass containers of approximately FF 1 billion. Beginning in 1970, BSN began a program of rapid expansion through the acquisition of food and beverage companies. BSN successively purchased Brasseries Kronenbourg, La Société Européenne de Brasserie and Evian, which at the time of acquisition were major customers of BSN for glass containers. As a result of such acquisitions, BSN became France's market leader in beer and bottled water, as well as infant food, which was at that time one of Evian's product lines. In 1973, BSN merged with Gervais Danone, a leading French food group with significant sales in dairy products, including yogurts and pasta, thereby becoming France's largest food and beverage group with consolidated sales in 1973 of approximately FF 9.3 billion, of which 52% consisted of food and beverage sales.

Throughout the remainder of the 1970s and the 1980s, BSN focused on expansion in the food and beverage industry, primarily in Western Europe, after disposing of its flat glass business. This expansion included the acquisition of major breweries in Belgium, Spain and Italy; The Dannon Company, the leader in yogurt in the United States; Générale Biscuit, a French holding company which owned *LU* and other major producers of biscuits in Europe; the biscuit subsidiaries of Nabisco, Inc., in France, Italy and the United Kingdom, and Galbani, Italy's leading cheesemaker. As a result, with consolidated sales of FF 48.7 billion in 1989, BSN had become Europe's third largest diversified food group, ranking first in France, Italy and Spain.

Beginning in the early 1990s, BSN pursued a strategy of consolidating its main business lines and developing synergies in the European Union, developing products for food growth sectors, such as ready-to-serve foods and bottled water, and expanding internationally outside the European Union. As a result, BSN increased the international scope of its operations and strengthened its portfolio of brands through a number of substantial acquisitions and joint ventures in both historical and new markets. In the European Union for example, BSN acquired Volvic in France and San Miguel in Spain to strengthen its position in the bottled water and beer sectors. BSN concurrently divested itself of certain non-strategic businesses in the European Union. Outside the European Union, BSN, renamed "GROUPE DANONE" in 1994 (as described below), pursued an active corporate acquisition policy to expand internationally in Asia-Pacific, Latin America and Eastern Europe, and selected markets like South Africa and the Middle East.

To consolidate its position as an international food and beverage group, as well as to reinforce the marketing strength of the *Danone* brandname, BSN decided in 1994 to change its name to GROUPE DANONE, one of the Group's best-known international brands.

In 1997, management decided to focus on its core activities on a worldwide basis (dairy products, beverages and biscuits). Thus, divestitures of non-strategic businesses, including some of the grocery products activities in 1997 and 1998 decreased the Group's net sales by approximately 10% by the sale of the Group's pasta, canned ready-to-serve meals, sauces and soup businesses in France, Belgium, Italy, Spain and Germany. In May 1997, the Group also sold its 50% interest in Starlux, as well as its French confectionery business conducted in France by La Pie qui Chante (in December 1997).

Consistent with its strategy, the Company intends to divest its non-strategic underperforming businesses, and to continue acquiring new companies, increasing its equity participations and entering into joint ventures as and when appropriate opportunities arise. See "—Business Strategy".

In addition, the Group announced in 1998 its intention to establish a European glass container business by integrating the activities of the German Group Gerresheimer and by seeking an external financial investor. Management expects the new entity to be a leading player on the European market with a market share of approximately 23%.

Key Events of 1998

The Group continued to implement its strategy during 1998 by divesting non-strategic businesses and setting up a worldwide organizational structure for its activities. The Group was able to capture growth opportunities in line with its priority business lines and geographic zones, in particular, by reinforcing its bottled water activities in China, Indonesia and the United States, and its biscuit activities in Eastern Europe. The Group successfully launched new, innovative products and the worldwide reputation of the *Danone* brandname was affirmed, in particular as a result of Danone's participation in the soccer World Cup as an official provider of fresh dairy products. The resulting improvement in financial results has confirmed the Group's orientations and strategic choices aimed at making the Group more coherent, homogeneous and profitable.

Item 2: Description of Property

Danone operates production facilities located around the world in Danone's principal markets. At December 31, 1998, Danone had 152 production sites, with approximately 73% of its sites in Europe (34% in France, 21% in Italy and Spain and 18% elsewhere in Europe); 14% in Asia and the Pacific Rim, including China, Hong Kong, New Zealand, India and elsewhere in East and Southeast Asia; and 13% in North and South America, including plants in the United States, Canada, Argentina, Brazil and Mexico. The table below sets forth (i) the total number of Danone's facilities and (ii) total amounts produced by main business line at December 31, 1998.

Business line	Number of plants	Total Capacity in 1998
		(tonnes or thousands of liters)
Dairy products	45	2,442,000
Beverages	31	67,977,000
Biscuits	40	815,000
Grocery products	22	301,000
Glass containers	14	2,524,000

Although Danone's production facilities are numerous and widely dispersed, certain facilities represent particularly important centers of production. Danone's two largest dairy products facilities are located in the United States and France, with the U.S. facility accounting for approximately two-thirds of Danone's capacity for producing yogurt in the United States and the French facility accounting for approximately 25% of Danone's production capacity for dairy products in France. Danone's two largest sources of bottled water, which are both located in France, account for approximately 28% and 19% of Danone's total production capacity for bottled water, and its third largest source, which is located in Italy, accounts for approximately 16%. Danone's two largest breweries, both located in France, represent together approximately 45% of Danone's total production capacity for beer.

Danone's general policy is to own its production facilities. Danone's central management conducts periodic reviews of its production sites to consider possibilities for improving efficiency and safety, and on the basis of such reviews, establishes plans for the expansion, specialization, upgrading and modernization or closing of specific sites. In 1998, 1997 and 1996, Danone spent a total of € 711 million, € 797 million and € 684 million, respectively, mainly on plant expansions, modifications or upgradings. Danone believes that its production facilities are well maintained according to international standards in the food industry and generally adequate in terms of production capacity and quality standards to meet Danone's needs for the foreseeable future.

Item 3: Legal Proceedings

Danone is involved in various routine legal proceedings incidental to the ordinary course of its business. Management believes that the outcome of all pending legal proceedings, either individually or in the aggregate, will not have a material adverse effect on Danone's consolidated financial condition or results of operations.

Item 4: Control of Registrant

The following table sets forth, to the best of the Company's knowledge, certain information with respect to the beneficial ownership of shares and voting rights by principal shareholders, as of April 30, 1999.

Name	Number of Shares Beneficially Owned	Percentage of Shares Owned	Number of Voting Rights	Percentage of Voting Rights
Eurafrance Group(1)	4,140,449	5.34%	6,970,775	8.61%
Worms & Cie ("Worms")(2)	3,776,698	4.87%	5,212,150	6.44%
FINDIM Investments S.A. ("FINDIM")(3)	1,708,000	2.21%	3,416,000	4.22%
AXA	1,094,765	1.41%	1,206,000	1.49%
Public	60,999,470	78.72%	64,122,917	79.23%
The Company and its subsidiaries(4)(5)	5,768,384	7.44%	—	—
Total(6)	77,487,766	100.0%	80,927,842	100.0%

(1) Consists of Financière et Industrielle Gaz et Eaux ("Gaz et Eaux"), Eurafrance, Sopageco, La France Vie, La France IARD, La France S.A. and La France Participations et Gestion. The shares held by the Eurafance Group are subject to a shareholders' agreement, as described below. Gaz et Eaux and Sopageco are under the control, direct or indirect, of Eurafrance.
(2) The shares held by Worms are subject to a shareholders' agreement, as described below.
(3) FINDIM is an investment vehicle owned and controlled by the Fossati family, from whom the Company acquired its interest in Star and Starlux. Nearly all such interest was paid for by shares of the Company. Prior to the Company's purchase of an interest in Star and Starlux (in July 1989), neither FINDIM nor the Fossati family had an interest in the Company. The Group sold its interest in Starlux in 1997.
(4) These shares are held directly through the Company and indirectly (as to 720,515 shares or 0.95% of the Company share capital) through Danone SA, a Spanish subsidiary which is 55.72% held by the Company.
(5) Under French law, shares owned by the issuer of such shares or by the issuer's subsidiaries do not have voting rights.
(6) Data set forth above reflects the shares issued upon the conversion of the 1990 Convertible Bonds issued by the Company. See "—Convertible Bonds".

As of April 30, 1999, the total number of shares owned by the Company's directors and executive officers as a group (21 persons) was 307,756 or 0.40% of the outstanding shares, representing 0.70% of the voting rights, not including 9,625,147 shares held by the Eurafrance Group, IFIL/Worms and FINDIM, which may be considered beneficially owned by Messrs. Michel David-Weill and Jean-Claude Haas, Mr. Umberto Agnelli and Mr. Luca Fossati, respectively.

As of April 30, 1999, the Group owns, directly or indirectly through its 55.72% owned Spanish subsidiary, Danone SA, 5,768,384 shares of Groupe Danone, representing 7.44% of its share capital.

On May 19, 1998, the Group obtained approval from its shareholders to implement a buy-back program, within the limits set by French law, and as of April 30, 1999, the Group had acquired 3,083,941 shares at an average price of € 231.97. As of April 30, 1999, the Group owned 5,768,384 shares and was committed to optional purchase contracts for 3,250,000 shares. The Group could therefore cancel up to 5,679,956 shares, representing the maximum number of shares that may be bought-back pursuant to the shareholders' approval of May 19, 1998, less 1,648,397 shares, which may not be canceled because reserved under certain sale options or employee stock purchase plans. On May 19, 1999, the Board of Directors will propose to the Group's shareholders to renew their approval of a share buy-back program, subject to the following conditions: (i) a limit of 10% of the Group's share capital, and (ii) a maximum purchase price of € 350 and a minimum sale price of € 200.

Pursuant to the program, the Group could, during a period of 18 months following May 19, 1999, purchase up to 5,510,640 shares, on a share capital basis taking into account the shares issued upon the conversion of the 1990 Convertible Bonds, the cancellation of shares owned by the Group and the shares which may not be canceled.

Shareholders' Agreements

Eurafrance Shareholders' Agreement. The voting and other rights (other than dividend or other economic rights) pertaining to the shares (as well as certain shares acquired in the future, including upon the conversion of convertible bonds) held by Gaz et Eaux, Eurafrance, Sopageco, La France Vie and La France IARD (together, the "La France Companies"), La France S.A. and La France Participations & Gestion (the "Eurafrance Shares"), have been contributed to a French partnership ("société en participations") pursuant to an agreement dated February 6, 1996 (the "Eurafrance Agreement") so as to enable Eurafrance globally to manage the rights attached to such shares. Gaz et Eaux, Sopageco, La France S.A. and La France Participations & Gestion are under the control, direct or indirect, of Eurafrance. Under a separate agreement entered into in June 1995, in anticipation of the transfer of the La France Companies out of the Eurafrance Group, each of the La France Companies granted Eurafrance a purchase option, exercisable through the end of 1999, to acquire all of their respective shares or convertible bonds of the Company (the "Purchase Option"). In the event any shares or convertible bonds have not been purchased from the La France Companies pursuant to the Purchase Option at the expiration thereof, Eurafrance has agreed under a separate agreement to acquire such shares and convertible bonds in March 2000.

The Eurafrance Agreement provides that the voting of the Danone shares is subject to the joint control of Gaz et Eaux and Eurafrance. Unless otherwise decided by the parties thereto, the Eurafrance Agreement will terminate upon the expiration of the Purchase Option, or earlier in the event all the shares held by the La France Companies are acquired by Eurafrance or one of its subsidiaries.

Two directors of Eurafrance, Mr. Michel-David Weill and Jean-Claude Haas, are also directors of the Company.

IFIL/Worms Shareholders' Agreement. Because of certain cross-shareholdings between IFIL and Worms, IFIL and Worms have agreed to act in concert with respect to their holdings in the Company. To that end, IFIL, Worms and the Company entered into a Shareholders' Agreement on October 12, 1994 (the "IFIL/Worms Shareholders' Agreement") in which the parties agreed that the holdings of IFIL and Worms, taken together, will not exceed 5.80% of the Company's capital. The IFIL/Worms Shareholders' Agreement expires on December 31, 1999, with automatic renewal absent notice of termination for two-year periods.

IFIL, pursuant to an agreement dated March 11, 1989, also has the right to put to Danone its interest in certain entities in exchange for cash or, at the option of Danone, Danone shares; provided, however, that IFIL may require payment in Danone shares to the extent that its interest in Danone is less than that held or controlled by the Fossati family.

Danone is subject to a similar standstill agreement with IFIL dated September 9, 1987 with respect to its 20% interest in Fimepar (a company controlled by IFIL), and has, since November 8, 1993, a put right with respect to Fimepar.

FINDIM Agreement. In connection with Danone's acquisition of interests in Star and Starlux in March 1989 and certain other agreements entered into in November 1994, FINDIM agreed with Danone that the Fossati family and the entities controlled by it will at no time hold more than 5% of the outstanding shares of Danone (such percentage may be increased to 6% under certain circumstances).

Danone also acquired a right of first refusal on any voting securities of Danone transferred from time to time by FINDIM.

Convertible Bonds

In January 1990 and October 1993, the Company issued 6.6% and 3.0% bonds convertible into Danone shares, respectively in the aggregate amount of FF 3,306 million (€ 504 million) (the "1990 Convertible Bonds") and FF 4,000 million (€ 610 million) (the "1993 Convertible Bonds"). The 1990 Convertible Bonds mature on January 1, 2000 and the 1993 Convertible Bonds mature on January 1, 2002. Such convertible bonds are listed on the Paris Bourse.

Starting January 1, 1999, the Company has been redeeming any outstanding 1990 Convertible Bonds at a redemption price of FF 900 per bond. In conformity with the indenture governing the 1990 Convertible Bonds, a holder of a bond called for redemption is entitled, until the date which is three months after the dated fixed for redemption (i.e. until April 1, 1999) to elect to convert any bond into shares, at the conversion rate of 1.1 share per bond, instead of receiving the redemption price.

The 1993 Convertible Bonds may be converted into shares at any time at the conversion rate of one share for each bond. The Company's shareholders' meeting held on May 19, 1998 authorized the Board of Directors, subject to the approval of each of the general meetings of convertible bond holders, to amend the indentures governing each respective series of convertible bonds in order to allow the conversion of such bonds into new shares or into existing shares held by the Company or by a company directly or indirectly controlled by the Company, subject to certain conditions.

As of December 31, 1998, the 1990 Convertible Bonds and the 1993 Convertible Bonds could have been converted into a total of 3,550,403 shares and 3,922,568 shares, respectively. As of April 30, 1999, 3,212,514 1990 Convertible Bonds have been converted into 3,533,766 shares.

Item 5: Nature of Trading Market

General

The principal trading market for the shares is the Paris Bourse, the French integrated national dealing system through which trading in all French listed securities occurs. The shares are traded on the "marché à règlement mensuel" or monthly settlement market of the Paris Bourse and were among the first to be included in the "CAC 40 Index", the principal stock exchange index published by the "SBF-Bourse de Paris" (the "SBF"), a self-regulatory organization responsible for supervision of trading in listed securities on French stock exchanges. The shares are also traded on the London, Brussels and Swiss stock exchanges.

Since December 1990, the Company has a sponsored American Depositary Receipts ("ADRs") program in the United States with Citibank, N.A., as depositary. The American Depositary Shares ("ADSs") issued pursuant to such program have been registered with the Securities and Exchange Commission under a Registration Statement on Form F-6. Each such ADS represents one-fifth of one share. As of November 20, 1997, the ADSs have been listed on the New York Stock Exchange under the symbol "DA". At April 30, 1999, there were approximately 5,340,735 million ADSs outstanding representing approximately 6.91% of the Company's outstanding shares.

The table below sets forth the reported high and low sales prices and average daily trading volume for the shares reported by the Paris Bourse and for the ADSs on the U.S. over-the-counter market and the New York Stock Exchange for the periods indicated.

	Paris Bourse			U.S. Over-the-Counter Market/ New York Stock Exchange		
	Price per Share			Price per ADS		
Calendar Period	High	Low	Average Daily Volume	High	Low	Average Daily volume
	(in French francs)		(shares in thousands)	(in U.S. dollars)		(ADSs in thousands)
1997						
First Quarter*	955	712	266.3	33	27 5/16	37.7
Second Quarter*	991	828	260.3	34	29 1/4	30.0
Third Quarter*	1,005	808	209.6	33 7/8	27 1/8	47.4
Fourth Quarter**	1,128	788	279.9	36 5/8	28 1/2	69.0
1998						
First Quarter**	1,513	1,028	229.2	48 1/8	34 1/8	28.2
Second Quarter**	1,640	1,328	306.4	57 1/2	44 3/16	101.4
Third Quarter**	1,885	1,410	266.8	61 1/8	50 3/4	85.1
Fourth Quarter**	1,746	1,295	268.4	59 1/2	47 1/2	33.9
1999	**(in euros)**					
First Quarter**	254.8	205.8	320.9	58 7/8	48 1/16	39.1
Second Quarter** (through May 14, 1999)	256.1	226.2	253.4	54 1/4	49 5/16	23.1

* Price per ADS in the U.S. over-the-counter market.
** Price per ADS on the New York Stock Exchange.

On May 14, 1999 the last reported sales price of the Company's shares on the Paris Bourse was € 249.20 per share and the last reported sales price of the Company's ADSs on the New York Stock Exchange was $53 3/8 per ADS.

The Paris Bourse

Securities listed on the Paris Bourse are traded on one of five markets. The securities of most large public companies, including the Company, are listed on the "Premier marché", with the "Second marché" available for small- and medium-sized companies. Since September 1996, securities have been traded on a non-regulated over-the-counter market, the "Marché Libre OTC", which is operated by the SBF. Since March 1996, securities have also been traded on the "Nouveau Marché", a regulated electronic market managed and operated by the "Société du Nouveau Marché". Securities listed on the Paris Bourse are placed in one of four categories depending on the volume of transactions. The Company's shares are listed in the category known as "Continu A", which includes the most actively traded securities (with a minimum daily trading volume of FF 250,000 or twenty trades).

Official trading of listed securities on the "Premier marché" is transacted through investment services providers (investment companies and other financial institutions) and takes place continuously on each business day from 10:00 a.m. to 5:00 p.m., with a pre-opening session from 8:30 a.m. to 10:00 a.m. during which transactions are recorded but not executed. Any trade effected after the close of a stock exchange session is recorded on the next Paris Bourse trading day with reference to the closing price for the relevant security at the end of the previous day's session. The SBF is a self-regulatory organization responsible for supervising the trading in securities listed on the "Premier marché" and publishes a daily official price list that includes price information concerning listed securities. The Paris Bourse has introduced continuous trading during trading hours by computer for most listed securities.

Trading in the listed securities of an issuer may be suspended by the SBF if quoted prices exceed certain price limits defined by the regulations of the "Conseil des marchés financiers" (the "CMF"). In particular, if the quoted price of a "Continu A" security varies by more than 10% from the previous day's closing price, trading may be suspended for up to 15 minutes. Further suspensions for up to 15 minutes are also possible if the price again varies by more than 5%. The SBF may also suspend trading of a listed security in certain other circumstances, including, for example, the occurrence of unusual trading activity in such security.

Trades of securities listed on the "Premier marché" of the Paris Bourse are settled in either of two ways: on the "marché au comptant" ("cash settlement market") or the "marché à réglement mensuel" ("monthly settlement market"). Transactions in the shares of the Company are settled in the monthly settlement market. In the monthly settlement market, the purchaser may elect to settle on the third trading day following the trade ("règlement immédiat" or immediate settlement) or decide on the determination date ("date de liquidation", which is the sixth trading day prior to the end of the month) either (i) to settle the trade no later than on the last trading day of such month or (ii) upon payment of an additional fee, to extend to the determination date of the following month the option either to settle no later than the last trading day of such month or to postpone further the selection of a settlement date until the next determination date (a procedure known as a "report"). Such purchaser may decide to renew its option on each subsequent determination date subject to payment of an additional fee. The transfer of ownership of equity securities traded on the monthly settlement market of the Paris Bourse occurs at the time of registration of the securities in the appropriate shareholder's account. The majority of transactions of the Paris Bourse are settled on the monthly settlement market. In accordance with French securities regulation, any sale of securities executed on the monthly settlement market during the month of a dividend payment date is deemed to occur after payment of the dividend, and the purchaser's account will be credited with an amount equal to the dividend paid and the seller's account will be debited in the same amount.

Trading by the Company in its Shares

In accordance with an amendment to French company law in effect as of July 3, 1998, the Company may not subscribe for its shares but it may, either directly or through a financial intermediary acting on its behalf, purchase its own shares (a) with the approval of the shareholders at an extraordinary general meeting to reduce its capital stock under certain circumstances, (b) to provide shares for distribution to employees under a profit-sharing or stock option plan, or (c) if the Company's shares are listed on a regulated market (i.e., on the Premier Marché, the Second Marché or the Nouveau Marché), subject to the filing of a note d'information that has received the approval (*visa*) of the COB and after obtaining approval from the shareholders at an ordinary general meeting, to acquire up to 10% of its share capital. In the last case, the Company may decide to (i) keep the shares acquired, (ii) sell or transfer them (including to employees under a profit-sharing plan or stock option plan) or (iii) with the approval of the Shareholders at an extraordinary meeting, cancel them, subject to a maximum of 10% of the outstanding share capital over any 24-month period. In addition, pursuant to Regulation No. 90-04 (as modified) of the Commission des opérations de bourse ("COB"), all purchases of shares are subject to certain limitations, including as to timing, price and quantity so as not to disrupt the normal trading of the shares. Furthermore, the Company must inform the *Conseil des Marchés Financiers* ("CMF") on a monthly basis, of any purchase, sale, transfer or cancellation of its own shares. The CMF will then make this information public. Shares held by the Company must be held in registered form and be fully paid. Such shares are deemed to be outstanding under French law but are not entitled to dividends (these are carried forward to the next fiscal year as distributable profits) or voting rights and the Company may not itself exercise preferential subscription rights. The shareholders, at an extraordinary general meeting, may decide not to take such shares into account in determining the preferential subscription rights attached to the other shares; in the absence of such a decision, the rights attached to shares held by the Company must be either sold on the market before the end of the subscription period or distributed to the other shareholders on a *pro rata* basis. A direct subsidiary of the Company is generally prohibited by French law from holding shares and, in the event it becomes a holder of shares, such subsidiary must transfer such shares within one year following the date on which it becomes the holder thereof. An indirect subsidiary of the Company may only acquire shares if such subsidiary demonstrates a business purpose for holding the shares, but in no event will it be entitled to vote such shares. Pursuant to a resolution approved by the Company's shareholders at a general meeting held on May 19, 1998, the Company was authorized to purchase and sell its shares, at maximum purchase and minimum sale prices of FF 2,000 and FF 1,000, respectively, subject to certain conditions. At a general meeting which will be held on May 19, 1999, the Company's shareholders will be asked to renew such authorization to purchase and sell its shares, up to a maximum of 10% of the outstanding shares composing the share capital, at maximum purchase and minimum sale prices of € 350 and € 200. This authorization may be used, to the extent permitted by law, to buy shares to be used for the conversion of the Company's outstanding convertible bonds. See "Item 4: Control of Registrant—Convertible Bonds".

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

Ownership of ADSs or Shares by Non-French Residents

Under French law, there is no limitation on the right of non-French residents or non-French security holders to own or, when applicable, to vote securities of a French company.

A French law dated February 14, 1996 abolished the requirement that a person who is not a resident of the European Union (the "E.U.") obtain an "autorisation préalable", or prior authorization, prior to acquiring a controlling interest in a French company. However, both E.U. and non-E.U. residents must file a "déclaration administrative", or administrative notice, with French authorities in connection with the acquisition of a controlling interest or an increase of controlling interest in any French company. Under existing administrative rulings, ownership of 20% or more of a listed company's share capital or voting rights is regarded as a controlling interest, but a lower percentage may be held to be a controlling interest in certain circumstances (depending upon such factors as the acquiring party's intentions, its ability to elect directors or financial reliance by the French company on the acquiring party).

Exchange Controls

Under current French exchange control regulations, there are no limitations on the amount of payments that may be remitted by a French company to non-French residents. Laws and regulations concerning foreign exchange controls do require, however, that all payments on transfers of funds made by a French resident to a non-French resident be handled by an accredited intermediary. In France, all registered banks and substantially all credit establishments are accredited intermediaries.

Item 7: Taxation

French Taxation

The following is a general summary of the material French tax consequences of owning and disposing of Company's shares (the "Shares") by a holder that is not a resident of France and does not hold the Shares in connection with a business conducted in France. The statements relating to French tax laws set out below are based on the laws in force as of the date hereof, and are subject to any changes in applicable French tax laws or in any applicable double taxation conventions or treaties with France occurring after such date.

This discussion is intended only as a descriptive summary and does not purport to be a complete analysis or list of all potential tax effects of the purchase, ownership and disposal of the Shares.

As it is a general summary, potential purchasers are advised to consult their own tax advisors with respect to the purchase, ownership and disposal of the Shares.

Taxation on Sale or Disposal of Shares

In the absence of any more favorable provisions of any relevant double tax treaty, persons who are not French residents for the purpose of French taxation (as well as, under certain conditions, foreign states, international organizations and certain foreign public bodies) and who have held not more than 25%, directly or indirectly, of the dividend rights ("bénéfices sociaux") of the Company at any time during the preceding five years, are not generally subject to any French income tax or capital gains tax on any sale or disposal of Shares.

If a share transfer is evidenced by a written agreement, such share transfer agreement is, in principle, subject to registration formalities and therefore to a 1% registration duty assessed on the higher of the purchase price and the market value of the shares (subject to a maximum assessment of FF 20,000 per transfer), provided that, under certain circumstances, no duty is due if such written share transfer agreement is executed outside France.

Taxation of Dividends

In France, dividends are paid out of after-tax income. French residents are entitled to a tax credit, known as the "avoir fiscal", generally equal to 45% of the dividend paid, unless it is used by an individual or some specific entities, in which case it is equal to 50% of the dividend paid. Dividends paid to non-residents are normally subject to a 25% French withholding tax and, under French domestic law, non-residents are not eligible for the benefit of the avoir fiscal. Under most tax treaties entered into between France and other countries, such withholding tax may, subject to certain conditions, be reduced and give rise in such other country to a tax credit of the amount of the tax withheld or, in the case of certain tax treaties, be eliminated. See hereafter "—Taxation of U.S. Investors—Taxation of Dividends" for information regarding the reduction in withholding tax available to U.S. Holders (as defined below).

France has entered into treaties with the following overseas territories ("Territoires d'Outre-Mer") and other territories and countries whereby qualifying tax residents of such countries and territories may, under certain circumstances, obtain from the French tax authorities a reduction (generally to 15%) of all or part of such withholding tax and a refund of the avoir fiscal (net of applicable withholding tax), or in the case of German tax residents, a tax credit in an amount equal to the aggregate of the amount of the applicable "avoir fiscal" and the amount of the applicable withholding tax. See hereafter "—Taxation of U.S. Investors—Taxation of Dividends" for information regarding the payment equal to the avoir fiscal to which Eligible U.S. Holders (as defined below) would be entitled.

Australia	Israel	Pakistan
Austria	Italy	Senegal
Belgium	Ivory Coast	Singapore
Bolivia	Japan	South Korea
Brazil	Luxembourg	Spain
Burkina Faso	Malaysia	Sweden
Cameroon	Mali	Switzerland
Canada	Malta	Togo
Finland	Mauritius	Turkey
Gabon	Mexico	United Kingdom
Germany	Netherlands	United States of America
Ghana	New Zealand	Venezuela
Iceland	Niger	
India	Norway	

Overseas territories ("Territoires d'Outre-Mer") and Other

New Caledonia
Saint-Pierre et Miquelon
Mayotte

Treaties with some of the countries and territories listed above contain specific limitations applicable to corporate entities entitled to benefit from the avoir fiscal, or limit the rights to the avoir fiscal strictly to individual residents (as opposed to corporate entities).

Dividends paid to non-residents of France benefitting from the avoir fiscal in accordance with a tax treaty (other than German residents) will be subject, on the date of payment, to the withholding tax at the reduced rate provided for by such treaty (subject to certain filing formalities) rather than to the French withholding tax at the rate of 25% to be later reduced to the treaty rate; provided, however, that they establish their entitlement to such reduced rate before the date of payment of the dividend.

If Shares are sold in a trade executed on the monthly settlement market during the month of a dividend payment date, the seller rather than the purchaser will generally be entitled to the avoir fiscal with respect to dividends paid on those shares. See "Item 5: Nature of Trading Market" for a summary of certain information relating to the trading of Shares on the monthly settlement market.

Amounts distributed as dividends by French companies out of profits which have not been taxed at the ordinary corporate income tax rate or which have been earned and taxed more than five years before the distribution are subject to a "précompte", or equalization tax, by such companies. The précompte is paid by the distributing company to the French tax authorities and is generally equal to one-half of the nominal dividend distributed. However, the rate of the précompte may be reduced to 45% with respect to the dividend distributed to shareholders that can use the avoir fiscal at this rate, provided that the distributing company attests to having distributed such dividends to such beneficiaries. When a tax treaty in force does not provide for a refund of the avoir fiscal or when the non-resident investor is not entitled to such refund but is otherwise entitled to the benefits of a tax treaty, such investor may obtain from the French tax authorities a refund of such précompte actually paid in cash by the Company, if any (net of applicable withholding tax).

Estate and Gift Tax

France imposes estate and gift tax on certain real and personal property acquired by inheritance or gift from a non-resident of France if such property is deemed to be situated in France. France has entered into estate and gift tax treaties with a number of countries pursuant to which, assuming certain conditions are met, residents of the treaty countries may be exempted from such tax or obtain a tax credit. Investors in Shares should consult their own advisors concerning the applicability of French estate and gift tax to their shareholding in the Company and the availability of, and the conditions for claiming exemption under, such a treaty.

Wealth Tax

In the absence of a more favorable tax treaty, the French wealth tax ("impôt de solidarité sur la fortune") does not apply to non-French resident individual investors owning directly or indirectly less than 10% of the Company's share capital.

Taxation of U.S. Investors

The following is a general summary of the material United States federal income and French tax consequences to owners of one or more ADSs or Shares (a) who own, directly and indirectly, less than 10% of the capital of the Company, (b) who are (i) citizens or residents of the United States for U.S. federal income tax purposes, (ii) U.S. domestic corporations or (iii) otherwise subject to U.S. federal income taxation on a net income basis in respect of the ADSs or Shares, (c) who are entitled to Treaty benefits (as defined below) under the limitations on benefits article contained in the Treaty ("U.S. Holders"), (d) who hold the ADSs or Shares as capital assets and (e) whose functional currency is the U.S. dollar. Certain holders (including, but not limited to, United States expatriates, insurance companies, tax-exempt organizations, financial institutions, persons subject to the alternative minimum tax, securities broker-dealers and persons holding the ADSs or Shares as part of a conversion transaction) may be subject to special rules not discussed below. This discussion does not address non-U.S. persons who may be subject to U.S. tax by reason of their presence or activities within the United States or otherwise.

Because this is a general summary, persons are advised to consult their own tax advisor with respect to the purchase, ownership and sale of ADSs and Shares.

The statements of United States and French tax laws set forth below assume that each obligation in the Deposit Agreement with respect to the ADSs and any related agreement will be performed in accordance with its terms and are based on United States and French laws and the double taxation conventions between the United States and France currently in force, and on the practice of the French tax authorities, as of the date hereof, and as a consequence are subject to any changes in such laws, conventions or practice occurring after such date, which changes may have retroactive effect. In this regard, the Convention between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital of August 31, 1994 (the "Treaty"), entered into force on December 30, 1995 and the French tax authorities issued tax regulations on June 7, 1994 and March 1, 1996 (the "Regulations"). The Treaty and the Regulations change the French withholding tax rules applicable to dividends to which an avoir fiscal is associated and may affect the timing of payments to non-residents of France that are entitled to tax treaty benefits.

For purposes of the Treaty and the United States Internal Revenue Code of 1986, as amended (the "Code"), U.S. Holders of ADRs will be treated as owners of the ADSs evidenced thereby and the Shares represented by such ADSs.

Taxation of Dividends

Withholding/Avoir Fiscal. In France, dividends are paid out of after-tax income. French residents are entitled to a tax credit, known as the avoir fiscal, generally equal to 45% of the dividend paid, unless it is used by an individual or some specific entities, in which case it is equal to 50% of the dividend paid. Dividends paid to non-residents are normally subject to a 25% French withholding tax and, under French domestic law, are not eligible for the benefit of the *avoir fiscal*.

Under the Treaty, the rate of French withholding tax on dividends paid to a U.S. Holder whose ownership of the ADSs or Shares is not effectively connected with a permanent establishment or a fixed base in France is reduced to 15%. Dividends paid to an Eligible U.S. Holder, as defined below, will be immediately subject to the reduced rate of 15%, provided that such holder establishes before the date of payment of the dividend that such holder is a resident of the United States under the Treaty in accordance with the procedures described below. An Eligible U.S. Holder would also be entitled to a payment equal to the avoir fiscal, less a 15% withholding tax. As noted below, such payment will not be made to an Eligible U.S. Holder until after the close of the calendar year in which the dividend was paid and only upon receipt by the French tax authorities of a claim made by the Eligible U.S. Holder for such payment in accordance with the procedures set forth below.

An Eligible U.S. Holder is a U.S. Holder whose ownership of ADSs or Shares is not effectively connected with a permanent establishment or fixed base in France, and who is (i) an individual or other non-corporate holder that is a resident of the United States as defined pursuant to the provisions of the Treaty, (ii) a United States corporation, other than a regulated investment company, (iii) a United States corporation which is a regulated investment company only if less than 20% of its shares are beneficially owned by persons who are neither citizens nor residents of the United States or (iv) a partnership or trust that is treated as a resident of the United States as defined pursuant to the provisions of the Treaty, but only to the extent that its partners, beneficiaries or grantors would qualify under clause (i) or (ii) above.

In general, under the Treaty, an Eligible U.S. Holder may receive a payment of the avoir fiscal only if such Holder (or its partners, beneficiaries or grantors, if the Holder is a partnership or trust) attests that it is subject to United States federal income taxes on the payment of the avoir fiscal and the related dividend. However, certain tax-exempt "U.S. Pension Funds", as defined below, and certain other tax-exempt entities (including certain governmental institutions, not-for-profit organizations and individuals with respect to dividends beneficially owned by such individuals and derived from an investment retirement account) ("Other Tax-Exempt Entities") that own, directly or indirectly, less than 10% of the capital of the Company, and that satisfy certain filing formalities specified in the Regulations (i) are entitled to a payment, subject to French withholding tax, equal to 30/85 of the gross avoir fiscal (the "partial avoir fiscal") and (ii) are eligible for the reduced withholding tax rate of 15% on dividends. A "U.S. Pension Fund" includes exempt pension funds subject to the provisions of Section 401(a) (qualified retirement plans), Section 403(b) (tax-deferred annuity contracts) or Section 457 (deferred compensation plans) of the Code, established and managed in order to pay retirement benefits.

Dividends paid to an Eligible U.S. Holder will be subject to the reduced withholding tax rate of 15% at the time the dividend is paid if (i) such holder duly completes and provides the French tax authorities with Treasury Form RF 1 A EU-NO. 5052 (the "Form") before the date of payment of the relevant dividend together with, if such Eligible U.S. Holder is not an individual, an affidavit attesting that it is the beneficial owner of all the rights attached to the full ownership of the ADSs or Shares, including but not limited to dividend rights, or (ii) if completion of the Form is not possible prior to the payment of dividends, such holder duly completes and provides the Depositary if it holds ADSs, or the paying agent ("établissement payeur") if it holds shares, with a simplified certificate (the "Certificate") stating that (a) such holder is a U.S. resident as defined pursuant to the provisions of the Treaty, (b) such holder's ownership of the ADSs or Shares is not effectively connected with a permanent establishment or fixed base in France, (c) such holder owns all the rights attached to the full ownership of the ADSs or Shares, including but not limited to dividend rights, and (d) such holder meets all the requirements of the Treaty for obtaining the benefit of the reduced rate of withholding tax and the right to payment of the French avoir fiscal. Holders of ADSs may provide the Form or the Certificate to the Depositary provided that the Depositary is given sufficient time to file such Form or Certificate with the French tax authorities before the date of payment. Dividends paid to a U.S. Holder that is not entitled to the avoir fiscal (i.e., not an Eligible U.S. Holder) or to an Eligible U.S. Holder that has not filed a completed Form or Certificate before the dividend payment date will be subject to French withholding tax at the rate of 25%. Such a holder may claim a refund of the excess withholding tax and an Eligible U.S. Holder may claim the avoir fiscal by completing and providing the French tax authorities with the Form before December 31st of the calendar year following the year during which the dividend is paid. U.S. Pension Funds and Other Tax-Exempt Entities are subject to the same general filing requirements as Eligible U.S. Holders except that they may have to supply additional documentation evidencing their entitlement to these benefits.

Eligible U.S. Holders, U.S. Pension Funds and Other Tax-Exempt Entities must file the Form and, when applicable, the affidavit in order to receive payment of the avoir fiscal or partial avoir fiscal (whichever is applicable). The avoir fiscal or partial avoir fiscal is generally expected to be paid to Eligible U.S. Holders, U.S. Pension Funds and Other Tax-Exempt Entities within 12 months of filing the Form, but not before January 15th following the end of the calendar year in which the related dividend is paid. Similarly, any French withholding tax refund is generally expected to be paid to U.S. Holders within 12 months of filing the Form, but not before January 15th following the end of the calendar year in which the related dividend is paid.

The Form or the Certificate, together with their respective instructions, will be provided by the Depositary to all U.S. Holders of ADSs registered with the Depositary and are also available from the United States Internal Revenue Service. The Depositary will arrange for the filing with the French tax authorities of all Forms or Certificates completed by U.S. Holders of ADSs that are returned to the Depositary in sufficient time.

For United States federal income tax purposes, the gross amount of a dividend and the amount of the avoir fiscal paid to a U.S. Holder, including any French withholding tax thereon, will be included in gross income as dividend income in the year each such payment is received (which, in the case of a U.S. Holder of ADSs, will be the year of receipt by the Depositary) to the extent paid or deemed paid out of the Company's current or accumulated earnings and profits as calculated for United States federal income tax purposes. No dividends received deduction will be allowed with respect to dividends paid by the Company. Such dividends will generally constitute foreign source "passive" or (in the case of certain holders) "financial services" income for foreign tax credit purposes. The amount of any dividend paid in euros or French francs, including the amount of any French taxes withheld therefrom, will be equal to the U.S. dollar value of the euros or French francs on the date such dividend is included in income (which, for a U.S. Holder of ADSs, will be the date of receipt by the Depositary), regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder will generally be required to recognize United States source ordinary income or loss upon the sale or disposition of euros or French francs. Moreover, a U.S. Holder may be required to recognize foreign currency gain or loss, which will generally be United States source ordinary income or loss, as a result of the receipt of a refund of amounts, if any, withheld from a dividend in excess of the Treaty rate of 15%.

To the extent that the amount of any distribution exceeds the Company's current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the Shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the investor on a subsequent disposition of the Shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange.

French withholding tax imposed at the Treaty rate of 15% on dividends paid by the Company and on any related payment of the avoir fiscal is treated as payment of a foreign income tax and, subject to certain conditions and limitations, may be taken as a credit against such U.S. Holder's United States federal income tax liability.

If Shares are sold in a trade executed on the monthly settlement market of the Paris Bourse during the month of and prior to a dividend payment date, the seller of the Shares rather than the purchaser will generally be entitled to the avoir fiscal with respect to dividends paid on such Shares on such date. See "Item 5: Nature of Trading Market" for a summary of certain information relating to the trading of Shares on the monthly settlement market of the Paris Bourse.

Précompte. Amounts distributed as dividends by French companies out of profits which have not been taxed at the ordinary corporate income tax rate or which have been earned and taxed more than five years before the distribution and which give rise to the avoir fiscal are subject to a précompte, or equalization tax, by such companies. The précompte is paid by the distributing company to the French tax authorities and is generally equal to one-half of the nominal dividend distributed. However, the rate of the précompte may be reduced to 45% with respect to the dividends distributed to shareholders that are entitled to use the avoir fiscal at this rate, provided that the distributing company attests to having distributed such dividends to such beneficiaries.

A U.S. Holder not entitled to the full avoir fiscal may generally obtain a refund from the French tax authorities of any précompte paid by the Company with respect to the dividends distributed. Pursuant to the Treaty, the amount of the précompte refunded to United States residents is reduced by the 15% withholding tax applicable to dividends and eventually by the partial avoir fiscal paid to U.S. Pension Funds and Other Tax Exempt Entities. A U.S. Holder is only entitled to a refund of précompte actually paid in cash by the Company and is not entitled to a refund of the précompte paid by the Company by off-setting French and/or foreign tax credits.

A U.S. Holder entitled to the refund of the précompte must apply for such refund by filing a French Treasury form RF 1 B EU-NO. 5053 before the end of the calendar year following the year in which the dividend was paid. The form and its instructions are available from the United States Internal Revenue Service or at the Centre des Impôts des Non Résidents (9, rue d'Uzès, 75094 Paris Cedex 2).

For United States federal income tax purposes, the gross amount of the précompte paid to a U.S. Holder (including any French withholding tax thereon) will be included in gross income as dividend income in the year each such payment is received. Such amounts will generally constitute foreign source "passive" or (in the case of certain holders) "financial services" income for foreign tax credit purposes. The amount of any précompte paid in French francs, including the amount of any French taxes withheld therefrom, will be equal to the U.S. dollar value of the French francs or euros on the date such précompte is included in income (which, for a U.S. Holder of ADSs, will be the date of receipt by the Depositary), regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder will generally be required to recognize United States source ordinary income or loss upon the sale or disposition of French francs or euros.

Taxation of Capital Gains

A U.S. Holder who is a resident of the United States as defined pursuant to the provisions of the Treaty will not be subject to French tax on any capital gain from the sale or exchange of ADSs or Shares unless those ADSs or Shares form part of the business property of a permanent establishment or fixed base that the U.S. Holder has in France. Special rules apply to individuals who are residents of more than one country. The deposit or withdrawal of Shares by a U.S. Holder under the Deposit Agreement will not be subject to United States federal income tax. In general, for United States federal income tax purposes, a U.S. Holder will recognize capital gain or loss on the sale or exchange of ADSs or Shares in the same manner as on the sale or exchange of any other shares held as capital assets. Such gain, if any, will generally be United States source gain or loss. Capital gains of individuals are generally subject to U.S. federal income tax at preferential rates if certain prescribed minimum holding periods are met.

French Estate and Gift Taxes

Under The Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates, Inheritance and Gifts of November 24, 1978, a transfer of ADSs or Shares by gift or by reason of the death of a U.S. Holder will not be subject to French inheritance or gift tax unless (i) the donor or the transferor is domiciled in France at the time of making the gift, or at the time of his or her death, or (ii) the ADSs or Shares were used in, or held for use in, the conduct of a business through a permanent establishment or fixed base in France.

French Wealth Tax

The French wealth tax does not generally apply to the ADSs or Shares owned by a U.S. Holder who is a resident of the United States as defined pursuant to the provisions of the Treaty.

United States Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or Shares and proceeds from the sale, exchange or redemption of ADSs or Shares may be subject to information reporting to the Internal Revenue Service ("IRS") and possible U.S. backup withholding at a 31% rate. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. Persons exempt from backup withholding include, for example, all corporations and certain non-U.S. persons who hold their ADSs or Shares (and receive all payments thereon or in respect thereof) through a broker or other intermediary who is neither a U.S. person nor has any significant U.S. connection. Any U.S. person required to establish their exempt status generally must provide such certification on IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information. Finalized Treasury regulations have generally expanded the circumstances under which information reporting and backup withholding may apply for payments made after December 31, 1999. Holders of ADSs or Shares should consult their tax advisors regarding the application of the information reporting and backup withholding rules.

Item 8: Selected Consolidated Financial Data

The tables below present selected consolidated financial data for the Group for the five-year period ended December 31, 1998. Such data with respect to the years ended December 31, 1994, 1995, 1996, 1997 and 1998 have been extracted or derived from the consolidated financial statements of the Group, and are qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and the Notes thereto and "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report. The Consolidated Financial Statements have been audited by PricewaterhouseCoopers, independent accountants, as indicated in their report thereon, which also appears in this annual report.

	Year ended December 31,					
	1994	1995	1996	1997	1998	1998(1)
	(in millions, except per share data)					
Consolidated Income Statement Data						
Amounts in accordance with French GAAP:						
Net sales(2)	€ 11,346	€ 12,112	€ 12,797	€ 13,488	€ 12,935	$ 15,279
Cost of goods sold	(6,436)	(6,936)	(7,245)	(7,466)	(6,806)	(8,039)
Selling expenses	(2,909)	(3,085)	(3,338)	(3,633)	(3,650)	(4,311)
General and administrative expenses	(666)	(710)	(763)	(826)	(852)	(1,006)
Research and development expenses	(89)	(95)	(102)	(116)	(120)	(142)
Other expense and income(3)	(222)	(217)	(209)	(223)	(213)	(252)
Operating income(4)	1,025	1,070	1,140	1,224	1,293	1,527
Non-recurring items(4)	16	(274)	—	6	(44)	(52)
Interest expense, net	(154)	(191)	(190)	(170)	(146)	(172)
Provision for income taxes	(291)	(228)	(365)	(452)	(433)	(511)
Minority interests	(79)	(67)	(94)	(82)	(97)	(115)
Equity in net earnings of affiliated companies	21	16	24	32	25	30
Net income	538	325	516	559	598	706
Earnings per Share (basic)(5)	7.89	4.66	7.25	7.87	8.48	10.01
Earnings per Share (diluted)(5)	7.67	4.72	7.06	7.63	8.15	9.63
Earnings per ADS (diluted)(5)(6)	1.54	0.94	1.41	1.53	1.63	1.93
Dividends per Share (including the "avoir fiscal")	3.66	3.66	3.89	4.23	4.50	5.32
Dividends per ADS(5)(6) (including the "avoir fiscal")	0.73	0.73	0.78	0.85	0.90	1.06
Approximate amounts in accordance with U.S. GAAP:(7)						
Net income	498	286	472	512	553	653
Earnings per Share (basic)	7.30	4.10	6.63	7.22	7.85	9.27
Earnings per Share (diluted)(5)	7.15	4.10	6.51	7.05	7.58	8.95
Earnings per ADS (diluted)(5)(6)	1.43	0.82	1.30	1.41	1.52	1.80

(See notes on following page)

	Year ended December 31,					
	1994	1995	1996	1997	1998	1998[1]
	(in millions, except percentages)					
Consolidated Balance Sheet Data						
Amounts in accordance with French GAAP:						
Marketable securities, cash and cash equivalents	€ 820.0	€ 1,071.0	€ 866.1	€ 965.6	€ 894.4	$ 1,056.5
Current assets	4,396.5	4,856.3	4,886.9	4,498.6	4,383.4	5,177.7
Total assets	13,290.7	14,203.4	15,377.7	15,029.6	15,042.3	17,768.0
Net debt[8]	2,482.0	2,590.9	3,289.0	2,752.3	2,873.4	3,394.1
Stockholders' equity	5,346.0	5,526.9	6,156.3	6,512.2	6,513.7	7,694.0
Approximate amounts in accordance with U.S. GAAP:[7]						
Stockholders' equity	4,974.0	5,047.4	5,738.6	6,134.4	6,057.0	7,154.5
Total assets	13,078.4	13,837.5	15,154.8	14,881.5	14,822.3	17,508.1
Cash Flow Statement Data						
Amounts in accordance with French GAAP:						
Cash flow from operating activities	1,146.3	1,089.4	1,211.5	1,334.5	1,358.1	1,604.2
Cash flow from investing activities:						
Capital expenditures	(544.7)	(625.5)	(683.6)	(796.7)	(710.8)	(839.6)
Investments in companies (net of divestitures)	(625.2)	(548.7)	(1,019.9)	546.5	(247.7)	(292.6)
	(1,169.9)	(1,174.2)	(1,703.5)	(250.2)	(958.5)	(1,132.2)
Cash flow from financing activities	120.4	162.7	504.0	(1009.1)	(471.5)	(556.9)
Other Data						
EBITDA[9]	1,630.7	1,720.1	1,817.5	1,959.7	1,995.1	2,356.6
Depreciation and amortization	605.4	650.2	677.5	735.7	701.9	829.1
Cost of goods sold as a percentage of net sales	56.7%	57.3%	56.6%	55.4%	52.6%	—
Operating income as a percentage of net sales	9.0%	8.8%	8.9%	9.1%	10.0%	—

(1) Translated solely for convenience into dollars at the Noon Buying Rate on January 4, 1999 of € 0.8466 per $1.00.

(2) The Company has restated net sales for 1994 to reflect the reclassification in 1995 as a deduction from net sales of certain promotional expenses, which were previously accounted for as selling expenses, and sales of by-products which are now accounted for in cost of goods sold.

(3) Other income and expense includes the amortization of goodwill which amounted to € 90 million, € 94 million, € 78 million, €71 million and € 66 million in the years ended December 31, 1998, 1997, 1996, 1995 and 1994, respectively.

(4) Beginning in 1994, gains and losses on disposals of companies, restructuring costs and certain other exceptional items have been shown separately as non-recurring items. See Note 1.Q to the Consolidated Financial Statements. In 1995, the € 274 million of non-recurring items related entirely to restructuring costs. The effect of this charge on net income, after taxes and minority interests, was € 152 million. In 1997, the € 6 million non-recurring profit had a negative impact of € 5 million on net income after income taxes and minority interests. See Note 3 of the accompanying Consolidated Financial Statements.

(5) Basic Earnings Per share is based on an average number of shares of 70,539,085, 70,979,870, 71,120,542, 69,717,356 and 68,136,657 as of December 31, 1998, 1997, 1996, 1995 and 1994 respectively. Diluted Earnings per share and ADS are based on the average number of shares outstanding during the year assuming full conversion of all common stock equivalents and convertible bonds and taking into account the related reduction in interest charges, net of tax. Such average number of shares was 78,557,577, 79,092,534, 79,076,442, 78,239,580 and 77,114,894 for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, respectively.

(6) Data given per ADS reflects the ratio of one fifth of one share per ADS.

(7) For a description of the reconciliation to U.S. GAAP, see Note 2 to the Consolidated Financial Statements.

(8) Net debt is defined as long-term debt (including convertible bonds) plus short term debt and bank overdrafts less marketable securities, cash and cash equivalents.

(9) Earnings before Interest, Tax, Depreciation and Amortization where earnings are operating income. The Group has included EBITDA because it is commonly requested and used by investors and analysts to provide a consistent measure to analyze and compare companies on the basis of operating performance. EBITDA should not be considered as an alternative to net income (determined in accordance with generally accepted accounting principles) as an indication of the Group's financial performance or to cash flow from operating activities (determined in accordance with generally accepted accounting principles) as a measure of the Group's liquidity. Set forth below is a table reconciling EBITDA to net income.

	Year ended December 31, 1998(a)					
	1994	1995	1996	1997	1998	1998(a)
	(in millions)					
Net income	€ 538	€ 325	€ 516	€ 559	€ 598	$ 706
Equity in net earnings of affiliated companies	(21)	(16)	(24)	(32)	(25)	(30)
Minority interests	79	67	94	82	97	115
Provision for income taxes	291	228	365	452	433	511
Interest expense (net)	154	191	190	170	146	172
Non-recurring items	(16)	274	—	(6)	44	52
Depreciation and Amortization	605	650	677	736	702	829
EBITDA	1,630	1,720	1,817	1,960	1,995	2,356

(a) Translated solely for convenience into dollars at the Noon Buying Rate on January 4, 1999 of $1.1812 per € 1.00.

Dividends

The declaration and amount of dividends to be paid on the shares in respect of any period are subject to the decision by the Company's shareholders at an ordinary general meeting. Pursuant to French law, payment of dividends must be made within nine months following the end of the fiscal year to which they relate.

Under French law and the Company's "statuts", the Company's unconsolidated statutory net income in each fiscal year, as increased or reduced, as the case may be, by any profit or loss of the Company carried forward from prior years, less any contributions to legal reserves, is available for distribution to the shareholders of the Company as dividends, subject to other applicable requirements of French law and the Company's "statuts".

Pursuant to the Company's "statuts", the Company's shareholders may determine at an ordinary meeting the portion, if any, of dividends that each shareholder may elect to receive in shares. For dividends distributed in respect of the years 1991 through 1995, each of the Company's shareholders was given the option of receiving dividends in the form of cash or shares. The Board of Directors does not intend to recommend a stock dividend in the near future.

Dividends paid to holders of ADSs or shares who are not residents of France generally will be subject to French withholding tax at a rate of 25% which, under a treaty between France and the United States, and subject to certain procedures and exceptions, may be reduced to 15% for holders who are resident of the United States. French residents are entitled to a tax credit known as the avoir fiscal. The avoir fiscal is generally equal to 45% of the dividends paid unless it is used by an individual or some specific entities, in which case it is equal to 50% of the dividends paid. Under certain tax treaties entered into between France and other countries, including the United States, such avoir fiscal may, in certain circumstances, be paid, net of withholding tax, to non-French residents. See "Item 7: Taxation—French Taxation—Taxation of Dividends" and "—Taxation of U.S. Investors—Taxation of Dividends".

Dividends paid to holders of ADS are converted from euros to dollars and subjected to a charge by the Depositary for any expenses incurred by the Depositary in such conversion.

The following table sets forth the total dividends paid per share and per ADS for each year indicated, with and without the French avoir fiscal and before deduction of any French withholding tax.

Year to Which Dividend Relates(1)	Dividend Per Share		Dividend Per Share Including Avoir Fiscal(2)		Dividend Per ADS ($)(3)(4)	Dividend Per ADS Including Avoir Fiscal($)(2)(3)(4)
	(FF)	(€) (5)	(FF)	(€) (5)		
1994	16.00	2.44	24.00	3.66	0.63	0.95
1995	16.00	2.44	24.00	3.66	0.62	0.93
1996	17.00	2.59	25.50	3.89	0.60	0.89
1997	18.50	2.82	27.75	4.23	0.61	0.92
1998(6)	19.68	3.00	29.52	4.50	0.71	1.06

(1) Pursuant to French law, payment of dividends must be made within nine months following the end of the fiscal year to which they relate.

(2) Any payment equivalent to the French avoir fiscal or tax credit, less applicable French withholding tax, will be made only following receipt by the French Tax Administration of a claim for such payment, and is generally not expected to be paid before 12 months of the filing of such claim, and after the close of the calendar year in which the respective dividends are paid. Certain holders of ADSs will not be entitled to payments of avoir fiscal. See "Item 7: Taxation—French Taxation" and "—Taxation of U.S. Investors".

(3) For periods prior to 1998, translated solely for convenience from French francs into dollars at the Noon Buying Rates on the respective dividend payment dates, or on the following business day if such date was not a business day in France or the United States. For convenience only, avoir fiscal amounts have been translated into dollars at the Noon Buying Rates on such dates although such amounts are paid subsequent to such payment dates. The Noon Buying Rate may differ from the rate that may be used by the Depositary to convert French francs to dollars for purposes of making payments to holders of ADSs. For 1998, translated solely for convenience at the Noon Buying Rate on January 4, 1999 of € 0.8466 per $1.00.

(4) As each ADS represents one-fifth of one share, the amount of dividends per share have been divided by five to obtain the historical dividends declared per ADS.

(5) Translated solely for convenience from French francs to euros at the legal rate of conversion fixed on January 1, 1999 of FF 6.55957 per € 1.00.

(6) Dividends to be proposed at the shareholders' meeting to be held May 19, 1999.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is based upon and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included elsewhere in this annual report. The Consolidated Financial Statements and the Notes thereto have been prepared in accordance with French GAAP, which differs in certain material respects from U.S. GAAP. See Note 2 to the Consolidated Financial Statements for a reconciliation to U.S. GAAP of Danone's consolidated net income and shareholders' equity and a discussion of the material differences between French GAAP as applied by Danone in its Consolidated Financial Statements and U.S. GAAP.

The Company provides on a regular basis certain period-to-period comparisons calculated on a "comparable basis" to eliminate the effects of changes in exchange rates between the euro and other currencies, the Group's scope of consolidation and certain accounting classifications used in the Group's consolidated financial statements. In such context, "comparable basis" means that the Group recalculates the financial information with respect to the earlier period (for purposes of the comparison) to give effect to (i) the exchange rates applied in the later period to convert foreign currency amounts into French francs which in turn are converted into euros ("constant exchange rates"); (ii) changes in the Group's scope of consolidation resulting from acquisitions and dispositions which, on a historical basis, first took effect in the later period; and (iii) accounting classifications first adopted, on a historical basis, during the later period. In the event that a change in the scope of consolidation is applicable to only a portion of the later period, the financial information for the earlier period is recalculated to give effect to such change for the corresponding portion of such earlier period. Also, for purposes of such recalculation financial information with respect to acquired companies for the period preceding their acquisition by the Group is generally based on financial information for the relevant period prepared by such acquired companies prior to their acquisition by Danone. Period-to-period comparisons made herein in "constant currency terms" reflect changes in the euro value of the relevant financial information using constant exchange rates for both the earlier and the later periods.

Overview

General. As a producer principally of consumer packaged foods and beverages, Danone's results of operations are significantly affected by the overall economic trends of its principal geographic markets, namely France, Italy and Spain, as well as its other major markets within and outside the European Union. The strong growth in consolidated net sales in the late 1980's was thus markedly reduced by the European recession in the early 1990's. Since that time, the European economic climate has varied from year to year and depends on each country's specific circumstances. However, growth in general has remained more modest than during the 1980's. During periods of economic slowdown, consumer purchase decisions are increasingly affected by price considerations, thereby adding to the importance of Danone's efforts to differentiate its products from lower-priced competing brands through product innovation, promotions and marketing efforts.

The year 1998 was characterized by continued improvement of operating margins and income, a trend that had begun in 1997, and by the Group's continued strategy to focus on its three core business lines: dairy products, beverages and biscuits, which resulted in divestitures in 1997 and 1998. As a result, the Group's net sales decreased 4.1% in 1998 to € 12.9 billion, or FF 84.8 billion (an increase of 4.6% on a comparable basis), operating income increased by 5.7% and net income by 7.1% to € 598 million, or FF 3.9 billion. The Group's operating margin continued to improve, from 8.9% in 1996 to 9.1% in 1997 and 10% in 1998. Diluted earnings per Share amounted to € 8.15 or FF 53.46 and cash flows from operations amounted to € 1.3 billion or FF 8.7 billion.

Divestitures. Consistent with the Group's strategy to focus on its three core business lines (dairy products, beverages and biscuits), the Company sold in 1997 and 1998 a significant portion of its grocery activities, representing more than 10% of the Group's net sales or approximately € 1.4 billion of full-year net sales.

In 1997, the Company sold for approximately € 600 million, the pasta and canned ready-to-serve dish business conducted in France by Panzani William Saurin and in Italy by Agnesi, as well as the sauce, condiment and cooking preparation operations of Liebig Maille Amora and Liebig Benelux to a group of financial investors led by Compagnie Financière de Paribas. Danone also sold to Campbell Soup Company, for approximately € 170 million, the soup business conducted in France by Liebig Maille Amora, in particular under the brandname *Pur Soup' de Liebig*. In addition, Danone sold its confectionery products business to Cadbury Schweppes for approximately € 55 million.

In September 1997, the ready-to-serve dishes and frozen food activities of the New Zealand company Best were transferred to a new company, Food Solutions Group, jointly held by the Group with a local producer. The Group only owns a minority interest in this new company. In May 1997, the Group and FINDIM Investments S.A. ("FINDIM"), the Fossati family holding company, sold their interests in the Spanish grocery company Starlux.

Together, the businesses sold in 1997 contributed to the improvement of the Group's operating margins in 1998 by approximately 30 basis points, as the operating margins of the businesses sold were less than the Group's overall operating margins.

In the beginning of 1998, the Group sold its pasta business in Spain, its fresh pasta activities in France, its sauce business in New Zealand and its Alsatian delicatessen operations conducted by Stoeffler.

At the end of 1998, the Group sold the entirety of its pasta and canned ready-to-serve dish activities conducted by Birkel Sonnen Bassermann in Germany and the clinical nutrition operations of Blédina.

Since 1994, Danone has also divested certain of its holdings in smaller or non-core companies or businesses. In 1996, the Group sold its canned bean business in the U.K., its pasta business in Brazil and its glass tableware business in France. In addition, Danone continuously evaluates potential divestitures of businesses which are not consistent with its overall business strategy.

Acquisitions and changes in the scope of consolidation. As part of the Group's growth strategy, Danone is involved on a continuing basis in reviewing potential acquisitions. Danone may acquire an initial equity interest in a target company of less than 100%, including, as the case may be, a minority interest, and concurrently enter into agreements with other shareholders with the goal of increasing Danone's interest over time to obtain effective control, a majority interest or 100% ownership.

A number of new acquisitions were made in 1998, including the acquisition of the Aquapenn company in the United States. In addition, the Group acquired a majority equity interest in a mineral water company in China, an equity interest in a yogurt company in Turkey, 40% of Aqua, the leading producer of bottled water in Indonesia and 12.45% of the Yeo Hiap Seng company in Singapore. The Group also increased its equity participation in the holding company that owns the Group's activities in Asia.

In 1997, investments were concentrated mainly on acquisitions or increased equity holdings in businesses outside the European Union: acquisition of yogurt activities conducted by Mastellone in Argentina, acquisition of the remaining shares of Campineira, the second biscuit producer in Brazil, acquisition of an equity interest in the Hayat source in Turkey and in the Stial company, the leading producer of fresh diary products in Tunisia. Also, the Group strengthened its interest in various companies of the Group, such as Wahaha, an important producer of milky drinks in China or Dongxihu, a Chinese brewer.

Total acquisitions amounted to approximately € 238 million, € 130 million and € 350 million in 1998, 1997 and 1996, respectively, and approximately € 157 million, € 320 million and € 880 million was spent in 1998, 1997 and 1996, respectively, on increasing Danone's interests in less than wholly-owned subsidiaries. Danone generally finances its acquisitions with cash from operations or indebtedness, or a combination of both. See "—Liquidity and Capital Resources" and "Item 1: Description of Business—Business Strategy" and "—Corporate Background and Development".

In 1998, Danone consolidated for the first time its yogurt activities in South Africa and two companies in Turkey and Morocco were added to the list of companies treated as investments and accounted for under the equity method. In addition, the divestitures cited above had a significant impact in 1998. Changes in the scope of consolidation accounted for 77% of the € 1.0 billion decrease in net sales in 1998. In 1997, Danone consolidated for the first time, among others, (i) two companies acquired prior to 1997 (the water producer Bonafont in Mexico, and the Chinese brewer Dongxihu); and (ii) the yogurt operations acquired in Argentina at the beginning of 1997 from Mastelone Group. In addition, in 1997, Danone added two companies to the list of companies treated as investments and accounted for under the equity method (Centrale Laitière du Maroc and Strauss, producers of dairy products in Morocco and Israel, respectively). Divestitures previously mentioned had a limited impact in 1997 (one month for the most important operation). Changes in the scope of consolidation contributed 0.3% (€ 29.3 million) to the growth of net sales in 1997. Although none of the acquisitions or divestitures that occurred during the two years presented had, individually, a significant effect on the Group as a whole, globally, these acquisitions and divestitures had an important impact on the consolidated results of Danone and the operating income of the Group. In 1998, the Group's external growth attributable to newly consolidated companies was offset by the decrease in net sales resulting from the effect of divestitures in 1997.

Seasonality of net sales. Certain of Danone's product markets reflect seasonal consumption cycles which can affect Danone's quarterly and annual results. In particular, beer and bottled water experience peak demand during the summer months, and biscuits generally show strongest demand in the fourth quarter of each year. As a result, Danone usually records its lowest quarterly net sales during the first quarter of each year. In addition, in years with relatively cool summer temperatures, as occurred generally in Europe in 1996, sales of beer and bottled water, as well as total net sales for the year, may be adversely affected. Conversely, warmer temperatures can stimulate demand and thus favorably impact net sales as happened in the second half of 1997 and in the first half of 1998.

Restructuring program. Beginning in 1991, Danone has undertaken a comprehensive program to review and restructure its operations in the European Union. The initial phase of the restructuring program, carried out from 1992 to 1994, focused principally on reducing production costs and streamlining the management of Danone's operations in France, principally on a company-by-company basis. The second phase of the restructuring program began in 1995 and was largely completed in 1998. The second phase involved (i) the closure of selected production facilities to concentrate production activities and optimize efficiency; (ii) the consolidation of Danone's sales forces and administrative functions to maximize efficiency and ensure coordination between Danone's different markets and operating divisions; (iii) the rationalization of the Group's distribution facilities, particularly in Spain and Italy, to anticipate and respond to changing patterns in wholesale purchasing due to the growth of high-volume supermarket chains; and (iv) the rationalization and standardization of operations at all levels. For example, Galbani closed two of its six plants, and reduced its workforce by 1,200 over two years; it also modernized logistics by closing a number of storage sites to focus on a narrower range of products. Font Vella and San Miguel combined their administrative departments, and operations of biscuits businesses in the United Kingdom and Ireland were fully merged as of January 1, 1998.

As a result of the restructuring program, Danone has reduced its workforce in the European Union by approximately 5,000 employees over the last three years (without taking into account the effect of divestitures and acquisitions), primarily through early retirement incentives and voluntary and involuntary severance programs. Management intends to use a portion of the cost savings achieved as a result of the restructuring activities in its efforts to strengthen Danone brandnames' selling power. See "Item 1: Description of Business—Business Strategy". In connection with the restructuring program, the Group took a pre-tax charge to earnings of € 274 million for 1995 which was accounted for as non-recurring items. After considering tax effects and reductions in minority interests with respect to the portion of the restructuring charge attributable to less than wholly-owned subsidiaries, the 1995 charge to earnings reduced net income for 1995 by € 152 million.

Other factors. Inflation has not had a material impact on the Group's consolidated results of operations during the three years ended December 31, 1998, since the rate of inflation in the Group's principal markets during such period has on an overall basis been relatively low. Other factors affecting Danone's business activities and results of operations include raw materials prices; competition; changes in exchange rates; and certain government actions, in particular, French corporate tax policies and, with respect to sales of beer, excise tax policies across Europe. See also "Item 1: Description of Business".

Year 2000 compliance. The risks associated with the year 2000 issue result from computerized systems and microprocessors that are unable to properly recognize date sensitive information (confusion between 1900 and 2000). The year 2000 issue may potentially affect all materials equipped with computer systems. With the assistance of a consulting firm specialized in this area, the Group has initiated a global program to identify all systems that could be affected by the transition to the year 2000 in the following three priority areas: (i) information systems, (ii) plant and production equipment and (iii) purchasers, suppliers and clients. Progress is monitored regularly and reviewed by outside consultants.

The Group is currently carrying out corrective measures for certain information systems and software systems and expects all work to be completed during the first half of 1999, and in any event no later than year-end 1999. Corrective measures with respect to Danone's production equipment include replacing certain control units and modifying other equipment. Microcontrollers are an important part of Danone's production equipment in certain plants; when applicable, they have been fully tested and, when necessary, are in the process of being replaced or upgraded. With respect to Danone's information technology systems, Danone has largely completed the upgrading or replacement process.

Measures related specifically to year 2000 and the euro compliance issues are part of the Group's global program to continuously upgrade its information systems. These activities are conducted in the normal course of business and related costs are accounted either as expenses or as capital assets in accordance with the Group's accounting policies. At December 31, 1998, the Group had incurred costs of approximately € 10 million to achieve year 2000 compliance for affected information systems and management estimates that an additional € 5 million will be required in 1999. These costs have been and will be funded from working capital.

Despite its action plan, if the Group failed to achieve year 2000 compliance, the Group estimates that its core activities should not be adversely affected. However, the state of readiness of certain third parties with whom the Group maintains significant commercial relationships could affect the Group's results of operations or financial condition. No assurance can be given that such third parties (including the Group's clients and suppliers) will be year 2000 compliant.

The Group will draw up contingency plans and back-up procedures before December 31, 1999 to ensure the continuity of its commercial relations in the event of failure of certain internal and external processes.

Southeast Asian economic turmoils. The Group's activities in Asia and the Pacific Rim are principally concentrated in China, India and New Zealand and were not adversely affected by the economic turbulence in Southeast Asia in 1998. The Group had net sales in Southeast Asia of less than € 40 million, with relatively insignificant net income attributable to that region.

Economic Turmoil in Russia. The Group's activities in Russia were consolidated under the equity method in 1998.

Euro. Over the last two years, the Group has been studying the operational impact of the introduction of the euro, the single European currency, in particular for the Group's clients, consumers, suppliers, employees and shareholders, as well as in the areas of finance and information systems.

After an analysis of the Group's environment and the organization of a euro project structure, the Group adopted a two step strategy aimed at a progressive adaptation to the euro.

The first step, which was completed by January 1, 1999, was aimed at preparing the Group to fully integrate the euro in all of its commercial relationships (negotiation, ordering, billing, delivery) with any client or supplier who chooses that currency. The Group adheres to a single rule of "one client, one currency" to avoid as much as possible dealing with multiple currencies. As part of this first step, all information systems have been adapted to process transactions in euros and the euro is already the currency used in intra-group billing operations and for treasury functions. It is expected that the first transactions in euros with clients and suppliers will occur during the second half of 1999.

By the time the second step is completed, expected at the beginning of 2001, the majority of exchanges with third parties will be in euros, the euro will be the internal currency of the Group and all accounting, information systems and reporting will be in euros.

The introduction of the euro changes the commercial context in which the Group operates by increasing price and purchasing conditions transparency and may affect consumers' perception of price (change in price scale and new psychological pricing thresholds). The majority of the Group's products are local products and reflect consumer habits that vary from country to country. Even when sold under the same brandname, the Group's products are often differentiated by recipes, formats or packages. For non-differentiated products or export products, the Group has pursued for several years a policy of price harmonization. In this case, price differences to customers will result primarily from logistical and tax disparities and from pricing policies of distributors.

With respect to purchasing, the harmonization of practices in Europe is already virtually completed, in particular through a central purchasing structure which coordinates all actions in this area.

In addition, the introduction of new bills and coins may influence consumers' purchasing habits. To date, several studies have shown that during this period, recognizable brandnames would play a guiding role for customers. In this context, the Group will continue its marketing and communications actions aimed at strengthening the visibility of its brandnames.

Recent Events

Unaudited First Quarter Sales

On April 13, 1999, the Group announced its first quarter net sales as set forth in the table below.

	Three months ended March 31, 1998	Three months ended March 31, 1999	% change
	(€ in millions)		
By Business Line			
Dairy products	1,385	1,435	6.2%
Beverages	657	757	9.3%
Biscuits	589	623	6.6%
Other food businesses	245	181	1.7%
Glass containers	232	230	(0.7)%
Intragroup sales	(43)	(41)	
Total	3,065	3,185	6.4%
By Geographic Zone			
France	1,194	1,254	4.6%
European Union (excluding France)	1,176	1,213	4.9%
Rest of World	802	885	9.9%
Intragroup sales	(107)	(167)	
Total	3,065	3,185	6.4%

Consolidated net sales for the three-month period ended March 31, 1999 amounted to € 3,185 million, an increase of 3.9% compared to 1998.

On a comparable basis, consolidated net sales for the first quarter of 1999 increased by approximately 6.4% compared to the same period in 1998.

International Development.

In 1998, the Group announced the acquisition, to be effected in 1999, of 100% of the biscuit activities of Cokoládovny in the Czech Republic, following the separation of the company thus held jointly by Danone and Nestlé, and the purchase by the Group of Delijca, the largest Polish producer of biscuits. In January 1999, the Group and the Griesson Group decided to create a new jointly owned company, by grouping their biscuit activities in Germany and Austria. This new entity, which will be called Griesson-de-Beukelaer will be 40% owned by the Group and 60% owned by Griesson Group. Management expects that the new company will generate net sales of approximately DM 500 million (€ 255.5 million) and will be the second largest producer of sweet biscuits in Germany. The strong synergies between the two entities' lines of products and industrial capabilities will allow the new entity to be very competitive in one of Europe's major markets.

In addition, in March 1999, the Group signed a letter of intent with Alimenticias Noel, a member of the Columbian company Sindicato Antioqueno, pursuant to which the Group will acquire 20% of the Galletas Noel company and participate in its management. Galletas Noel, with net sales of approximately $120 million, is the leader in the biscuit market in Columbia with a 52% market share. Galletas Noel owns a plant in Medellin and markets its products in Columbia and in the other countries of the Andean Pact (Venezuela, Peru, Equador).

In March 1999, the Group launched a tender offer on the remaining share capital of Bagley S.A., of which 64% was already owned by the Group. At the closing of the offer on March 26, 1999, Bagley's shareholders had tendered 27% of the company's share capital, thus increasing the Group's participation to more than 91%. In addition, the central bank of Argentina, which owns 7.9% of the outstanding share capital, initiated the necessary formalities to contribute its shares. As a result of this operation, less than 1% of the share capital of Bagley is still owned by the public. The Group also increased its equity participation from 51% to 91% in its dairy product subsidiary in Argentina.

In April 1999, the Group announced the completion of the sale of its Spanish frozen foods subsidiary, Pycasa, to Nestlé. This recent divestiture is in line with the Group's strategy, focusing on its three core business lines: dairy products, beverages and biscuits.

Consolidated Results of Operations

The tables below set forth (i) the principal components of Danone's net income in euros and as a percentage of net sales and (ii) the Group's net sales, operating income and operating margin by main business line for each of the years ended December 31, 1996, 1997 and 1998 and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

	Year ended December 31,					
	1996		1997		1998	
	(€ in millions, except percentages)					
Net sales	12,796.6	100.0%	13,488.1	100.0%	12,935.0	100.0%
Cost of goods sold	(7,244.9)	56.6%	(7,466.2)	55.4%	(6,806.4)	52.6%
Selling expenses	(3,338.0)	26.1%	(3,633.1)	26.9%	(3,650.1)	28.2%
General and administrative expenses	(763.0)	6.0%	(826.1)	6.1%	(852.4)	6.6%
Research and development expenses	(101.7)	0.8%	(115.5)	0.9%	(120.3)	0.9%
Other income and expense	(209.0)	1.6%	(223.2)	1.7%	(212.6)	1.6%
Operating income	1,140.0	8.9%	1,224.0	9.1%	1,293.2	10.0%
Non-recurring items	—	—	6.1	—	(44.0)	0.3%
Interest expense	(189.8)	1.5%	(170.1)	1.3%	(146.2)	1.1%
Provision for income taxes	(365.1)	2.9%	(451.6)	3.3%	(433.4)	3.4%
Minority interests	(93.6)	0.7%	(82.0)	0.6%	(96.8)	0.7%
Equity in net earnings of affiliated companies	24.1	0.2%	32.2	0.2%	25.3	0.2%
Net income	515.6	4.0%	558.6	4.1%	598.1	4.6%

	Net Sales			Operating Income			Operating Margin[1]		
	1996	**1997**	**1998**	**1996**	**1997**	**1998**	**1996**	**1997**	**1998**
	(€ in millions, except percentages)								
By Business Line									
Dairy products	4,843.2	5,323.8	5,665.3	502.8	556.6	620.9	10.4%	10.5%	11.0%
Beverages	2,447.0	2,754.6	3,004.0	277.1	326.8	368.3	11.3%	11.9%	12.3%
Biscuits[2]	2,600.0	2,674.3	2,606.6	175.0	181.6	203.4	6.7%	6.8%	7.8%
Other food businesses[2]	2,128.3	1,986.8	904.5.3	91.5	71.0	28.6	4.3%	3.6%	3.2%
Glass containers	957.1	947.2	932.2	107.2	89.8	90.6	11.2%	9.5%	9.7%
Intragroup sales[3]	(179.0)	(198.6)	(177.6)						
Unallocated expenses				(13.6)	(1.8)	(18.6)			
Total	12,796.6	13,488.1	12,935.0	1,140.0	1,224.0	1,293.2	8.9%	9.1%	10.0%
By Geographic Zone									
France	5,815.6	5,737.3	5,041.6	589.2	591.9	589.4	10.1%	10.3%	11.7%
Rest of European Union	5,229.5	5,356.9	5,266.7	405.1	430.5	474.7	7.7%	8.0%	9.0%
Rest of the World	2,378.8	3,058.3	3,303.3	159.3	203.4	247.7	6.7%	6.7%	7.5%
Intragroup sales	(627.3)	(664.4)	(676.6)						
Unallocated expenses				(13.6)	(1.8)	(18.6)			
Total	12,796.6	13,488.1	12,935.0	1,140.0	1,224.0	1,293.2	8.9%	9.1%	10.0%

(1) Operating income as a percentage of net sales.
(2) In 1997, the Company sold certain portions of its grocery business and its confectionery business (part of its biscuits division).
(3) Intragroup sales include principally (i) sales of export products, principally bottled water, by Danone's European Union subsidiaries to its sales and distribution subsidiaries located outside Western Europe and (ii) sales of products between companies in the European Union that are in different divisions (principally sales of glass containers to the beer, bottled water and grocery products businesses).

1998 compared to 1997

Consolidated results

Net sales. Net sales are stated net of excise taxes and discounts, except for one-off promotional discounts which are treated as selling expenses. Net sales decreased 4.1% from € 13,488 million for 1997 to € 12,935 million for 1998.

This decrease in net sales is primarily due to the divestitures which occurred at the end of 1997 and in 1998, and the impact of fluctuations in exchange rates of certain currencies (including the New Zealand dollar, Indian rupee, South African rand and, Polish zloty). The exchange rate between European currencies and the dollar has only slightly impacted the Group's net sales.

On a comparable basis, consolidated net sales increased 4.6% in 1998, compared to 2.3% in 1997. Internal growth in the Group's core business lines was 5.6% in 1998 while glass containers and other grocery activities decreased. Volumes grew 4.3% in the Group's core business lines, in particular in bottled water and the price-mix effect was equally positive in all grocery activities.

Geographically, the internal growth in net sales was 3.0% in Europe, compared to 0.8% in 1997. France accounted for 3.9% of the 1998 growth in net sales and the rest of the world for 10%, compared to 8.3% in 1997. In 1998, net sales outside the European Union accounted for 25.4% of the total consolidated net sales and 27.1% of the net sales in grocery activities.

The rates of growth varied throughout the year, as shown below:

1st Quarter	7.7%
2nd Quarter	5.5%
3rd Quarter	2.5%
4th Quarter	2.3%

The increase in net sales for the first quarter of 1998, compared to the first quarter 1997, was due primarily to the particularly low net sales during the first quarter in 1997 due to the implementation of new French legislation, (the Galland Law) and to exceptionally high sales of beer in December 1996 preceding the increase in the excise tax on beer, applicable as of January 1, 1997. Second quarter net sales in 1998 benefited from the effect of the World Cup; third quarter net sales were affected by unfavorable weather conditions while the third quarter in 1997 had benefitted from very favorable weather conditions, particularly for beverages. Finally, third and fourth quarter net sales for 1998 suffered from increased uncertainty in the international economic environment.

Cost of goods sold. Costs of goods sold decreased 8.8% from € 7,466.2 million in 1997 to € 6,806.4 million in 1998. Cost of goods sold decreased as a percentage of net sales from 55.4% to 52.6%, essentially due to the positive effect of divestitures of certain activities, restructuring programs, improved purchasing synergies and higher value-added for products sold.

Selling, general and administrative expenses. Selling expenses increased marginally from € 3,633.1 million in 1997 to € 3,650.1 million in 1998. Selling expenses increased as a percentage of net sales from 26.9% to 28.2%, due primarily to higher advertising expenses (which increased by approximately 13% on a comparable basis), while costs related to product promotions remained relatively stable, reflecting the Group's strategy of reinvesting productivity gains in advertising to strengthen core brand recognition and its shift from price cuts and promotions.

General and administrative expenses increased slightly in 1998, due to the growth of the Group, to € 852.4 million, or 6.6% of net sales, from € 826.1 million or 6.1% of net sales in 1997.

Research and development expenses. Expenses on research and development increased 4.2% from € 115.5 million in 1997 to € 120.3 million in 1998. Research and development expenses as a percentage of net sales were, however, relatively stable for both periods at 0.9%.

Other income and expense. Other income and expense includes mainly employee profit sharing and goodwill amortization. Other income and expense decreased, with net charges to income of € 223.2 million in 1997 compared to € 212.6 million in 1998. Legally required employee profit sharing remained stable at € 123 million and goodwill amortization slightly decreased from € 93.9 million in 1997 to € 90.3 million in 1998 mainly due to the impact of divestitures.

Operating income. Operating income increased 5.7% from € 1,224 million in 1997 to € 1,293.2 million in 1998. Taking into account the Group's divestitures, this progression masked a progression on a comparable basis of more than 11%, substantially higher than the increase in net sales, which resulted from an improvement of 90 basis points in operating margin. The operating margin continued to improve in 1998 to 10.0%, from 9.1% in 1997.

This increase in operating margin was due to, for approximately 30 basis points, the impact of divested activities that had inferior operating margins than the average of the Group, and for approximately 60 basis points the year's overall sales.

The Operating margin improved in all of the Group's core business lines (and to a lesser extent in other grocery activities) and resulted primarily from increased net sales and increased productivity, which largely offset advertising expenses.

Non-recurring items. Non-recurring items recorded in 1998 were comprised of the following: (i) capital gains of € 8 million on the disposal of the fresh pasta activities in France, pasta and canned ready-to-serve dishes in Germany and clinical nutrition in France and (ii) restructuring costs of € 52 million in the dairy product businesses in Spain and Italy, the biscuit business in France and the United Kingdom and other grocery activities in Germany.

Interest expense. Net interest expense decreased 14% from € 170.1 million in 1997 to € 146.2 million in 1998. This decrease was primarily due to the impact of divestitures which occurred at the end of 1997.

Provision for income taxes. The Group's provision for income taxes decreased 4% from € 451.6 million in 1997 to € 433.4 million in 1998. The Group's effective tax rate decreased to 39.3% in 1998 compared to 42.6% in 1997.

Minority interests. Minority interests increased from € 82 million in 1997 to € 96.8 million in 1998. This increase resulted from the improved operating results of companies in which Danone holds significant minority interests (i.e. Spain, China and India).

Equity in net earnings of affiliated companies. Equity in net earnings of affiliated companies decreased from € 32.2 million in 1997 to € 25.3 million in 1998. This decrease was principally due to the impact of the financial crisis in Russia on operating results of biscuit companies in Eastern Europe, which are accounted for under the equity method.

Net income. Net income increased 7.1% from € 558.6 million in 1997 to € 598.1 million in 1998, despite the negative impact on operating results of non-recurring items, which were more significant in 1998 than in 1997, reflecting the continued improvement of overall operating margin.

Net sales, operating income and operating margin by main business line

Dairy products. Net sales of dairy products increased 6.4% from € 5,324 million in 1997 to € 5,665 million in 1998. On a comparable basis, net sales of dairy products increased 5.2%, in line with an increase in volume of 4.6%. The activities of the *Danone* brandname experienced the strongest growth, with an increase in net sales of 7%. Almost all companies experienced growth, particularly in France, Spain and Argentina, as a result of strong demand.

Operating income for dairy products increased 11.6% from € 557 million in 1997 to € 621 million in 1998 and operating margin improved 10.5% and 11% in 1997 and 1998, respectively.

Operating margin improved due to the positive impact of newly introduced and innovative products with higher margins, increased productivity in many European countries, and the establishment of coordinated horizontal purchasing and marketing, aimed at developing synergies between the Group's companies while increasing advertising.

Beverages. Net sales of beverages increased 9.1% from € 2,755 million in 1997 to € 3,004 million in 1998. On a comparable basis, net sales of beverages increased 8.2% and volumes increased by 7.4%

Net sales growth continued in Europe, mainly in bottled water, but grew mostly outside of Europe, where organic growth was 21.1% in 1998, in particular in China where the Wahaha company has experienced significant development and in the United States where Dannon water continued its market implantation.

Net sales for beer progressed by 4.6% on a comparable basis, mainly reflecting strong sales in the first six months of 1998 and good performance in China.

Operating income for beverages increased 12.7% to € 368 million in 1998 from € 327 million in 1997. Operating margin increased to 12.3% in 1998 from 11.9% in 1997.

The increase in operating margin, together with an increase in advertising expenses was primarily due to growth in volumes, with raw material costs remaining stable.

Biscuits. Net sales of biscuits decreased 2.5% from € 2,674 million in 1997 to € 2,607 million in 1998. On a comparable basis, net sales of biscuits increased 3.6%, with volumes increasing by 0.6%. This trend reflected the success of a newly introduced low-fat line of biscuits in six countries and the Group's strategy aimed at strengthening the number of "*LU*" brand named products.

Operating income for biscuits increased 12% from € 182 million in 1997 to € 203 million in 1998. Operating margin increased to 7.8% in 1998 from 6.8% in 1997. The operating margin increased in each of the Group's geographic zones, including France, where biscuits achieved its best margins. Improvement in productivity was, however, strongest internationally, resulting, in particular, from performance improvements by Bagley in Argentina, Danone in Indonesia and companies in China and India.

In addition to the sale of the less profitable confectionary activities of VPSA and strong volumes, the performance of the biscuits line of business reflected the quality of the product mix which benefits from an increased emphasis on differentiated products with high value-added, as well as the sustained price levels. Gains were recorded in industrial production, logistics and purchasing, resulting from favorable negotiations with suppliers and product revampings, which were used, in part, to strengthen advertising expenses in strategic countries.

Grocery products. Net sales of grocery products decreased 54.5% from € 1,987 million in 1997 to € 904 million in 1998 following divestitures which occurred at the end of 1997 and in 1998. Net sales decreased 1.2% on a comparable basis with volumes decreasing 4.4%. This decrease was due mainly to lower sales in shelf-stable ready-made meals and pasta in Germany and divestitures in 1998.

Operating income for grocery products decreased 59.7% from € 71 million in 1997 to € 29 million in 1998. Operating margin decreased from 3.6% in 1997 to 3.2% in 1998, reflecting a decrease in the profitability of German activities.

Glass containers. Net sales of glass containers decreased by 1.6% from € 947 million in 1997 to € 932 million in 1998. On a comparable basis, net sales of glass containers dropped 1.4% with a slight decrease in volumes between 1997 and 1998, reflecting a decrease in price levels due to market pressures. The year was characterized by a strong increase in volumes, in particular in the wine sector, driven by a significant decrease in price levels resulting from over capacity in certain European countries.

As a result, operating income remained stable at € 91 million in 1998 and operating margins improved from 9.5% in 1997 to 9.7% in 1998, due to efforts undertaken to increase productivity.

1997 compared to 1996

Consolidated results

Net sales. Net sales are stated net of excise taxes and discounts, except for one-off promotional discounts which are treated as selling expenses. Net sales increased 5.4% from € 12,796.6 million for 1996 to € 13,488.1 million for 1997; internal growth accounted for 2.3%, with 1.7% resulting from volume growth and 0.6% from a price effect in product valorization. Volume growth was positive in most of the Group's activities, with the exception of grocery products and biscuits which experienced difficult conditions in early 1997. The price effect also had a positive impact for all businesses for the Group, with the exception of grocery products and packaging which suffered from over-capacity in Europe. Fluctuations in exchange rates, mainly the U.S. dollar, contributed 2.8% to net sales growth in 1997. Changes in the scope of consolidation did not have a significant impact in 1997. In addition, grocery products sold at the end of 1997 were included in the Group's accounts for 11 months.

The rates of internal growth varied throughout the year, as shown below:

1st Quarter	(0.9)%
2nd Quarter	2.4%
3rd Quarter	4.7%
4th Quarter	2.6%

The decrease recorded in the first quarter resulted, partly, from the introduction in France of the Galland Law fixing the parameters for price negotiations (between producers and distributers) and, partly, from exceptional beer sales in December 1996, before the introduction of a new excise tax which came into effect on January 1, 1997. The strong growth recorded for the third quarter resulted from favorable weather conditions, in particular for beverages.

Consolidated net sales for the remaining activities (excluding for the full-year net sales attributable to activities that were sold) amounted to € 12,399 million. On a comparable basis, net sales of the Group's remaining activities grew by 2.6% in 1997. Geographically, net sales grew by 0.5% in the European Union (0.8% on a comparable basis) and by 29.3% for the rest of the world (8.3% on a comparable basis). In Europe, net sales were particularly stable in France and Germany, whereas they decreased slightly in Italy and strongly improved in Spain. Net sales in Asia (particularly in China) and Central Europe offset the small increase in North and South America (with decreases in Argentina and Brazil).

Cost of goods sold. Danone's total consolidated costs of goods sold increased 3.1% from € 7,244.9 million in 1996 to € 7,466.2 million in 1997. Cost of goods sold decreased as a percentage of net sales from 56.6% to 55.4%, due principally to the continuing benefit of the restructuring program and lower raw material costs for packaging, primarily for PET, which continued the decline in price begun in 1996.

Selling, general and administrative expenses. Selling expenses increased 8.8% from € 3,338 million in 1996 to € 3,633.1 million in 1997. Selling expenses increased as a percentage of net sales from 26.1% to 26.9%, due primarily to higher advertising expenses (which increased by approximately 8.8% on a comparable basis), while costs related to product promotions remained relatively stable reflecting the Group's strategy of reinvesting productivity gains in advertising to strengthen core brand recognition and its shift away from price cuts and promotions.

General and administrative expenses remained relatively stable at € 826 million, or 6.1% of net sales in 1997, compared to € 763 million or 6.0% of net sales in 1996.

Research and development expenses. Expenses on research and development increased 13.6% from € 101.7 million in 1996 compared to € 115.5 million in 1997. Research and development expenses as a percentage of net sales were however relatively flat for both periods at 0.8% and 0.9%, respectively.

Other income and expense. Other income and expense includes mainly employee profit sharing and goodwill amortization. Other income and expense increased, with net charges to income of € 209 million in 1996 compared to € 223.2 million in 1997. Legally required employee profit sharing remained stable at € 123 million in 1997 and € 122 million in 1996 and goodwill amortization increased to € 93.9 million in 1997 from € 78.2 million in 1996 mainly due to the full-year impact of 1996 acquisitions.

Operating income. Operating income increased 7.4% from € 1,140 million in 1996 to € 1,224 million in 1997. Fluctuation in exchange rates caused an increase in operating income of 1.9%, divestures and acquisitions net of goodwill amortization had a negative impact of 1% such that on a comparable basis operating income increased 6.5% in 1997.

The overall operating margin continued to improve to 9.1% in 1997 from 8.9% in 1996 with both European and rest of the world activities contributing to the increase.

Excluding the grocery activities divested during 1997 on a full-year basis, the operating margin would have represented 9.4% of net sales. Broken down by geographic region, the operating margin in France (10.2% in 1997) remained stable compared to 1996 with the improvement in profitability in several business lines being offset by decreased profitability in glass containers and grocery products and the increase in goodwill amortizations. The operating margin in the rest of Europe progressed from 8.3% in 1996 to 8.8% in 1997, mainly as the result of productivity programs undertaken in certain companies in previous periods. Finally, the operating margin for rest of the world activities grew slightly to 6.1%.

Non-recurring items. Non-recurring items are comprised of the following: (i) capital gains on the disposals of pasta, canned ready-to-serve dishes, soup and confectionery businesses (see "—Overview—Divestitures") of € 166.8 million; (ii) losses in contribution of ready-to-serve dishes in New Zealand to a minority held company of € 40 million; (iii) restructuring and write downs to market of the remaining pasta-related assets in Germany and Spain of € 109 million (see "—Net sales, operating income and operating margin by main business line—Grocery products"); and (iv) additional restructuring provisions for current restructuring programs in the amount of € 11.7 million.

Interest expense. Net interest expense decreased by 10.4% from € 189.8 million in 1996 to € 170.1 million in 1997, reflecting the combined effect of lower interest rates despite higher average indebtedness in 1997 compared to 1996.

Provision for income taxes. The Group's provision for income taxes increased by 23.7% from € 365.1 million in 1996 to € 451.6 million in 1997. The charge for 1997 included approximately € 10.9 million in respect of the 1997 non-recurring items and reflected the increase in the French statutory income tax rate from 36.67% in 1996 to 41.67% in 1997 including the increase in deferred tax liabilities. The effective tax rate thus increased to 42.6% in 1997 compared to 38.4% in 1996.

Minority interests. Minority interests decreased from € 93.6 million in 1996 to € 82 million in 1997, principally as a result of (i) the consolidation of 100% of the results of Panzalim and its subsidiaries starting in 1997 compared to 65.5% thereof in 1996, (ii) the consolidation of additional interests in San Miguel and Campineira and (iii) the decrease in income from Bagley.

Equity in net earnings of affiliated companies. Equity in net earnings of affiliated companies increased from € 24.1 million in 1996 to € 32.2 million in 1997. The increase reflected principally new Group subsidiaries, such as Strauss in Israel and Centrale Laitière in Morocco, accounted for under the equity method, increased earnings of certain subsidiaries and increased interests in existing subsidiaries accounted for under the equity method.

Net income. Net income increased by 8.3% from € 515.6 million in 1996 to € 558.6 million in 1997 and remained stable at 4.1% of net sales in 1997, compared to 4.0% in 1996.

Net sales, operating income and operating margin by main business line

Dairy products. Net sales of dairy products increased 10% from € 4,843.2 million in 1996 to € 5,323.8 million in 1997. On a comparable basis, net sales of dairy products increased 4.8%, in line with an increase in volume of 3.6%. All of Danone's activities in Europe grew, due to strong demand.

Operating income for dairy products increased 10.7% from € 502.8 million in 1996 to € 556.6 million in 1997. The operating margin improved from 10.4% to 10.5% due to the positive impact of higher-margin, newly introduced and innovative products, the improvement in productivity in several European countries and operating margin improvement for sales in the rest of the world.

Beverages. Net sales of beverages increased 12.5% from € 2,447 million in 1996 to € 2,754.6 million in 1997. On a comparable basis, net sales of beverages increased 7.0%. Bottled water sales grew 6% driven by growth in demand, while sales in beer decreased. The favorable weather conditions of the summer of 1997 were offset by poor sales at the beginning of the year due to an increase in excise taxes on beer (high sales were recorded for the month of December 1996) and unfavorable weather conditions in the spring.

Operating income for beverages increased 18% to € 326.8 million in 1997 from € 277.1 million in 1996. Operating margin increased from 11.3% in 1996 to 11.9% in 1997 due to the increase in bottled water sales, significantly lower packaging raw material costs, in particular for PET used in bottled water packaging, and lower industrial costs. Beer activities also contributed to the increase in operating margin through productivity gains made particularly in Spain.

Biscuits. Net sales of biscuits increased 2.8% from € 2,600 million in 1996 to € 2,674.3 million in 1997. On a comparable basis, net sales of biscuits decreased 2.2%. The decrease in volumes was caused by (i) unusually long negotiations with French retailers in the first half of the year, (ii) the merger of LU and Belin and (iii) competitive pressures in Germany, the United Kingdom and Argentina which more than offset the positive market conditions in the rest of Europe.

Operating income for biscuits increased from € 175 million in 1996 (6.7% of biscuits net sales) to € 181.6 million (6.8% of biscuits net sales) in 1997. Operating income and margin remained stable, and the strong performances in Europe result principally from productivity gains relating to restructurings and mergers from prior years which offset the decrease in sales in Latin America. The confectionery business sold at the end of 1997 was consolidated over the full twelve months of that year.

Grocery products. Net sales of grocery products decreased 7% from € 2,128.3 million in 1996 to € 1,986.8 million in 1997. This decrease was due mainly to lower sales in shelf-stable ready-made meals and pasta as a result of low volumes due to restructuring and price pressures. Net sales were adversely affected by the uncertainty in the market caused by the Galland Law in France (see "Item 1: Description of Business—Regulatory and Environmental Matters") and decreased consumer demand for ready meals containing beef due to concerns related to bovine spongiform encephalitis ("BSE") which more than offset increased sales for infant foods, sauces and condiments.

Operating income for grocery products decreased 22% from € 91.5 million in 1996 to € 71 million in 1997. The operating margin decreased from 4.3% in 1996 to 3.6% in 1997. The increase in operating margin in sauces was insufficient to offset the decrease in operating margin for pasta and ready-made meals. During the year, the merger of the operations of Gorcy and Vivagel was completed, and both chilled and frozen products were successfully brought under the *Marie* brand.

Glass containers. Net sales of glass containers decreased slightly (1.0%) from € 957.1 million in 1996 to € 947.2 million in 1997. On a comparable basis, net sales of glass containers remained stable (a 0.2% increase) despite an increase in volumes from 2.42 million tonnes to 2.53 million tonnes in 1996 and 1997, respectively, reflecting price reductions due to market pressures. The year was characterized by a strong increase in volume sales, in particular in the wine sector, partially upset by a decrease in price levels due to over-capacity in certain European countries.

Operating income for glass containers decreased 16.2% from € 107.2 million in 1996 to € 89.8 million in 1997. Operating margin decreased from 11.2% in 1996 to 9.5% in 1997 due to price pressures and a strike in France which disrupted production at certain of the division's plants for approximately one month without affecting net sales. The strike resulted in the Group's incurring additional costs to acquire products from third parties for scheduled deliveries and to resume operations of the plants.

Liquidity and Capital Resources

Consolidated cash flows. At December 31, 1998, Danone had available cash, cash equivalents and marketable securities totaling € 894 million, compared to € 966 million at December 31, 1997. Danone has historically generated sufficient levels of cash from operations to support its operating expenses, capital reinvestment needs, debt service and dividend payments. The table below sets forth information related to the consolidated cash flows for Danone for the years ended December 31, 1996, 1997 and 1998.

	Year ended December 31,		
	1996	1997	1998
	(€ millions)		
Cash flow from operating activities	1,211.5	1,334.5	1,358.1
Capital expenditures	(683.6)	(796.7)	(710.8)
Free cash flow(1)	527.9	537.8	647.3
Net divestitures (acquisitions)	(1,019.9)	546.5	(247.6)
Dividends paid	(219.7)	(218.0)	(252.6)
Share repurchases	(29.4)	(155.8)	(358.1)
Other financing(2)	753.1	(635.3)	139.2
Effect of exchange rate changes on cash and cash equivalents	20.3	14.6	(16.0)
Increase (decrease) in cash and cash equivalents	32.3	89.8	(87.8)

(1) Free cash flow represents the cash remaining from operating activities after satisfying capital reinvestment needs. Management believes that "Free Cash Flow" is a useful measure of the amount of cash available for external growth. The Free Cash Flow concept is widely used by the Group's management and is monitored and reported on a regular basis by management at both subsidiary and division level.

(2) Debt repayment or financing and capital increases (options exercised or shares issued upon conversion of convertible bonds).

As a general rule, Danone's cash flow from operating activities is lower in the first half of any year compared to the second half of that year because of higher working capital needs in the first half of the year due to (i) increased production in preparation for reduced plant activity and temporary plant closures during the summer vacation months, (ii) the build-up of beer inventory for the heavy consumption months of July and August and (iii) outstanding accounts receivable from sales in May and June as a result of seasonality.

Cash flow from operating activities increased from € 1,334.5 million in 1997 to € 1,358.1 million in 1998 due to decreased working capital needs at the end of 1998 compared to the end of 1997. This decrease is related to the impact of measures taken to reduce working capital needs since 1996 and to the growth of companies with low or negative working capital needs. The focus on maximizing returns on invested capital started in 1996 and since that time management bonuses have been tied to, among other things, working capital levels.

In 1997, cash flow from operating activities increased to € 1,334.5 million compared to € 1,211.5 million in 1996 due to (i) the effects of the Group's restructuring program, (ii) the realization of tax benefits from loss carryforwards in connection with the tax consolidation of the Group's German entities and (iii) the focus on maximizing returns on capital mentioned above.

The Group's capital expenditures of € 711 million, € 797 million and € 684 million in 1998, 1997 and 1996, respectively represented 5.5%, 5.9% and 5.3% of net sales, respectively. In 1998, capital expenditures were mainly used to (i) build production facilities in Argentina (Longchamps and Buenos Aires) and new production lines in Europe for dairy products, (ii) increase capacity for the *Blédina* product line in several subsidiaries in Asia (in particular China) and Central Europe, and in Mexico to refit container manufacturing facilities, and (iii) invest in the industrial reconstruction of Galbani. The Company expects to invest approximately € 750 million in capital expenditures in 1999. Continuing capital expenditures in 1999 and beyond include (i) modernization of existing plants and (ii) capacity increases which are necessary for growth.

In 1998, amounts for acquisitions of € 485 million (excluding divestitures) were invested principally in connection with investments in bottled water companies, in particular the acquisition of Aquapenn in the United States, and to the purchase of additional holdings in certain companies. In 1997 and 1998, divestitures of more than € 1 billion were recorded in connection with the disposal of some of the Group's grocery operations. Acquisitions (excluding divestitures) in 1997 and 1996 totaled € 470 million and € 1,140 million respectively, and were principally related to acquisitions of companies and costs related to expansion in new geographic areas, as well as the purchase of minority shareholdings.

The Company has a commitment to acquire the remaining 10% outstanding interest in Galbani between 1999 and 2001. The Company estimates that the investment for such remaining interest will total approximately € 275 million, none of which had been expended as of December 31, 1998. This investment is expected to be made in three annual and approximately equal tranches. In addition, the Company has entered into agreements to purchase interests held by third-party shareholders in certain subsidiaries, should these shareholders wish to sell their interests. These agreements are not subject to any specific deadline and, in any event, the potential cost of purchasing these shares will be dependent upon the rate of return and the financial situation of the subsidiary in question. No material investment under these agreements is planned for 1999, other than the purchase of a 41% interest in dairy products companies in Argentina which took place in the first quarter of 1999. The Company is unable to predict when, or if, such investments will be required.

The Company expects that its shareholders will renew their approval to implement a share buy-back program. See "Item 4: Control of Registrant". Pursuant to the program, the Company could, during a period of 18 months following May 19, 1999, purchase up to 5,510,640 shares, representing an aggregate purchase price of € 1,929 million, assuming a purchase price per share of € 350. For example, the aggregate purchase price would be equal to € 1,267 million if the average purchase price per share were € 230. At March 31, 1999, the Company was committed to option and equity swap operations with respect to 3,250,000 securities, pursuant to the shareholders' approval of May 19, 1998.

Financial condition. The Company's long-term debt is rated AA-, and its commercial paper A1+, by Standard & Poor's. The Group's financial strategy includes the use of debt financing to lower the average cost of capital, while maintaining reasonable levels of borrowing in order to protect its financial flexibility.

Danone maintains bank credit lines to ensure the availability of funding on an as-needed basis. At December 31, 1998, Danone had credit lines totaling € 2,506 million, of which it had utilized the equivalent of € 592 million. At December 31, 1997, Danone's committed credit lines amounted to € 2,736 million, of which it had utilized the equivalent of € 589 million. At December 31, 1998, the Group had in addition liquid funds of € 894 million (compared to € 966 million at December 31, 1997) to provide liquidity to meet operational needs and expansion opportunities. Danone's consolidated net debt (defined as short-term debt and overdrafts, long-term debt and convertible bonds less cash, cash equivalents and marketable securities) amounted to € 2,873 million and € 2,752 million at December 31, 1998 and 1997, respectively. None of Danone's long-term debt will become due in the first half of 1999. See "Item 9A: Quantitative and Qualitative Disclosures About Market Risk".

Impact of Changes in Exchange Rates

The Company publishes its consolidated financial statements in euros. In 1998, approximately 75% of the Company's subsidiaries' net sales and 79% of their operating income were realized in euro-zone currencies which, since January 1, 1999, have a fixed exchange rate with the euro. However, a substantial portion of Danone's assets, liabilities, sales and earnings are denominated in currencies other than the euro or euro-zone currencies, particularly the U.S. dollar and U.S. dollar-influenced currencies, such as certain South American currencies, the British pound, the Chinese yuan or the Polish zloty. As a result, Danone is exposed to fluctuations in the values of such currencies against the French franc with respect to the translation into euros of amounts to be reflected in its consolidated financial statements. In particular, the appreciation of the euro relative to other currencies decreases the euro value of the contribution to Danone's consolidated results and financial condition of subsidiaries which maintain their financial accounts in such other currencies. To the extent Danone incurs expenses and effects sales in different currencies in cross-border transactions, fluctuations in exchange rates can also affect the profitability of such transactions.

The Company believes that its exposure to currency fluctuations has been, and will continue to be, limited by the fact that both the sales and expenses of the Group's subsidiaries are denominated principally in the currencies of their home countries. As a result of the Group's strategy of international growth, however, the proportion of the Group's consolidated net sales, operating income and net income, as well as its consolidated assets and liabilities, accounted for by international operations is expected to increase. Changes in exchange rates can also lower the cost basis of certain of Danone's competitors. See "Item 1: Description of Business—Competition".

For the purpose of preparing its consolidated financial statements, the Company uses the exchange rate applicable at the end of the year for the consolidated balance sheets (except if high local interest rates call for a different method) and the average exchange rate for the year (calculated by averaging the applicable rate at the end of each month during the year) for income and cash flows consolidation.

In accordance with the Company's accounting policies, differences resulting from translation into euros of the financial statements of foreign subsidiaries are accounted for under shareholders' equity until such time as the foreign investments to which such differences relate are sold or liquidated. At December 31, 1998, the negative difference relating to translation of euro/zone currencies amounted to € 459.6 million.

Item 9A: Quantitative and Qualitative Disclosures about Market Risk

Danone uses interest rates and currency derivatives exclusively to hedge financial risks incurred in the normal course of its business. The hedging operations are taken in accordance with objectives and procedures established by management. Danone centralizes all such transactions.

Regarding interest rate exposure, the related risk is monitored for the Group's consolidated net debt with the objective to minimize its cost by attaining the variable rates/fixed rates limits established by management.

As far as exposure to currency fluctuations is concerned, the objective is to hedge on a budget basis the anticipated and largely recurring annual commercial transactions of the Group's subsidiaries in currencies other than their functional currency.

Sensitivity to interest rate fluctuations

The main instruments used to reduce interest rate exposure are interest rate swaps, caps and floors contracts negotiated with major financial institutions. See Notes 1.M and 24 to the consolidated financial statements. Information about the weighted average interest rate of debt is disclosed in Note 15 to the Consolidated Financial Statements.

The tables below provide an indication of the estimated future cash-flows from (i) significant market risk sensitive instruments exposed to changes in interest rates, and (ii) the related hedged assets and liabilities (i.e., the Group's consolidated net debt) existing as of December 31, 1998. Such cash flows are calculated based on the interest rates (TAM: 3.45%, T4M: 3.10% or PIBOR 3 months: 3.29%) and currency exchange rates at December 31, 1998.

Expected cash flows from the existing interest rate instruments at December 31, 1998 are shown below by maturity dates:

	1999	2000	2001	2002	2003	Thereafter
			(€ in millions)			
Interest rate swaps						
French francs:						
•fixed rates:						
- payable (average rate: 5.95%)	(28)	(25)	(17)	(10)	(5)	—
- receivable (average rate: 5.49%)	89	85	47	21	17	10
•variable rates:						
- payable (TAM rate)	(57)	(55)	(27)	(11)	(10)	(5)
- receivable (TAM rate)	16	15	8	4	2	—
Belgian francs:						
•fixed rates receivable (average rate: 6.07%)	3	—	—	—	—	—
•variable rates payable (BIBOR 3 months)	(1)	—	—	—	—	—
Interest rate options *(with variable reference rates at TAM or T4M)*						
•floors (average rate: 3.59%)	(2)	(1)	(1)	(1)	—	—
•swaptions						
•caps	—	—	—	—	—	—

No cash flow is reported in respect of interest rate caps, as these options with an average interest rate above 4.50% were out of the money at December 31, 1998.

Expected interest cash-flows from the assets and liabilities existing at December 31, 1998 and hedged by the above-mentioned instruments are shown below by maturity dates. Expected net debt repayments and proceeds from the sales of marketable securities are not reported below.

	1999	2000	2001	2002	2003	Thereafter
			(€ in millions)			
Convertible bonds *(fixed rates—see Note 15 of the financial statements)*	(49)	(18)	(18)	(18)	—	—
Long-term debt						
•fixed rates	(66)	(43)	(41)	(25)	(22)	(20)
•variable rate (PIBOR 3 months: 3.28%)	(16)	(11)	(10)	(9)	(6)	(6)
•variable rate (PIBOR 1 month: 3.32%)	(30)	(28)	(26)	(24)	(11)	(9)
Cash and cash equivalents, net of short-term debt and bank overdrafts *(variable rate—PIBOR 1 month)*	—	(5)	—	—	—	—
Marketable securities *(variable rate—PIBOR 1 month)*	17	17	17	17	7	5

Sensitivity to currency fluctuations

The Group's policy with respect to fluctuations in exchange rates is periodically to calculate its net foreign currency exposure based on the combined firm and budgeted operating transactions of all its subsidiaries and to use derivatives to reduce this exposure. The main instruments are forward contracts and purchase of currency options, entered into with major financial institutions. See Notes 1.M and 24 to the Consolidated Financial Statements.

The table below provides an indication of the estimated future cash flows from the existing currency hedging instruments at December 31, 1998, shown by maturity dates, and by nature of the hedged transactions, whether financial (local "cash pooling") or anticipated commercial transactions:

	1999	2000	Thereafter
	(€ in millions)		
Anticipated commercial transactions *(with a net position different from zero)*			
Forward purchases of:			
•U.S. dollar	(14)	—	—
•British pound	(14)	—	—
•Swiss franc	(2)	—	—
•Japanese yen	(8)	—	—
•Euro	(218)	—	—
•Other currencies	(163)	—	—
Forward sales of:			
•U.S. dollar	317	14	—
•Sterling pound	96	6	—
•Swiss franc	71	2	—
•Japanese yen	49	10	—
•Euro	69	—	—
•Other currencies	53	1	—
Financial transactions: Forward purchases of:			
•Euro	(411)	—	—

No cash flow is reported in respect of currency options, as these options were largely out of the money at December 31, 1998.

Item 10: Directors and Officers of the Registrant

In accordance with French law governing a "société anonyme", a form of limited liability company, the Company's affairs are managed by its Board of Directors ("Conseil d'administration") and by its Chairman and Chief Executive Officer ("Président du Conseil d'administration"), who has full executive authority to manage the affairs of the Company, subject to the prior authorization of the Board of Directors or of the Company's shareholders for certain decisions.

Board of Directors

Pursuant to the Company's Articles of Association ("statuts"), the Board of Directors consists of between three and 24 directors. Following the shareholders' meeting scheduled for May 19, 1999, the Company's Board of Directors will consist of 16 directors. The Company's "statuts" provide that each director is elected by the shareholders at an ordinary general meeting of shareholders for a three-year term and is eligible for reelection upon expiration of such term. Fees of a total amount of € 305 thousand will be paid to Directors in 1999 for their attendance at Board meetings. Directors who are officers of the Company do not receive such fees.

The following table sets forth the names and ages of the directors of the Company, their principal occupation or employment, the dates of their initial election as directors and the years of expiration of their terms, assuming election at the shareholders' meeting on May 19, 1999:

Name	Age	Principal Occupation or Employment	Director Since	Term Expires
Franck Riboud[(1)]	43	Chairman and Chief Executive Officer; Director, Fiat	1992	2001
Michel David-Weill[(1)(2)]	66	Vice-Chairman; General Partner, Lazard Frères & Cie; Chairman, Lazard Partners, Lazard Frères & Co. LLC; Chairman, Eurafrance; Member of the Supervisory Board, Publicis; Director, Pearson plc, ITT Industries Inc., IFI S.p.A.	1970	2002*
Jacques Vincent[(1)]	53	Senior Executive Vice-President; Chairman and Chief Executive Officer of Brasseries Kronenbourg; Manager, Minute Maid Danone	1997	2002*
Umberto Agnelli[(1)]	64	Chairman, IFIL S.p.A.; Vice Chairman, Managing Director, IFI S.p.A; Vice Chairman, Giovanni Agnelli EC Sapaz; Director, Piaggio S.p.A.; Member of the Supervisory Board and Strategy Committee, Worms & Cie	1987	2002*
Dominique Auburtin	47	Chairman, Worms & Cie; Chairman of the Supervisory Board, Saint-Louis Sucre SA; Director, CAR SA, Cabinet de courtage, d'assurances et de réassurance, Les Petites Affiches, Permal Group, Arjo Wiggins Appleton	1998	2001

Name	Age	Principal Occupation or Employment	Director Since	Term Expires
Yves Boël[1][2]	72	Chairman, S.A. Sofina; Chairman, Managing Director, S.A. Union Financière Boël; Vice Chairman, S.A. Tractebel; Director, Eurafrance, S.A. Royale Belge, S.A. Petrofina	1972	2002*
Yves Cannac[3]	64	Advisor to the Group Cegos; Director, Caisse des Dépôts-Développement (C3D), Société Générale, AGF	1985	2000
Luca Fossati[1]	41	Chairman, FINDIM Finanziaria Industriale Immobiliare Mobiliare S.p.A., FINDIM Investments S.A., Suisse Star Stabilimento Alimentare S.p.A.; Director, IFIL, S.p.A.	1996	2002*
Jean Gandois[1][2][3]	69	Chairman, Cockerill-Sambre S.A.; Member of the Supervisory Board, Peugeot S.A., Compagnie Financière Paribas, Suez Lyonnaise des Eaux, Siemens AG, Akzo Nobel; Director, Institut Curie	1981	2002*
Jean-Claude Haas[3]	73	General Partner, Lazard Frères & Cie; Chairman and CEO, Compagnie de Crédit; Director, Pathé, Eurafrance; General Partner, Lazard Partners Ltd; Managing Director, Lazard Brothers & Co. Ltd.	1991	2000
Philippe Jaeckin	60	Executive Vice-President	1992	2001
Christian Laubie[1]	60	Senior Executive Vice-President and Chief Financial Officer; Chairman, Alfabanque	1985	2000
Philippe Lenain	62	Director, Eco-Emballage, Nord Est	1991	2000
Jacques Nahmias	51	Chairman and CEO, Propétrol S.A.; Chief Operating Officer and Director, Petrofrance S.A.; Director, Danone SA	1981	2002*
Edouard de Royère[1]	66	Honorary Chairman, Director, L'Air Liquide SA; Chairman, ANSA; Director, L'Oréal, Sodexho, Solvay	1987	2002*

Name	Age	Principal Occupation or Employment	Director Since	Term Expires
Jérôme Seydoux[(1)]	66	Chairman, Pathé British Sky Broadcasting Group; Deputy Chairman and Chief Operating Officer, Chargeurs; Member of the Supervisory Board, Accor	1970	2000

* Assuming reelection at the shareholders' meeting on May 19, 1999

(1) Member of the Strategy and Nomination Advisory Committee.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.

The Company's Board also includes four honorary directors who serve in an advisory role: Antoine Riboud (Honorary Chairman and Chairman of the Strategy and Nomination Advisory Committee), Daniel Carasso (also a member of the Strategy and Nomination Advisory Committee), Renaud Gillet and Pierre Lambertin.

Strategy and Nomination Advisory Committee

The Strategy and Nomination Advisory Committee, which is composed of 12 directors or honorary directors appointed by the Board of Directors, performs an advisory function for the Board. The Strategy and Nomination Advisory Committee meets two to three times per year, or more frequently as deemed appropriate by its members. Members of the Strategy and Nomination Advisory Committee are normally appointed for the remainder of their respective terms as directors and select a Chairman from among themselves. Mr. Antoine Riboud is the current Chairman. Members are paid FF 25,000 per year, with the Chairman receiving double that amount. Members who are officers of the Company do not receive such fees.

Compensation Committee

The Compensation Committee, which was established in October 1996, is composed of three current outside directors, each of whom is appointed by the Board of Directors. The Compensation Committee makes recommendations to the Board of Directors with respect to compensation paid and options granted to executive officers. Mr. Michel David-Weill is the current Chairman. Members are paid FF 10,000 per year, with the Chairman receiving double that amount.

Audit Committee

The Audit Committee, which was established in January 1997, is composed of three outside directors or honorary directors appointed by the Board of Directors. The Audit Committee reviews and comments on the Company's financial statements prior to their submission to the Board of Directors, reviews internal and external audit activities, and performs specific assignments as requested by the Board of Directors. Mr. Jean-Claude Haas is the current Chairman. Members are paid FF 25,000 per year, with the Chairman receiving double that amount.

Executive Officers

Under French law and the Company's "statuts", the Chairman and Chief Executive Officer has full executive authority to manage the Company's affairs and has broad powers to act on behalf of the Company within its corporate purpose and to represent and bind the Company in dealings with third parties, subject only to the powers expressly reserved to the Board of Directors or shareholders by law or by the Company's "statuts".

Pursuant to French law and Danone's "statuts", the Board of Directors can appoint up to five "directeurs généraux" or Executive Vice-Presidents proposed by the Chairman and Chief Executive Officer, whose powers and responsibilities are determined by the Board of Directors, together with the Chief Executive Officer. Each such Executive Vice-President has the same broad powers as the Chairman and Chief Executive Officer to represent and bind the Company in dealings with third parties. The Company has developed a manual of internal guidelines which establishes the principles of conduct of its senior officers.

The following table sets forth the names and ages of the executive officers of the Company and their current positions with the Company:

Name	Age	Position	Executive Officer Since
Franck Riboud	43	Chairman and Chief Executive Officer	1996
Jacques Vincent	53	Senior Executive Vice-President	1998
Christian Laubie	60	Senior Executive Vice-President; Chief Financial Officer	1996
Philippe Jaeckin	60	Executive Vice-President	1996
Jan Bennink	41	Senior Vice-President; Dairy Worldwide	1997
Jean-René Buisson	51	Senior Vice-President; Human Resources	1996
Jean-Louis Gourbin	51	Senior Vice-President; Biscuits Worldwide	1999
Simon Israel	45	Senior Vice-President; Asia/Pacific	1997
Pedro Médina	38	Senior Vice-President; Water Worldwide	1999

Item 11: Compensation of Directors and Officers

The aggregate amount of compensation paid by Danone to its executive officers and directors as a group (24 persons in all) for services in all capacities in 1998 was approximately € 6 million, including approximately € 2.8 million paid by the Company as bonus compensation ("Bonus Compensation"). Each executive officer and Division Senior Vice-President of the Company may receive annual Bonus Compensation calculated on the basis of the Group's overall results for the year, the return on capital employed, the results of certain divisions, the officer's seniority and certain other objective factors. The aggregate amount paid by Danone to provide pension, retirement or similar benefits for the same executive officers and directors as a group in respect of the 1998 fiscal year was € 2.2 million.

Item 12: Options to Purchase Securities from Registrant or Subsidiaries

As of April 30, 1999, a total of 574,000 options to purchase existing shares were outstanding, of which 100,000 were held by the executive officers of the Company as a group, and a total of 774,385 options to subscribe newly issued shares were outstanding, of which 165,000 were held by the executive officers of the Company as a group. These options were issued by the Board of Directors pursuant to employee stock option plans adopted at general meetings of the shareholders in May 1990, May 1992, May 1995 and May 1997. Pursuant to each option plan, the Board was authorized to issue options exercisable in the aggregate for up to 1.0% of the Company's outstanding share capital at the date of issuance, including all options already outstanding under the current and previous plans. The exercise price for the options was based on the average price quoted for the shares on the Paris Bourse during a period of 20 business days prior to the date of issuance, less a discount in accordance with French law.

The following table sets out certain information relating to the various option plans, as of April 30, 1999.

Option Plan	Options Issuable	Options Issued	Options Exercised	Ordinary Shares Issuable	Of which: Ordinary Shares Issuable to Members of the Executive Committee	Option Exercise Price per Share (FF/€)	Expiration Date
May 1990							
Issue dates:	643,335(1)	643,335	272,077	141,840(2)			
9/22/1993		49,400	27,960	21,440		731.00	9/22/1999
10/25/1993		100,000	—	100,000		703.00	10/25/1999
1/28/1994		61,000	40,600	20,400		768.00	1/28/2000
May 1992							
Issue dates:	453,700(3)	453,700	214,390	239,310			
3/17/1994		17,000	12,100	4,900		733.00	3/17/2000
7/7/1994		15,000	—	15,000	15,000	646.00	7/7/2000
8/26/1994		75,000	20,000	55,000	35,000	675.00	8/26/2000
1/24/1995		339,200	176,290	162,910		600.00	1/24/2001
3/23/1995		7,500	6,000	1,500		608.00	3/23/2001
May 1995							
Issue dates:	536,500(4)	536,500	143,265	393,235			
9/5/1995		89,500	28,465	61,035	27,000	779.00	9/5/2001
1/31/1996		45,000	15,300	29,700		723.00	1/31/2002
3/19/1996		12,500	3,000	9,500	5,000	704.00	3/19/2002
5/2/1996		150,000	30,700	119,300	83,000	704.00	5/2/2002
9/4/1996		111,500	41,300	70,200		650.00	9/4/2002
12/11/1996		54,500	17,600	36,900		667.00	12/11/2002
3/17/1997		73,500	6,900	66,600		841.00	3/17/2005
May 1997							
Issue dates:	739,248(5)	575,500	1,500	574,000			
9/9/1997		160,000	1,500	158,500	15,000	876.00	9/9/2005
1/28/1998		40,000	—	40,000	40,000	1,023	1/28/2006
3/18/1998		194,500	—	194,500	35,000	1,161	3/18/2006
5/19/1998		2,500	—	2,500		1,340	5/19/2006
9/15/1998		68,500	—	68,500		1,524	9/15/2006
1/26/99		69,800	—	69,800		€223.03	1/26/07
3/17/99		40,200	—	40,200	10,000	€227.02	3/17/07
Total	2,372,783	2,209,035	631,232	1,348,385	265,000		

(1) Of a total of 678,898 options issuable under the May 1990 Option Plan, 35,563 options were not issued and ceased to be issuable in May 1995, five years after the plan was adopted.

(2) Of the 643,335 options issued, 272,077 options have been exercised, 48,013 options expired on September 13, 1996, 114,095 options expired on January 28, 1997, 56,510 options expired on March 24, 1997, 6,000 options expired on September 30, 1997, 4,000 options expired on January 27, 1998 and 800 options expired on July 22, 1998.

(3) Of a total of 696,852 options issuable under the May 1995 Option Plan, 243,152 options were not issued and ceased to be issuable in May 1997, five years after the plan was adopted.

(4) Of the total of 726,391 options issuable under the May 1995 Option Plan, 189,891 options were not issued and ceased to be issuable in May 1997.

(5) The options issuable under the May 1997 option plan are for the purchase of shares already issued and not for newly issued shares.

Item 13: Interest of Management in Certain Transactions

None.

PART II

Item 14: Description of Securities to be Registered

Not applicable.

PART III

Item 15: Defaults upon Senior Securities

None.

Item 16: Changes in Securities and Changes in Security for Registered Securities

None.

PART IV

Item 17: Financial Statements

Not applicable.

Item 18: Financial Statements

See Item 19 for a list of financial statements filed under Item 18.

Item 19: Financial Statements and Exhibits

(a) Financial Statements

The following financial statements, with the report of PricewaterhouseCoopers thereon, are filed as part of this annual report.

(b) Exhibits

List of subsidiaries of the Registrant (see Note 28 to the Consolidated Financial Statements included in this annual report).

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of GROUPE DANONE

We have audited the accompanying consolidated balance sheets of GROUPE DANONE and its subsidiaries (together, the "Group") as of December 31, 1998 and 1997 and the related consolidated statements of income, of cash flows and of changes in stockholders' equity for each of the three years in the period ended December 31, 1998, all expressed in euros. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of the Group as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in France.

Accounting principles generally accepted in France vary in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of the consolidated net income expressed in French francs for each of the three years in the period ended December 31, 1998 and the determination of consolidated stockholders' equity and consolidated financial position at December 31, 1998, 1997 and 1996 to the extent summarized in Note 2 to the consolidated financial statements.

PRICEWATERHOUSECOOPERS

Paris, March 17, 1999

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

	Notes	Euros (millions) Year ended December 31, 1996	1997	1998	French francs (millions) 1998
Net sales		12,796.6	13,488.1	12,935.0	84,848
Cost of goods sold		(7,244.9)	(7,466.2)	(6,806.4)	(44,647)
Selling expenses		(3,338.0)	(3,633.1)	(3,650.1)	(23,943)
General and administrative expenses		(763.0)	(826.1)	(852.4)	(5,591)
Research and development expenses		(101.7)	(115.5)	(120.3)	(789)
Other expense and income	21	(209.0)	(223.2)	(212.6)	(1,395)
Operating income		1,140.0	1,224.0	1,293.2	8,483
Non-recurring items	3	—	6.1	(44.0)	(289)
Interest expense net	22	(189.8)	(170.1)	(146.2)	(959)
Income before provision for income taxes and minority interests		950.2	1,060.0	1,103.0	7,235
Provision for income taxes	23	(365.1)	(451.6)	(433.4)	(2,843)
Income before minority interests		585.1	608.4	669.6	4,392
Minority interests		(93.6)	(82.0)	(96.8)	(635)
Equity in net earnings of affiliated companies		24.1	32.2	25.3	166
Net income		515.6	558.6	598.1	3,923

PER SHARE INFORMATION

	amounts in euros (except number of shares)			in French francs
Number of shares used in calculating:				
—basic earnings per share	71,120,542	70,979,870	70,539,085	70,539,085
—diluted earnings per share	79,076,442	79,092,534	78,557,577	78,557,577
Basic earnings per share	7.25	7.87	8.48	55.61
Diluted earnings per share	7.06	7.63	8.15	53.46

The notes on pages F-7 to F-46 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

ASSETS

	Notes	Euros (millions) At December 31, 1997	Euros (millions) At December 31, 1998	French francs (millions) At December 31, 1998
Property, plant and equipment	6	8,769.3	8,868.5	58,174
Less: accumulated depreciation		(4,966.5)	(5,113.1)	(33,540)
		3,802.8	3,755.4	24,634
Brand names	7	1,839.9	1,786.7	11,720
Other intangible assets (net)		180.3	190.7	1,251
Goodwill	7	3,403.3	3,394.0	22,263
		5,423.5	5,371.4	35,234
Long-term loans		433.6	431.6	2,831
Long-term investments	8	330.2	497.7	3,265
Equity in affiliated companies	9	406.4	433.7	2,845
Other		134.5	169.1	1,109
		1,304.7	1,532.1	10,050
Non-current assets		10,531.0	10,658.9	69,918
Inventories	10	927.5	903.6	5,927
Trade accounts and notes receivable	11	1,756.2	1,720.7	11,287
Other accounts receivable and prepaid expenses	11	714.1	721.4	4,732
Short-term loans		135.2	143.3	940
Marketable securities		506.3	522.9	3,430
Cash and cash equivalents		459.3	371.5	2,437
Current assets		4,498.6	4,383.4	28,753
Total assets		15,029.6	15,042.3	98,671

LIABILITIES AND STOCKHOLDERS' EQUITY

	Notes	Euros (millions) 1997	Euros (millions) 1998	French francs (millions) 1998
Capital stock (par value FF 10 per share; shares issued and outstanding: 1998 : 73,924,810; 1997 : 73,071,609; 1996 : 72,639,149)		111.5	112.7	739
Capital surplus		2,707.0	2,811.8	18,444
Retained earnings	12	4,316.1	4,711.1	30,903
Translation adjustments		(363.4)	(504.4)	(3,309)
Treasury stock		(259.0)	(617.5)	(4,050)
Stockholders' equity		6,512.2	6,513.7	42,727
Minority interests		755.7	783.1	5,137
Convertible bonds	14	1,095.3	1,049.8	6,886
Long-term debt	15	2,188.9	2,053.2	13,468
Retirement indemnities, pensions and post-retirement healthcare benefits	16	377.0	364.2	2,389
Provisions and long-term liabilities	17	439.0	387.3	2,541
Stockholders' equity and non-current liabilities		11,368.1	11,151.3	73,148
Trade accounts and notes payable	18	1,651.8	1,650.9	10,829
Accrued expenses and other liabilities	19	1,576.0	1,575.3	10,333
Short-term debt and bank overdrafts		433.7	664.8	4,361
Current liabilities		3,661.5	3,891.0	25,523
Total liabilities and stockholders' equity		15,029.6	15,042.3	98,671

The notes on pages F-7 to F-46 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Euros (millions)			French francs (millions)
	Year ended December 31,			
	1996	1997	1998	1998
Net income	515.6	558.6	598.1	3,923
Minority interests in net income of consolidated subsidiaries	93.6	82.0	96.8	635
Equity in net earnings of affiliated companies	(24.1)	(32.2)	(25.3)	(166)
Depreciation and amortization	677.5	735.7	701.9	4,604
Gains on sale of non-current assets	(16.3)	(168.5)	(13.3)	(87)
Other	(34.2)	53.7	(31.0)	(203)
Cash flows from operations	1,212.1	1,229.3	1,327.2	8,706
Decrease in inventories	41.6	16.9	17.7	116
Net variation in trade accounts and other accounts receivable	(20.6)	18.6	(48.3)	(317)
Net variation in trade accounts and other accounts payable	(12.0)	85.2	68.4	449
Other variations	(9.6)	(15.5)	(6.9)	(45)
Net change in current working capital	(0.6)	105.2	30.9	203
Cash flows from operating activities	1,211.5	1,334.5	1,358.1	8,909
Additions to property, plant and equipment	(683.6)	(796.7)	(710.8)	(4,663)
Investment in subsidiaries and affiliated companies	(1,140.3)	(470.0)	(485.4)	(3,184)
Proceeds from the sale of businesses and other investments	120.4	1,016.5	237.8	1,560
Cash flows from investing activities	(1,703.5)	(250.2)	(958.4)	(6,287)
Increase in capital and capital surplus	139.6	47.6	106.0	695
Purchases of treasury stock	(29.4)	(155.8)	(358.1)	(2,349)
Dividends	(219.7)	(218.0)	(252.6)	(1,657)
Net change in long-term debt	1,039.9	(198.5)	101.8	668
Net increase in long-term loans and other assets	(119.5)	(209.5)	(54.9)	(360)
Net change in short-term debt	(588.0)	(281.0)	17.8	117
Proceeds from the sales of marketable securities	281.1	6.1	(31.5)	(207)
Cash flows from financing activities	504.0	(1,009.1)	(471.5)	(3,093)
Effect of exchange rate changes on cash and cash equivalents	20.3	14.6	(16.0)	(105)
Increase in cash and cash equivalents	32.3	89.8	(87.8)	(576)
Cash and cash equivalents at beginning of year	337.2	369.5	459.3	3,013
Cash and cash equivalents at end of year	369.5	459.3	371.5	2,437

The notes on pages F-7 to F-46 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(excluding minority interests)

	Number of shares		In millions of euros					
	Issued	Excluding treasury stock	Capital stock	Capital surplus	Retained earnings	Translation adjustments	Treasury stock	Stockholders' equity attributable to the Group
Balance at December 31, 1995	71,295,796	70,098,083	108.7	2,522.5	3,606.2	(644.5)	(66.0)	5,526.9
Capital stock issues	1,343,321	1,343,321	2.0	137.7				139.7
Conversion of debentures	32	32						—
Net income for 1996					515.6			515.6
Dividends paid (per share FF 16)					(186.5)			(186.5)
Translation adjustments						189.3		189.3
Change in treasury stock		(246,413)					(28.7)	(28.7)
Balance at December 31, 1996	72,639,149	71,195,023	110.7	2,660.2	3,935.3	(455.2)	(94.7)	6,156.3
Capital stock issues	432,173	432,173	0.8	46.8				47.6
Conversion of debentures	287	287						—
Net income for 1997					558.6			558.6
Dividends paid (per share FF 17)					(184.5)			(184.5)
Translation adjustments						91.8		91.8
Change in treasury stock		(1,060,453)					(164.3)	(164.3)
					6.7			6.7
Balance at December 31, 1997	73,071,609	70,567,030	111.5	2,707.0	4,316.1	(363.4)	(259.0)	6,512.2
Capital stock issues	345,731	345,731	0.4	41.6				42.0
Conversion of debentures	507,470	507,470	0.8	63.2				64.0
Net income for 1998					598.1			598.1
Dividends paid (per share FF 18.50)					(203.1)			(203.1)
Translation adjustments						(141.0)		(141.0)
Change in treasury stock		(1,493,077)					(358.5)	(358.5)
Balance at December 31, 1998	73,924,810	69,927,154	112.7	2,811.8	4,711.1	(504.4)	(617.5)	6,513.7

At December 31, 1998 the negative translation adjustments regarding currencies in the euro zone amount to € 460 million.

The notes on pages F-7 to F-47 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Summary of significant accounting policies

The consolidated financial statements, which had previously been presented in French francs, are now presented in euros.

In 1998, 1997 and 1996, the consolidated financial statements were initially prepared in French francs and then translated to euros using the official exchange rate of 6.55957 French francs per euro in place as of January 1, 1999.

The comparability of the Group's consolidated financial statements from one year to another is not affected by the translation to euros. Additionally, the comparability of the Group's consolidated financial statements with the financial statements of other companies which are presented in euros in 1998 and which were previously presented in French francs in 1997 and 1996 is not affected. However, the Group's consolidated financial statements, as presented in euros, are not comparable with the financial statements of other companies which are presented in euros in 1998 but which were previously presented in a currency other than the French franc in 1997 and 1996.

A. Basis of consolidation

The consolidated financial statements of GROUPE DANONE (the "Company") and subsidiaries (together, the "Group") have been prepared in accordance with current French generally accepted accounting principles ("French GAAP"). Differences between accounting principles adopted by the Company under French GAAP and generally accepted accounting principles in the United States ("US GAAP") are summarized in Note 2.

All material subsidiaries in which the Group holds, directly or indirectly, a controlling interest are consolidated by including all assets, liabilities and income statement items of the related subsidiaries after elimination of intercompany transactions and results. Stockholders' equity excludes minority interests in consolidated companies, which are presented as a separate caption in the consolidated balance sheets.

Material affiliated companies in which the Group exercises, directly or indirectly, significant influence, are included in the consolidation using the equity method of accounting. Under the equity method, the Group recognizes as income its proportionate share of the investee's net income resulting in an increase to the equity investments and reduces such investment by the amount of dividends received.

In 1998, of the 158 companies included in the consolidation (1997: 156), 139 are fully consolidated (1997: 140) and 19 accounted for under the equity method (1997: 16). A list of subsidiaries and equity investee companies included in the consolidation at December 31, 1998, and of newly consolidated and de-consolidated companies, is shown in Note 28.

For companies acquired (or disposed of) during the year, only results for the period subsequent to the date of acquisition (or prior to the date of disposal) are included in the consolidated statement of income.

All significant intercompany accounts and transactions (including dividends) are eliminated in consolidation.

B. Foreign currency translation

Transactions denominated in foreign currencies

Accounts receivable and payable denominated in foreign currencies are generally recorded at the year-end exchange rate. Foreign exchange gains and losses resulting from the remeasurement of accounts

NOTE 1—Summary of significant accounting policies (Continued)

receivable and payable stated in foreign currencies and from settlement of such balances during the year are recognized in the income statement under "Other expense and income", except those arising from intercompany transactions of a long-term investment nature which are shown as a separate component of retained earnings under "Translation adjustments."

Translation of financial statements of foreign operations

General:

- balance sheet items are translated into French francs at the official year-end exchange rate;
- income statement items are translated at the average exchange rate for the year for each currency;
- exchange differences arising from the translation of the accounts of foreign companies into French francs are included in retained earnings under the heading "Translation adjustments" until the related foreign investments are sold or liquidated.

Where the functional currency is not the local currency (highly inflationary countries, or companies with the French franc as functional currency), the translation of the financial statements of such companies differs from that described above, as capital and intangible assets, long-term investments and stockholders' equity, and the related income statement items are translated at the appropriate historical exchange rates.

C. Intangible assets

Goodwill

The excess of the acquisition cost of a subsidiary over the Group's share in the acquired company's net assets at the date of acquisition is allocated to the appropriate balance sheet items based on the fair value of the assets acquired, including brands when relevant, and the liabilities assumed. The remaining unallocated amount is recorded as goodwill on the balance sheet.

Goodwill is amortized over a period from twenty to forty years, with the majority over forty years, on a basis which takes into consideration, as fairly as possible, the assumptions, objectives and prospects existing when the acquisition was made.

Management periodically evaluates whether changes have occurred that would require revision of the estimated useful lives of the assigned goodwill or would result in an impairment. In making such an evaluation, management estimates the expected future undiscounted cash flows of the business to which the goodwill relates.

Brands and other intangible assets

The brands which have been separately identified are only premium brands, with a value that is substantial and considered to be of a long term nature, sustained by advertising expenses.

The valuation of these brands is determined with the assistance of specialized consultants, taking into account various factors including brand recognition and earnings contribution. These brands, which are legally protected, are not amortized. In the event that the recorded value of a brand becomes permanently impaired, an allowance would be charged to income.

NOTE 1—Summary of significant accounting policies (Continued)

Purchased goodwill (“fonds de commerce”), licenses, patents and leasehold rights are recorded at cost. They are amortized on a straight-line basis over their estimated useful lives, not exceeding forty years.

D. Property, plant and equipment

Land, buildings, plant and equipment are recorded at historical cost. Depreciation is charged on a straight-line basis over estimated useful lives as follows:

- Rental property: 50 years;
- Buildings: 15 to 40 years;
- Machinery and equipment: 8 to 15 years;
- Other: 3 to 10 years.

Significant acquisitions under capital leases are treated as installment purchases. They are capitalized on the basis of the discounted value of future lease payments and depreciated over their estimated useful lives.

Interest on funds borrowed in order to finance capital investment programs prior to their completion is treated as a component of the cost of the related assets.

Consigned containers are recorded at cost. Depreciation is provided on a straight-line basis, based on available statistics for each company, over the shortest of the following estimated useful lives:

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

Changes in consignment rates (defined as the refundable rate per container) are recorded through an adjustment to the liability for deposits received for containers on consignment offset by an adjustment to the carrying value of consigned containers. Any loss arising on changes in consignment rates is charged to income over the life of containers involved.

E. Long-term investments

Long-term investments represent shares held in non-consolidated companies. They are carried at cost (including acquisition costs, if any), and after deduction of appropriate provisions. Dividends are recorded as income when received.

F. Inventories

Inventories are stated at the lower of cost or market value. Cost is primarily determined using the weighted average method.

G. Marketable securities

Marketable securities are carried at the lower of cost or market. At the end of 1998 and 1997, the cost approximates the market value.

NOTE 1—Summary of significant accounting policies (Continued)

H. Cash and cash equivalents

Cash equivalents consist of highly liquid investments, debt instruments and time deposits with a maturity of three months or less at date of purchase. Cash equivalents are carried at cost which approximates market value.

I. Treasury stock

GROUPE DANONE's capital stock held by consolidated Group companies is shown as a reduction of total stockholders' equity under "Treasury stock", at historical cost.

J. Grants and subsidies

Capital investment grants are included in the balance sheet under "Provisions and long-term liabilities". They are released to income (under "Other expense and income") on a straight-line basis over the estimated useful lives of the related fixed assets.

Other grants and subsidies are included in "Other expense and income" in the year in which the Group becomes entitled to receive them.

K. Deferred income taxes

Deferred income taxes are recognized for all differences between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except those differences related to:

- goodwill;
- brand names, because these assets, although identifiable, cannot be sold separately;
- unremitted earnings of equity investees, because management believes that their taxation would not be significant at Group level.

Provision is made for irrecoverable withholding taxes on foreseen distributions by consolidated companies. Tax credits available to certain consolidated companies on foreseen distributions are also taken into account. Tax rates applicable to future periods are used to calculate year-end deferred income taxes.

Deferred tax assets are reduced by a valuation allowance when it is estimated that it is more likely than not that such benefit will not be realized.

L. Retirement Indemnities, pension costs and post-retirement healthcare benefits

The Group's projected benefit obligations relating to defined benefit pension and retirement indemnity schemes are calculated using actuarial assumptions which take into account the economic situation of each country.

These obligations are covered either by provisions recorded in the balance sheet over the period the rights are acquired or by plan assets to which the Group contributes, and such contributions are recorded as expenses.

The Group's obligations relating to post-retirement benefits are recognized over the period the benefits are earned. Accrued obligations are based on actuarial valuations which take into account assumptions regarding mortality and future healthcare cost trends.

NOTE 1—Summary of significant accounting policies (Continued)

M. Financial instruments

The Group uses derivative financial instruments, mainly through specialized subsidiaries, for the purpose of hedging currency and interest rate exposures which exist as part of ongoing business operation. As a policy, the Group does not engage in speculative or leveraged transactions, nor does the Group hold or issue financial instruments for trading purposes.

The Group enters into interest rate swap agreements to manage its interest rate exposure. Any interest rate differential is recognized as an adjustment to interest expense over the term of the related underlying debt.

With respect to exchange rate exposure which relates to operating activities, the Group enters into forward exchange contracts and options; gains and losses resulting from these instruments are recognized over the same period as the underlying hedged transactions.

Financial instruments that do not meet accounting criteria qualifying them as hedges are recorded at fair market value, and changes in fair value are reflected in the income statement. The number and value of such instruments are not significant.

N. Net sales

Revenues are recognized upon shipment. Net sales are stated after deduction of sales and excise tax. Net sales are also stated net of trade discounts and customer allowances, except for one-off promotional discounts to customers which are treated as selling expenses.

O. Advertising expenses

Advertising costs are charged to expense as incurred, in the amount of € 592.6 million, € 608.1 million, and € 526.6 million for 1998, 1997 and 1996, respectively.

P. Research and Development

Research and development costs are charged to expense as incurred.

Q. Non-recurring items

Non-recurring expense and income comprise material items which because of their unusual or non-recurring nature cannot be considered as inherent to the operating activities of the Group, such as capital gains and losses on disposals of companies, restructuring costs or exceptional write-downs of intangible assets.

R. Earnings per share

Basic earnings per share is based on the weighted average number of shares outstanding during the year after deducting GROUPE DANONE's treasury stock held by consolidated subsidiaries.

Diluted earnings per share is based on the average number of shares outstanding after assumed conversion of all common stock equivalents and convertible debentures and taking into account the related theoretical reduction in interest charges, net of tax.

NOTE 1—Summary of significant accounting policies (Continued)

S. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

T. Reclassification

Certain amounts in the 1997 and 1996 accompanying financial statements have been reclassified from previously issued financial statements to conform to the 1998 presentation.

U. Effect of new accounting pronouncements

In 1998, Statement of Financial Accounting Standards (“SFAS”) 133, “Accounting for Derivative Instruments and Hedging Activities,” was issued. This standard is effective for fiscal years beginning after June 15, 1999, and establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded in earnings or other comprehensive income, based on whether the instrument is designated as part of a hedge transaction and, if so, the type of hedge transaction. The Company is currently assessing the impact of the adoption of this statement.

SFAS 132, “Employers’ Disclosures About Pensions and Other Postretirement Benefits” which was adopted by the Company for its annual report for the year ended December 31, 1998, expands or modifies disclosures and has no impact on the company’s results of operations, financial condition or cash flows.

SFAS 131 “Disclosures about Segments of an Enterprise and Related Information” requires that detailed information be presented for each operating segment used internally by management for allocating resources and assessing performance. This Statement was also adopted by the Company for its annual report for the year ended December 31, 1998. The previously reported Western Europe segments have been expanded to worldwide operating segments following a change in management structure in 1998. Information for prior years has been modified to conform to the new presentation.

SFAS 130 “Comprehensive Income” establishes standards for reporting and display of comprehensive income and its components. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Under this standard, translation adjustments and some other elements such as unrealized gains and losses on available-for-sales securities, are included in comprehensive income. This Statement was also adopted by the Company for its annual report for the year ended December 31, 1998.

SFAS 128 “Earnings Per Share” was adopted by the Company for its annual report for the year ended December 31, 1997. The implementation of SFAS 128 did not modify the 1996 and 1995 earnings per share figures.

In March 1998, the AICPA issued SOP 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”. SOP 98-1 requires capitalization of external and certain internal costs incurred to obtain or develop internal-use computer software during the application development stage. The Group intends to adopt the provisions of SOP 98-1 effective January 1, 1999. The adoption of SOP 98-1 is not expected to have a material impact on the Group’s consolidated financial statements.

NOTE 2—Summary of differences between accounting principles followed by the Company and United States generally accepted accounting principles

The accompanying financial statements have been prepared in accordance with French GAAP which differ in certain significant respects from accounting principles generally accepted in the United States ("US GAAP").

Description of differences

These differences have been reflected in the financial information given in the paragraph below and mainly relate to the following items:

1. Brand names amortization

Under French GAAP, the brand names which have been separately identified on the acquisition of subsidiaries are not amortized (see Note 1.C). Under US GAAP, intangible assets such as brand names must be amortized over the period estimated to be benefited, which may not exceed forty years. For the purpose of reconciliation to US GAAP, brand names are amortized over a forty-year period.

2. Goodwill relating to the acquisition of foreign subsidiaries

Goodwill relating to the acquisition of foreign subsidiaries are translated in the Group's accounts using an historical exchange rate when US GAAP require the use of the closing exchange rate. Under US GAAP, the difference is part of the "Translation adjustments" component of stockholders' equity.

Amortization of goodwill is computed on the basis of gross values translated at the historical exchange rate. Under US GAAP, the annual amortization charge is translated at the average exchange rate during the year.

3. Stock options

The Company generally grants to Group's eligible employees a discount from the market price for shares subscribed pursuant to share subscription or share purchase plans. Accounting for this discount is not addressed by French GAAP and these transactions have no effect on the statement of income. Under US GAAP, the discount, measured at the date of grant, is considered as compensation to employees. The effect of the decrease to retained earnings and increase to stockholders' equity for the amount of compensation expense is reflected as a US GAAP adjustment and shown below.

4. Available-for-sale securities

Under French GAAP, the unrealized gains and losses on available-for-sale securities are neither recorded by companies fully integrated, nor by equity investees. Under US GAAP, available-for-sale securities are carried at market value, with the unrealized result recorded directly in other comprehensive income.

5. Deferred income taxes on brand names

Deferred income taxes on brand names are not recorded, while the goodwill arising on the acquisition of the related subsidiaries is not increased by the amount of such deferred tax liability. Under US GAAP, a deferred tax liability computed at the local tax rate applicable to long-term capital gains is recorded, and

NOTE 2—Summary of differences between accounting principles followed by the Company and United States generally accepted accounting principles (Continued)

goodwill is increased by the same amount. The deferred tax liability is reversed to profit as the related intangible asset is amortized, whereas the amortization charge of the additional goodwill matches this profit.

Had US GAAP been applied, deferred income taxes (long-term liabilities) and goodwill would be increased by € 401 million as of December 31, 1998 (€ 424 million as of December 31, 1997).

Goodwill amortization, offset by an equal amount of deferred tax benefit of € 12 million, € 13 million and € 15 million for 1998, 1997 and 1996, respectively, exists under US GAAP.

6. Purchase accounting—Fair value

Purchase accounting applied to a less than wholly-owned subsidiary results in all of the assets and liabilities of the purchased subsidiary being recorded at fair values when the parent purchases its majority interest, and the minority interest in the subsidiary net assets are adjusted to reflect its share of the revalued net assets (excluding goodwill).

Under US GAAP, no write-up in fair value of the net assets of the subsidiary related to the minority interest should occur. Accordingly, the write-up of fair values in brand names related to the minority interest should be reversed, thus decreasing brand names and minority interest by € 205 million as of December 31, 1998 (€ 227 million as of December 31, 1997). The remainder of the write-ups to fair value in other net assets related to the minority interest is not considered material.

7. Comprehensive income

Comprehensive income is the term used to define all non-owner changes in shareholders' equity. Comprehensive income is a concept not addressed by French GAAP. Under US GAAP, comprehensive income includes, in addition to net income:

- additional paid-in capital related to compensation cost on shares issued to employees
- net unrealized holding gains/losses arising during the period on available for sale securities
- movements in cumulative translation adjustments

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2—Summary of differences between accounting principles followed by the Company and United States generally accepted accounting principles (Continued)

Reconciling statements

Reconciliation of Net Income—Determination of Comprehensive Income and Reconciliation of Stockholders' equity

The reconciliation of net income from French GAAP to US GAAP, together with the reporting of US GAAP comprehensive income, and a reconciliation of stockholders'equity from French GAAP to US GAAP follows:

(All amounts in millions of euros except per share data)	Year ended December 31, 1996	1997	1998
Net income per French GAAP	516	559	**598**
US GAAP adjustments:			
1. Brand names amortization	(46)	(46)	(45)
2. Amortization of goodwill of foreign subsidiaries	7	4	4
3. Compensation costs under stock options plans	(5)	(4)	(3)
Net income with US GAAP adjustments before tax effect, and minority interests	472	513	554
Tax effect of the above adjustments	(8)	(8)	(8)
Minority interests effect of above adjustments	8	7	7
Net income according to US GAAP	**472**	**512**	**553**
Basic earnings per share according to US GAAP	6.63	7.22	7.85
Diluted earnings per share according to US GAAP	6.51	7.05	7.58
Net income according to US GAAP	**472**	**512**	**553**
Other comprehensive income, net of tax:			
• Additional paid-in capital related to compensation costs on shares issued to employees	5	4	3
• Change in net unrealized gains/losses on available-for-sale securities	6	18	39
less: Reclassification adjustment for net gains/losses included in net income	—	(8)	(6)
• Change in cumulative translation adjustments	285	164	(210)
Other comprehensive income according to US GAAP	295	177	(174)
Comprehensive income according to US GAAP	**767**	**689**	**379**
Stockholders' equity per French GAAP	**6,156**	**6,512**	**6,514**
US GAAP adjustments:			
1. Brand names amortization	(259)	(306)	(342)
2. Amortization of goodwill of foreign subsidiaries	(185)	(106)	(179)
3. Unrealized gains on available-for-sale securities	45	66	105
Tax effect of the above adjustments	(51)	(70)	(84)
Minority interests effect of above adjustments	33	38	43
Stockholders' equity per US GAAP	5,739	6,134	6,057

NOTE 2—Summary of differences between accounting principles followed by the Company and United States generally accepted accounting principles (Continued)

US GAAP statement of changes in stockholders' equity

(All amounts in millions of euros)	
Balance as of December 31, 1995	**5,047**
Capital stock issues	140
Dividends paid	(186)
Movements on treasury shares	(29)
Net income under US GAAP for 1996	472
Other comprehensive income under US GAAP for 1996	295
Balance as of December 31, 1996	**5,739**
Capital stock issues	48
Dividends paid	(184)
Movements on treasury shares	(158)
Net income under US GAAP for 1997	512
Other comprehensive income under US GAAP for 1997	177
Balance as of December 31, 1997	**6,134**
Capital stock issues	42
Dividends paid	(203)
Conversion of debentures	64
Movements on treasury shares	(359)
Net income under US GAAP for 1998	553
Other comprehensive income under US GAAP for 1998	(174)
Balance as of December 31, 1998	6,057

Description of other differences

Presentation differences—Operating income

Under French GAAP, operating income excludes non-recurring items discussed in Note 3. US GAAP requires that operating income be reduced for such items.

Disclosure is made in Note 3 under French GAAP as to the after-tax effect that non-recurring charges had on diluted earnings per share. US GAAP does not allow disclosure of the per share effects of non-recurring charges which do not qualify as extraordinary items, and such non-recurring charges do not qualify as extraordinary items under US GAAP.

Presentation differences—Current portion of provisions and long-term liabilities

All the provisions and accrued liabilities that, for most of them, require management estimates and are not short-term operating accrued expenses are recorded by the Company as "Provisions and long-term liabilities." The current portion of such provisions is therefore included as "non-current." Under US GAAP, the current portion would be presented as a current liability. The related amounts are not significant in regard to total current and non-current liabilities.

NOTE 2—Summary of differences between accounting principles followed by the Company and United States generally accepted accounting principles (Continued)

Presentation differences : Cash flow statement

Under US GAAP, a subtotal "Cash flows from Operations" would not be shown.

Presentation differences—Additional disclosures required by SFAS 115

On December 31, 1998 and 1997 all long-term investments, other non-current assets and marketable securities held by the Group and categorized as available-for-sale consisted of equity securities. On December 31, 1998 and 1997 the Group had no held-to-maturity securities. On December 31, 1998 and 1997 available-for-sale securities consisted of the following:

	At December 31,	
(All amounts in millions of euros)	1997	1998
Securities held by consolidated companies:		
Cost	476	647
Gross unrealized gains*	63	95
Estimated fair value	539	742
Securities held by companies consolidated by the equity method:		
Group's share in net unrealized gains	3	10

* Gross unrealized gains and losses are stated before any tax effect.

On December 31, 1998 and 1997, these investments were included in the following captions on the consolidated balance sheet.

	At December 31,	
(All amounts in millions of euros)	1997	1998
Long-term investments	389	593
Other non-current assets	58	63
Marketable securities	92	86
	539	742

For the years ended December 31, 1998, 1997 and 1996 gross realized gains and losses on available-for-sale securities were not material. The cost of securities sold is based on the average cost method.

Unaudited pro forma financial data disclosed

Pro forma financial data are disclosed in Note 5 of the accompanying consolidated financial statements, in a format that management believes is relevant to the reader to make an informed judgment about the accounts. The provision of such pro forma information better reflects the Group's organic growth because:

- the Group's external growth through acquisitions is a factor that generates additional revenues and costs every year, and
- the Company holds subsidiaries in various countries, where changes in exchange rates affect consolidated revenues and earnings reported in French francs.

NOTE 2—Summary of differences between accounting principles followed by the Company and United States generally accepted accounting principles (Continued)

The method used to determine the pro forma information disclosed in Note 5 is different from the method which is required to be used under US GAAP, which provides that the exchange rates existing in each year are used to determine the pro forma information as opposed to the method used in Note 5 which results in pro forma effect given in the prior year related to exchange rate changes which occurred in the subsequent year. In addition, the pro forma presentation provided in Note 5 includes "Net income before non-recurring items", while such items do not qualify as extraordinary under US GAAP.

Pro forma information on a US GAAP basis would only result in providing information on the effects of acquired businesses, which are not significant so as to require pro forma disclosure as stipulated in APB Opinion 16.

NOTE 3—Non-recurring items

The following non-recurring items in 1998 resulted in a € 22 million decrease in the consolidated income after tax and minority interest:

- € 8 million gain on the sale of the fresh ready-to-serve dishes in France, the pasta and canned ready-to-serve dishes in Germany and clinical nutrition in France;
- Provisions relating to restructuring dairy products operations in Spain and Italy, biscuits operations in France and Great-Britain and grocery products operations in Germany were recorded for € 52 million as of December 31, 1998.

The following non-recurring items in 1997 resulted in a € 6 million increase in the consolidated income before tax, and a € 11 million increase in the consolidated income tax expense as certain charges are not tax deductible:

- in December 1997, the Group disposed of its activities in pasta, canned-ready-to-serve dishes, sauces and soups in France, Belgium and Italy, through the sale of Liebig to Campbell Soup Company (a US group), and of Amora-Maille, Panzani William Saurin, and Agnesi to a group of financial investors led by Paribas Affaires Industrielles. In May 1997, the Group sold its 50% interest in the grocery company Starlux to CPC (a US group). In December 1997, the confectionery company Pie Qui Chante was sold to Cadbury Schweppes (a British group). The total gains on disposals of these companies amount to € 167 million.

In addition, the ready-to-serve dishes activities of Best in New-Zealand were contributed to a new company, jointly held with a local producer, and in which the Group holds a minority interest. This transaction resulted in a € 40 million loss.

In 1997, the contribution of divested businesses to the Group's consolidated net sales and operating income was € 1,090 million and € 56 million, respectively, mainly in the "Grocery Products" division;

- as a result of the review of the December 31, 1997 fair values of the remaining pasta businesses in Germany and Spain, provisions for impairment of tangible and intangible assets and for restructuring were recorded in the amount of € 109 million;
- additional provisions relating to restructuring operations in progress as of December 31, 1997 were also recorded for € 12 million as of December 31, 1997.

NOTE 4—Investments in subsidiaries and affiliated companies

In 1998, the principal investments in subsidiaries and affiliated companies comprised:

- acquisition of the Aquapenn Company (Mineral Water in the United States);
- additional interests in Cokoladovny (Biscuits in the Czech Republic) and Bagley (Biscuits in Argentina);
- acquisition of 40% of Aqua (Mineral Water in Indonesia);
- acquisition of 60% of Shenzhen Health Drinks (Water in China);
- acquisition of 12.45% of Yeo Hiap Seng (Beverage operations in Singapore);
- acquisition of minority interest in the company Danone Asia.

In 1997, the principal investments in subsidiaries and affiliated companies comprised:

- the acquisition in Argentina of Mastelone Group's yogurt operations by Lacteos Longchamps (a company in which the Group has a 51% interest);
- additional interests in Campineira which is now 100% owned by the Group, in San Miguel (beer in Spain), Wahaha and Dongxihu (beverage operations in China);
- the acquisition of a 50% interest in Hayat (mineral water in Turkey), Stial and Socoges (fresh dairy products in Tunisia).

In 1996, the principal investments in subsidiaries and affiliated companies comprised:

- the acquisitions of Aguas Minerales (mineral water in Argentina), Haomen, Wahaha and of Wuhan Dongxihu (respectively beer, dairy beverages and beer) in the People's Republic of China;
- the acquisition of non-controlling interests in Aymoré (biscuits in Brazil), Clover (fresh dairy products in South Africa), and Strauss (fresh dairy products in Israël);
- additional interests in Galbani, San Miguel, Panzalim, Alken-Maes, BE International Foods, Bonafont and in beer and other beverages distribution companies.

NOTE 5—Unaudited pro forma financial data (prepared pursuant to French GAAP and not in accordance with US GAAP; see Note 2—Unaudited pro forma financial data disclosed, page F-19)

The unaudited pro forma information provided below has been included solely because such information is made available publicly in France. Such unaudited pro forma information is not intended to be presented in accordance with Article 11 of S-X under the Securities and Exchange Act of 1934, as amended, and is not in accordance with US GAAP.

The comparison of 1998 and 1997 results is affected by:

- exchange rate fluctuations;
- changes in companies included in the consolidation:
    - initial consolidation from January 1, 1998 of Danone Clover (Dairy products in South Africa) and Shenzhen Health Drinks (Water in China);

NOTE 5—Unaudited pro forma financial data (prepared pursuant to French GAAP and not in accordance with US GAAP; see Note 2—Unaudited pro forma financial data disclosed, page F-19) (Continued)

- initial consolidation in the equity method of the following affiliates: Stial (Dairy products in Tunisia), Danone Hayat (Water in Turkey) and Aqua (Water in Indonesia);
- the divestitures outlined in Note 3.

The 1997 unaudited pro forma figures given below are presented on the basis of the same Group structure, exchange rates as for 1998. They are therefore comparable with the 1998 figures, but not necessarily indicative of actual results:

(In millions of euros)	1997 (pro forma)	1998
Net sales	12,360.4	12,935.0
Operating income	1,164.5	1,293.2
Net income	523.8	598.1

The comparison of 1997 and 1996 results is affected by:

- exchange rate fluctuations;
- an increase from 36.66% to 41.66% of the French income tax rate;
- changes in companies included in the consolidation:
  - initial consolidation from January 1, 1997 of Bonafont, Dongxihu, and of the yogurt operations in Argentina;
  - initial consolidation of the following equity affiliates: Centrale Laitière du Maroc and Strauss;
  - increase in the Group's interest in San Miguel and Campineira;
  - the divestitures outlined in Note 3.

The 1996 unaudited pro forma figures given below are presented on the basis of the same Group structure, French income tax rate and exchange rates as for 1997. They are therefore comparable with the 1997 figures, but not necessarily indicative of actual results:

(In millions of euros)	1996 (pro forma)	1997
Net sales	13,188.4	13,488.1
Operating income	1,150.2	1,224.0
Net income	485.5	558.6

NOTE 6—Property, plant and equipment

(In millions of euros)	At December 31, 1997	At December 31, 1998
Land	284.8	278.7
Buildings and rental property	1,988.7	1,993.9
Machinery and equipment	5,277.9	5,433.6
Consigned containers	352.3	359.3
Vehicles, office furniture and other	486.5	504.9
Capital assets in progress	379.1	298.1
Total	8,769.3	8,868.5
Less accumulated depreciation	(4,966.5)	(5,113.1)
Net Property, Plant and Equipment	3,802.8	3,755.4

NOTE 7—Intangible assets

(In millions of euros)	At December 31, 1997	At December 31, 1998
Goodwill	4,131.7	4,157.3
Brand names	1,839.9	1,786.7
Other	550.3	594.4
Total gross intangible assets	6,521.9	6,538.4
Goodwill	(728.4)	(763.3)
Other intangible assets	(370.0)	(403.7)
Accumulated amortization	(1,098.4)	(1,167.0)
Net intangible assets	5,423.5	5,371.4

Goodwill

(In millions of euros)	Year ended December 31, 1997	Year ended December 31, 1998
Net book value as at January 1	3,477.4	3,403.3
Additions during the year	383.0	136.9
Decreases during the year	(350.5)	(42.8)
Amortization	(106.6)	(103.4)
Net book value as at December 31	3,403.3	3,394.0

NOTE 7—Intangible assets (Continued)

Additions and decreases during the year mainly result from newly consolidated companies and from divestitures (refer to Notes 2 and 4).

Current year amortization of € 90 million (€ 94 million for 1997) is recorded as "Other expense and income" for consolidated companies while current year amortization of € 13 million (€ 11 million in 1997) is recorded as "Equity in net earnings of affiliated companies" for companies accounted for under the equity method.

Goodwill in the amount of € 417 million and € 365 million at the end of 1998 and 1997, respectively, relates to equity investees. Under U.S. GAAP, such goodwill would be recorded under "Equity in affiliated companies".

There is no individual goodwill item representing more than 5% of the total, with the exception of Galbani, Lu and Volvic, which in aggregate amount to a net of approximately € 1.3 billion as of December 31, 1998.

Brand names

Divestitures resulted in a € 16 million decrease in brand names in 1998, and the remaining variation results from the effect of exchange rates.

Divestitures resulted in a € 29 million decrease in brand names in 1997, and the remaining variation results from the effect of exchange rates.

NOTE 8—Long-term investments in non-consolidated companies

	At December 31,	
(In millions of euros and in net book value)	1997	1998
Acquired previous year-end, and consolidated at the beginning of subsequent year	32.9	121.8
Subsidiaries (more than 50% owned)	156.4	173.6
Affiliates (20% to 50% owned)	10.5	7.6
Other investments (less than 20% owned)	130.4	194.7
Net long-term investments	330.2	497.7

Net long-term investments in non consolidated subsidiaries and affiliates mainly comprise investments in companies that are not consolidated due to their size, in particular, beer and other beverages distribution companies.

There were no disposal of long-term investments in non-consolidated companies resulting in a significant gain or loss.

NOTE 9—Equity in affiliated companies

(In millions of euros)	Year ended December 31, 1997	1998
Net book value as at January 1,	405.1	406.4
New affiliated companies	35.6	29.6
Affiliated companies disposed of during the year	(41.9)	—
Net earnings	32.2	25.3
Dividends paid	(15.9)	(16.5)
Other	(8.7)	(11.1)
Net book value as at December 31,	406.4	433.7

Other changes result from movements in exchange rates, and in the companies included in the consolidation (refer to Note 5).

Summarized financial information for all investments accounted for under the equity method is as follows (figures are for 100% of each of the companies involved):

(In millions of euros)	Year ended December 31, 1997	1998
Net sales:		
—European Union	1,346.7	1,521.0
—Rest of the World	1,490.2	1,628.8
Net income	162.5	133.8
Stockholders' equity	1,756.7	1,777.7

NOTE 10—Inventories

(In millions of euros)	At December 31, 1997	1998
Goods purchased for resale	119.5	96.8
Raw materials and supplies	306.7	280.5
Semi-finished goods and work in process	70.3	65.7
Finished goods	426.6	446.7
Non-returnable containers	41.0	47.9
Less allowances	(36.6)	(34.0)
Net inventories	927.5	903.6

NOTE 11—Trade and other accounts receivable

Trade accounts receivable

(In millions of euros)	At December 31, 1997	At December 31, 1998
Trade accounts receivable	1,740.7	1,669.2
Notes receivable	125.5	152.6
Less allowance for doubtful receivable	(110.0)	(101.1)
Net trade accounts receivable	1,756.2	1,720.7
of which unmatured discounted bills	8.7	8.1

Movements in the allowance for doubtful receivables are as follows:

(In millions of euros)	Year ended December 31, 1997	Year ended December 31, 1998
Balance as at January 1	101.7	110.0
Charge (net of reversal) of the year	31.7	22.5
Utilization	(24.5)	(27.9)
Translation differences	1.1	(3.5)
Balance as at December 31	110.0	101.1

The Group considers that its exposure to concentration of credit risk is limited, due to the large number of customers located in diverse geographical areas, and that there is no pronounced dependence on one single customer.

Other accounts receivable and prepaid expenses

(In millions of euros)	At December 31, 1997	At December 31, 1998
State and local authorities	272.4	263.9
Interest receivable	29.9	29.3
Prepaid expenses	54.9	59.3
Advance payments to suppliers	47.7	42.8
Other	309.2	326.1
Other accounts receivable and prepaid expenses	714.1	721.4

NOTE 12—Increase in capital stock and capital surplus and retained earnings

	Year ended December 31,		
	1996	1997	1998
Dividends converted into the Company's shares	126.2	—	—
Conversion of debentures and other changes	13.5	47.6	106.0
TOTAL	139.7	47.6	106.0

Due to the effect of consolidation adjustments to the financial statements of consolidated companies and of the laws in force in the different countries where the Company operates, the amount legally distributable by each subsidiary may be different from the amount of its reported retained earnings.

In accordance with French law, dividends cannot exceed the total of the profit of the year and distributable earnings of the Company.

NOTE 13—Stock Options

Under the Company's stock option plans, officers and other employees may be granted by the Board of Directors options to subscribe to newly issued shares, or to purchase existing shares of the Company's common stock. Stock options are granted at an exercise price no less than the minimum value authorized under French law, and expire not later than eight years from the date of grant.

The May 30, 1990, May 21, 1992, May 11, 1995 and May 14, 1997 Extraordinary General Meetings of Shareholders authorized the Board of Directors to grant stock options, during a period ranging between two and five years and up to a limit of 1% of the share capital of GROUPE DANONE.

The December 31, 1998 active stock subscription and purchase option plans are summarized below:

Year of issue of plan	Range of subscription or purchase price (in euros)	Outstanding and exercisable options at December 31, 1998
1993	107.2-111.4	122,440
1994	98.5-117.1	97,850
1995	91.5-118.8	242,495
1996	99.1-110.2	270,700
1997	128.2-133.5	225,100
1998	156.0-232.3	305,500
Total		1,264,085

NOTE 13—Stock Options (Continued)

The following table summarizes transactions during 1998 and 1997, including balances from previous plans:

(Number of shares)	At December 31, 1997	At December 31, 1998
Balance as at January 1	1,450,135	1,170,267
Granted	233,500	305,500
Exercised	(336,763)	(206,882)
Surrendered	(176,605)	(4,800)
Balance as at December 31	1,170,267	1,264,085

NOTE 14—Convertible bonds

Convertible bonds represent:

- the € 504 million debt issued by GROUPE DANONE in January 1990 at an annual rate of 6.6%. The € 13.7 per bond redemption premium is charged to income on a straight-line basis over the ten-year life of the debt. The bonds initially maturing in January 2000, and which could be converted at any time at the rate of 1.1 ordinary share per bond, were redeemed by anticipation as of January 1, 1999.
- the € 610 million debt issued by GROUPE DANONE in October 1993. These bonds were issued at their principal amount of € 154.7 each, and bear interest at an annual rate of 3%. The € 34.1 per bond redemption premium is charged to income on a straight-line basis over the eight-year life of the debt. The bonds mature on January 1, 2002, subject to the option available to the Company to redeem the bonds early if the share price passes certain thresholds. The bonds may be converted at any time, at the rate of one ordinary share per bond.

NOTE 15—Long-term debt

Classification by nature

(In millions of euros)	At December 31, 1997	At December 31, 1998
Debentures (average interest rate: 7%—1997 : 7.0%)	851.6	863.6
Bank loans, other debt and employee profit-sharing debt (average interest rate: 3.4%—1997 : 3.6%)	1,549.2	1,610.9
Less short-term portion	(211.9)	(421.3)
Long-term debt	2,188.9	2,053.2

NOTE 15—Long-term debt (Continued)

Classification by year of maturity and by currency

Year of maturity	At December 31, 1997	Year of maturity	At December 31, 1998	Currency	At December 31, 1997	At December 31, 1998
		(In millions of euros)				
1999	335.2	2000	216.6	French francs	2,157.0	2,009.4
2000	157.2	2001	315.5	Indian rupee	—	10.1
2001	317.4	2002	216.3	Florin	—	9.5
2002	217.1	2003	121.5	Chinese renminbi	11.9	9.1
2003-2007	552.2	2004-2008	578.7	Italian lira	8.0	5.0
After 2007	594.4	After 2008	598.2	Belgian franc	3.7	3.2
No fixed maturity	15.4	No fixed maturity	6.4	Singapore dollar	1.1	1.7
				US Dollar	1.8	—
				Spanish peseta	1.7	1.2
				Sterling pound	2.0	0.9
				Other	1.7	3.1
Total	2,188.9	Total	2,053.2	Total	2,188.9	2,053.2

At December 31, 1998, the Group held commitments from banks and other financial institutions for approximately € 2,506 million (€ 2,736 million at December 31, 1997) in connection with medium-term lines of credit over and above the debt recorded in the balance sheet at that date.

As part of such long-term commitments from lenders, the Group utilized the equivalent of € 592 million at December 31, 1998 (€ 589 million at December 31, 1997). This debt is classified as long-term debt.

NOTE 16—Retirement Indemnities, pensions and post-retirement healthcare benefits

The Group contributes to retirement benefit schemes in conformity with the laws and usual practices of countries where the Group operates. As a result of contributions paid under such schemes to private or state sponsored pension funds, the companies have no actuarial liability.

The Group is also responsible for supplementary retirement schemes, contractual commitments for termination 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.

French companies

The commitments of French companies were calculated for 1998 and 1997 in conformity with FAS 87, based on the following key actuarial assumptions:

	1997	1998
Personnel turnover and mortality		
Retirement age, depending upon each employee's category;	between 60 and 65 years	between 60 and 65 years
Discount rate applied;	between 4.5% and 5%	between 4.5 and 5%
Salary growth rate, depending on the age and category of each employee;	between 3.5% and 4%	between 3.5% and 4%
Rate of return of plan assets.	16%	10%

NOTE 16—Retirement Indemnities, pensions and post-retirement healthcare benefits (Continued)

Non-French companies

The present value of non-French companies' obligations is determined on the basis of recent actuarial valuations, using actuarial assumptions which reflect the legal, economic and monetary circumstances in each country, and as follows:

	1997	1998
Personnel turnover and mortality		
Retirement age, depending upon each employee's category;	between 60 and 65 years	between 60 and 65 years
Discount rate applied;	between 2.5% and 9%	between 2% and 7.5%
Salary growth rate, depending on the age and category of each employee;	between 1.5% and 6%	between 1.6% and 5.5%
Rates of return of plan assets ranged.	between 2% and 27%	between 5% and 9%

The following table reconciles the funded status of the companies' plans with the provision recorded in the consolidated balance sheet at December 31, 1997 and 1998:

	At December 31,			
	1997		1998	
(In millions of euros)	France	Other countries	France	Other countries
Accumulated benefit obligation	218.0	551.3	238.9	602.5
Projected benefit obligation	248.5	636.3	258.1	650.8
Fair value of plan assets	59.6	444.6	61.0	463.6
Projected benefit obligation in excess of plan assets	188.9	191.7	197.1	187.2
Actuarial differences and modifications of plans	29.4	(25.8)	25.6	(5.5)
Accrued pension cost recognized in the financial statements	159.5	217.5	171.5	192.7

Post-retirement healthcare accrued benefits are included under the projected benefit obligation, as the related amount is not significant (€ 9.5 million and € 9.2 million as of December 31, 1998 and 1997, respectively).

NOTE 16—Retirement Indemnities, pensions and post-retirement healthcare benefits (Continued)

Movements during the year, including the net periodic pension cost, are analyzed as follows:

(In millions of euros)	Projected benefit obligation	Fair value of plan assets	Unrecognized gains or losses	Net accrued pension
Balance as at January 1,1998	884.8	504.2	3.6	377.0
Net periodic pension cost				
• Service cost	41.8			41.8
• Interest cost	31.0			31.0
• Return on plan assets	—	24.4		(24.4)
• Amortization of actuarial gains and losses	—		(5.5)	5.5
Pension benefits payments to employees	(47.3)	(19.5)	—	(27.8)
Contributions made to plan assets	—	13.6	—	(13.6)
Unrecognized gains or losses	13.4	3.3	10.1	—
Effect of exchange rate changes	(12.3)	(12.1)	—	(0.2)
Other	(2.5)	10.7	11.9	(25.1)
Balance as at December 31, 1998	908.9	524.6	20.1	364.2

The other movements include in particular contributions paid by employees to funds, the reclassification in "Provisions and long-term liabilities" of retirement indemnities provisions related to restructuring plans, as well as the reclassification of prepaid retirement indemnities.

The components of the net periodic pension cost for 1998, 1997 and 1996 are as follows:

(In millions of euros)	Year ended December 31, 1996	1997	1998
Service cost	19.2	44.5	41.8
Interest cost	36.6	44.8	31.0
Return on plan assets	(43.7)	(51.2)	(24.4)
Net amortization and deferral	4.3	18.1	5.5
Net periodic pension cost	16.4	56.2	53.9

NOTE 17—Provisions and long-term liabilities

(In millions of euros)	At December 31, 1997	1998
Restructuring	124.9	31.1
Long-term accrued liabilities	304.0	296.1
Net deferred tax (asset) / liability long-term	(13.4)	37.3
Capital investment grants	23.5	22.8
Provisions and long-term liabilities	439.0	387.3

NOTE 17—Provisions and long-term liabilities (Continued)

Restructuring

The schedule below shows the major items covered by the restructuring provisions, with the related movements:

(In millions of euros)	Employees: redundancy & other benefits	Write-down of plants & factories	Ancillary costs	Total
Balance as at January 1, 1996	234.0	58.7	74.4	367.1
Utilization	(99.1)	(22.9)	(27.1)	(149.1)
Amounts recorded in connection with purchase accounting for acquired businesses	6.1	1.5	0.5	8.1
Translation differences	3.0	1.5	2.0	6.5
Balance as at December 31, 1996	144.0	38.8	49.8	232.6
Charge	37.0	—	11.9	48.9
Utilization	(97.4)	(24.9)	(45.1)	(167.4)
Amounts recorded in connection with purchase accounting for acquired businesses		8.2		8.2
Translation differences	1.8	0.5	0.3	2.6
Balance as at December 31, 1997	85.4	22.6	16.9	124.9
Charge	20.5	21.3	10.2	52.0
Utilization	(84.2)	(39.2)	(23.3)	(146.7)
Amounts recorded in connection with purchase accounting for acquired businesses	1.5	—	—	1.5
Translation differences	(0.3)	(0.3)		(0.6)
Balance as at December 31, 1998	22.9	4.4	3.8	31.1

Long-term accrued liabilities

Long-term accrued liabilities mainly include:

- the € 58 million claims reserves established by Danone Ré, the Group's reinsurance company;
- the € 77 million after tax accrued convertible bonds redemption premium (also refer to Note 14);
- various provisions estimated necessary to cover the specific risks and charges incurred in the normal course of business.

NOTE 18—Trade accounts and notes payable—Accrued expenses and other current liabilities

Trade accounts and notes payable

(In millions of euros)	At December 31, 1997	At December 31, 1998
Trade accounts payable	1,375.7	1,359.5
Notes payable	276.1	291.4
Trade accounts and notes payable	1,651.8	1,650.9

Accrued expenses and other current liabilities

(In millions of euros)	At December 31, 1997	At December 31, 1998
Personnel and social charges	312.1	325.8
Year-end rebates payable to customers	279.1	270.9
State and local authorities	274.7	155.0
Consigned containers	148.0	140.9
Accrued interest payable	95.4	20.9
Income tax payable	77.6	94.4
Other	389.1	567.4
Accrued expenses and other current liabilities	1,576.0	1,575.3

NOTE 19—Personnel and remuneration

Group personnel costs (including payroll taxes and related charges) for 1998 amounted to € 2,135 million (1997: € 2,309 million), of which € 5.6 million (1997: € 4.4 million) represent remuneration paid to executive management of the Group.

Group personnel at December 31, 1997 and 1998 comprised the following:

	Year ended December 31, 1997	Year ended December 31, 1998
	(unaudited)	
France	21,225	20,343
Rest of Western Europe	23,747	21,827
International	35,659	36,775
Total	80,631	78,945

On a comparable basis, Group personnel would have been 78,945 as at December 31, 1998 and 79,700 as at December 31, 1997.

NOTE 20—Depreciation and amortization

	Year ended December 31,		
(In millions of euros)	**1996**	**1997**	**1998**
Property, plant, equipment	545.6	592.4	554.3
Goodwills	78.2	93.9	90.3
Intangible assets	53.7	49.4	57.3
Total	677.5	735.7	701.9

The depreciation and amortization charges for property, plant, equipment and intangible assets have been allocated to the various lines of the consolidated statements of income by function.

The amortization charge for goodwill included in this table relates only to goodwill of fully consolidated companies.

NOTE 21—Other expense and income

	Year ended December 31,		
(In millions of euros)	**1996**	**1997**	**1998**
Employee profit-sharing	121.5	123.2	123.0
Goodwill amortization	78.2	93.9	90.3
Other	9.3	6.1	(0.7)
Other expense net	209.0	223.2	212.6

NOTE 22—Interest expense net

	Year ended December 31,		
(In millions of euros)	**1996**	**1997**	**1998**
Interest expense	270.1	262.2	233.2
Interest income	(83.7)	(99.9)	(87.2)
Exchange gain or loss	3.4	7.8	0.2
Interest expense net	189.8	170.1	146.2

Interest paid amount to respectively € 123 million, € 150 million, and € 176 million for the years ended December 31, 1998, 1997, and 1996.

NOTE 23—Income taxes

Income tax expense

Income before taxes and income tax expense consist of:

(In millions of euros)	Year ended December 31, 1996	1997	1998
Income before provision for income taxes:			
• French companies	288.4	316.8	333.7
• Foreign companies	661.8	743.2	769.3
Income before provision for income taxes	950.2	1,060.0	1,103.0
Income tax expense (income):			
• Current income taxes:			
–French companies	152.9	189.5	198.8
–Foreign companies	197.6	265.6	242.8
	350.5	455.1	441.6
• Deferred income taxes:			
–French companies	(37.5)	(25.9)	(50.0)
–Foreign companies	52.1	22.4	41.8
	14.6	(3.5)	(8.2)
Provision for income taxes	365.1	451.6	433.4

GROUPE DANONE files, for most of its French subsidiaries in which the Group owns, directly or indirectly, more than 95% of the share capital, consolidated tax returns which, to a certain extent and under certain conditions, enable the offset of taxable profit against tax losses. The subsidiaries which elected to participate in the French Group tax consolidation have signed a tax sharing agreement with the Company, in conformity with the regulations formulated by the French tax authorities.

Current income taxes represent the amount of taxes for the year, paid or payable in a short term period to the tax authorities. These amounts are computed according to the rules and rates applicable in the countries where the Group operates, taking into account the consolidated tax return applicable to the majority of the French subsidiaries in the Group.

The Group made income tax payments of approximately € 374 million, € 328 million and € 377 million in 1998, 1997 and 1996, respectively.

NOTE 23—Income taxes (Continued)

Analysis of the effective income tax rate

The effective tax rate resulting is 39.3% in 1998, compared with 42.60% in 1997 and 38.42% in 1996, and such rates can be analyzed as follows:

	Year ended December 31,		
(Amounts in percentage at income before taxes)	1996	1997	1998
Statutory tax rate in France	36.66	41.66	41.66
Effect of foreign tax rate differential	1.42	(2.66)	(3.90)
Effect of amortization of goodwill	1.74	2.60	2.34
Effect of other differences	(1.40)	1.00	(0.80)
Effective income tax rate	38.42	42.60	39.30

Deferred income taxes

Deferred income taxes mainly arise from the differences between the book and tax basis of assets and liabilities, as explained in note 1.K. The significant components of deferred tax assets and liabilities on the balance sheet are as follows:

	At December 31,	
(In millions of euros)	1997	1998
Deferred tax assets on temporary differences:		
• Retirement benefits	67.1	70.0
• Restructuring provisions	55.2	35.4
• Other temporary differences	17.5	—
Deferred tax assets on tax loss carry forwards:		
• Gross	95.4	140.6
• Less valuation allowance for carry forwards	(50.3)	(60.7)
Long-term deferred tax assets	184.9	185.3
Deferred tax liabilities on temporary differences:		
• Depreciation of property, plant & equipment	(161.7)	(198.8)
• Capitalized interests	(9.8)	(9.6)
• Other differences	—	(14.2)
Long-term deferred tax liabilities	(171.5)	(222.6)
Net long-term deferred tax asset / (liability)	13.4	(37.3)

The 1997 divestitures outlined in Note 3 incurred tax loss carry forwards with a related deferred tax asset in the amount of € 81 million. Taking account of the likelihood that such benefits are realized within a reasonable period of time, a valuation allowance of € 50 million and € 50.7 million was also recorded at December 31, 1997 and 1998, respectively.

NOTE 23—Income taxes (Continued)

Net short-term deferred tax assets amounting to € 43.1 million as of December 31, 1998 (€ 39.5 million as of December 31, 1997) are almost exclusively related to differences between statutory and taxable income of subsidiaries.

Tax loss carry forwards

Tax losses carried forward and not yet utilized amount to € 192 million as of December 31, 1998, and mainly expire after 2003. Furthermore long term capital losses, which are carried forward as at December 31, 1998, amount to € 374 million.

NOTE 24—Financial instruments

The Group uses financial instruments to manage its exposure to currency and interest rate risks incurred in the normal course of business. However, it is Group's policy not to sell or purchase derivative financial instruments for purposes other than hedging.

Interest rate exposure

The financing of all Group subsidiaries is centralized and managed by the Treasury Department, which uses financial instruments to reduce the Group's net interest rate exposure. The main instruments are interest-rate swaps, negotiated with major financial institutions. The notional amounts and maturities of these instruments are indicated below:

	At December 31,	
(In millions of euros)	**1997**	**1998**
Interest rate swaps, with a remaining term at December 31:		
• below one year	26	274
• between one and five years	1,194	1,385
• above five years	207	454
Interest rate caps and floors, with a remaining term at December 31:		
• below one year	(46)	(152.4)
• between one and five years	572.0	617.4
• above five years	0	0

The accounting treatment used for these instruments is described in note 1.M.

Taking into account these hedging instruments, 25% (31% at December 31, 1997) of the Group's consolidated net debt (including convertible bonds) and amounting to some € 3 billion is at fixed interest rate at December 31, 1997.

As a result of these hedging instruments, the effective weighted average interest rate of the Group's consolidated net debt in 1998 is 4.61% (1997: 4.32%), compared to a 5.22% (1997: 4.98%) weighted average rate before any hedging operations.

NOTE 24—Financial instruments (Continued)

Currency exposure

The Group's operations around the world are carried out by subsidiaries which trade primarily in their home country. Consequently, the Group's exposure to currency risks in its operating activities is low. The Group's Treasury Department uses financial instruments to reduce the net exposure to currency risk, after netting the currency positions arising from the combined firm and budgeted operating transactions of all subsidiaries. The main instruments used are forward exchange contracts and purchases of currency options, entered into with major financial institutions.

The contractual amounts of the Group's forward and options currency amounts are summarized below. Foreign currency amounts are translated at current rates at the reporting date:

(In millions of euros)	At December 31, 1997	1998
Forward (purchases) / sales:		
• US Dollar	201.4	317.4
• Sterling Pound	121.8	89.0
• Euro	(482.5)	(559.3)
• Swiss Franc	66.1	70.1
• Other	1.7	(59.9)
Total forward	(91.5)	(142.7)
including:—Forwards purchases	(942.3)	(831.0)
—Forwards sales	850.8	688.3
Currency options purchased	(243.6)	(21.8)
Total currency hedging instruments	(335.1)	(164.6)

The accounting treatment used for these instruments is described in note 1.M.

Translation exposure

The Group's international expansion is such that movements in exchange rates have an accounting impact on the translation into French francs of approximately 63% of net sales (60% in 1997) and 56% of operating income (48% in 1997) generated by non-French subsidiaries. Taking into account the introduction of the euro and on the basis of the 1998 figures, movements in exchange rates excluded from the euro zone would impact the translation in euros of 27% of net sales and 24% of operating income.

NOTE 24—Financial instruments (Continued)

Concentration of counterparty risk

The financial instruments used by the Group to manage its exposure to interest rate risks are negotiated with major counterparties. Fair values of such instruments are analyzed below by counterparty:

(As a percentage of total fair values as of December 31, 1998 et 1997)	1997	1998
Counterparty's rating (according to Standard & Poor's)		
• AAA	20%	27%
• AA	33%	21%
• A	43%	49%
• BBB	4%	3%

The financial instruments used by the Group to manage its exposure to currency risks are all negotiated with counterparties rated A1+/P1.

There is no financial instrument negotiated with counterparties located in a geographical area with a political or financial risk (all counterparties are from Western Europe or the United States of America).

Market value of financial instruments

The table below summarizes the book and market values of the financial instruments used by the Group as at December 31, 1998 and 1997:

	At December 31, 1997		At December 31, 1998	
(In millions of euros)	Net book value	Market value	Net book value	Market value
Assets (liabilities) and off-balance sheet *excluding Net debt*				
Long-term loans	433.6	433.6	431.6	431.6
Long-term investments	330.2	389.0	497.7	592.8
Equity in affiliated companies	406.4	409.5	433.7	443.0
Other financial assets	134.5	138.8	169.1	169.1
Trade debtors	2,470.3	2,470.3	2,442.1	2,442.1
Short-term loans	135.2	135.2	143.3	143.3
Trade creditors	(3,227.8)	(3,227.8)	(3,226.2)	(3,226.2)
Off-balance sheet currency instruments	—	(1.8)	—	(0.9)
Assets (liabilities) and off-balance sheet *Net debt*				
Convertible bonds (including the redemtion premium accrued before tax)	(1,203.3)	(1,239.7)	(1,175.0)	(1,205.0)
Long-term debt	(2,188.9)	(2,255.6)	(2,053.2)	(2,134.1)
Short-term debt and bank overdrafts	(433.7)	(433.7)	(664.8)	(664.8)
Marketable securities	506.3	506.3	522.9	522.9
Cash and cash equivalents	459.3	459.3	371.5	371.5
Off-balance sheet interest rate instruments	—	74.0	—	93

NOTE 24—Financial instruments (Continued)

The market value of long-term loans based on future cash-flows is equivalent to their net book value.

The market value of long-term investments (either held by consolidated companies or equity investees) and of other financial assets is determined using stock exchange value for listed companies and, for non-listed investments, on net book value, which approximates market value.

The market value of convertible bonds and of substantial long-term debt is computed item by item, using values determined by the agent bank or by the Group for quoted instruments.

The market value for all current assets and liabilities (trade accounts receivable and payable and other debtors and creditors, short-term loans and debt, marketable securities, cash and cash equivalents) is considered to be equivalent to net book value due to their short-term maturities.

The market value of off-balance sheet currency and interest rate instruments is either calculated by the Group, or obtained from the banks that are counterparties to the transactions.

The market value of the consolidated net debt represents what the Group would theoretically pay to redeem its net debt. As some of the debt bears historical interest rates that are higher than current market rates, their market value is above their net book value. This theoretical potential loss is compensated by potential gains existing on off-balance sheet financial instruments used to hedge interest rate risks on the debt.

NOTE 25—Commitments and contingencies

Commitments relating to investments in subsidiaries

The Group has entered into commitments to increase its interest in certain subsidiaries, and in particular to acquire the entire capital stock of Galbani. The investments related to these commitments represent approximately € .275 million.

The Group has also entered into agreements to purchase interests held by third party stockholders in certain consolidated subsidiaries, should these stockholders wish to sell their interests. In any event, the potential cost of purchasing these shares will be dependent upon the rate of return and the financial situation of the subsidiary in question. No material investment under these agreements is currently planned, except for the purchase of a 41% interest in the companies producing dairy products in Argentina, which occurred in the first quarter of 1999.

Commitments relating to the share buy-back program

The Group has a sale option and optional purchase contracts regarding 3,250,000 of its shares.

Non-cancelable leases

As at December 31, 1998, the Group had non-cancelable lease commitments amounting to € 55 million in respect of the years from 1999 through 2002, and of € 46 million in respect of subsequent years.

Commitments received in respect of non-cancelable sub-leases are not significant.

NOTE 26—Financial information by division

Beginning on January 1, 1998 the Group has implemented a new structure which principally consists of three core operational divisions (Dairy products, Beverages and Biscuits). The segment reporting reflects this structure.

	Year ended December 31, 1998					
(In millions of euros)	**Dairy Products**	**Beverages**	**Biscuits**	**Grocery Products**	**Containers**	**Total Divisions**
Gross sales	5,947.8	3,372.5	2,929.3	929.5	946.4	14,125.5
Sales within the division	(282.5)	(368.5)	(322.7)	(25.0)	(14.2)	(1,012.9)
Net divisional sales	5,665.3	3,004.0	2,606.6	904.5	932.2	13,112.6
Sales within the Group	(25.2)	—	(4.6)	(0.2)	(147.6)	(177.6)
Net sales outside the Group	5,640.1	3,004.0	2,602.0	904.3	784.6	12,935.0
Operating income	620.9	368.3	203.4	28.6	90.6	1,311.8
Equity in net earnings of affiliated companies	(1.5)	14.0	(1.4)	13.6	—	24.7
Capital expenditures	252.8	241.2	99.4	29.7	84.1	707.2
Depreciation expense	209.8	240.5	135.4	40.7	59.5	685.9
Cash flow from operations	586.2	455.4	226.4	36.9	108.2	1,413.1
Total assets	4,605.5	3,178.4	3,610.7	1,157.1	778.4	13,330.1

	Total Divisions	**Unallocated items**	**Total Group**
Operating income	1,311.8	(18.6)	1,293.2
Equity in net earnings of affiliated companies	24.7	0.6	25.3
Capital expenditures	707.2	3.6	710.8
Depreciation expense	685.9	16.0	701.9
Cash flow from operations	1,413.1	(85.9)	1,327.2
Total assets	13,330.1	1,712.2	15,042.3

	Year ended December 31, 1997					
(In millions of euros)	**Dairy Products**	**Beverages**	**Biscuits**	**Grocery Products**	**Containers**	**Total Divisions**
Gross sales	5,570.6	3,073.1	2,985.1	2,067.7	963.7	14,660.2
Sales within the division	(246.8)	(318.5)	(310.8)	(80.9)	(16.5)	(973.5)
Net divisional sales	5,323.8	2,754.6	2,674.3	1,986.8	947.2	13,686.7
Sales within the Group	(21.0)	—	(8.1)	(13.6)	(155.9)	(198.6)
Net sales outside the Group	5,302.8	2,754.6	2,666.2	1,973.3	791.2	13,488.1
Operating income	556.6	326.8	181.6	71.0	89.8	1,225.8
Equity in net earnings of affiliated companies	2.9	16.0	7.8	5.9	—	32.6
Capital expenditures	276.8	234.6	138.9	54.3	86.3	790.9
Depreciation expense	202.1	223.7	138.7	92.1	57.8	714.4
Cash flow from operations	542.5	383.4	199.9	113.6	113.3	1,352.7
Total assets	4,823.2	3,088.8	3,439.5	1,309.8	726.6	13,387.9

	Total Divisions	**Unallocated items**	**Total Group**
Operating income	1,225.8	(1.8)	1,224.0
Equity in net earnings of affiliated companies	32.6	(0.4)	32.2
Capital expenditures	790.9	5.8	796.7
Depreciation expense	714.4	21.3	735.7
Cash flow from operations	1,352.7	(123.4)	1,229.3
Total assets	13,387.9	1,641.7	15,029.6

	Year ended December 31, 1996					
(In millions of euros)	**Dairy Products**	**Beverages**	**Biscuits**	**Grocery Products**	**Containers**	**Total Divisions**
Gross sales	5,040.3	2,716.9	2,874.9	2,205.3	971.3	13,808.7
Sales within the division	(197.1)	(269.9)	(274.9)	(77.0)	(14.2)	(833.1)
Net divisional sales	4,843.2	2,447.0	2,600.0	2,128.3	957.1	12,975.6
Sales within the Group	(3.2)	—	(4.6)	(16.0)	(155.2)	(179.0)
Net sales outside the Group	4,840.0	2,447.0	2,595.4	2,112.3	801.9	12,796.6
Operating income	502.8	277.1	175.0	91.5	107.2	1,153.6
Equity in net earnings of affiliated companies	1.4	12.3	4.3	8.4	1.1	27.5
Capital expenditures	207.9	197.6	130.8	64.5	77.1	677.9
Depreciation expense	178.4	215.3	122.7	88.4	62.3	667.1
Cash flow from operations	511.3	363.0	200.8	112.2	130.9	1,318.2
Total assets	4,333.5	2,837.2	3,441.1	2,274.7	729.8	13,616.3

NOTE 26—Financial information by division (Continued)

	Total Divisions	Unallocated items	Total Group
Operating income	1,153.6	(13.6)	1,140.0
Equity in net earnings of affiliated companies	27.5	(3.4)	24.1
Capital expenditures	677.9	5.6	683.6
Depreciation expense	667.1	10.4	677.5
Cash flow from operations	1,318.2	(106.1)	1,212.1
Total assets	13,616.3	1,761.4	15,377.7

NOTE 27—Activities of divisions by geographical area

	Year ended December 31, 1998			
(In millions of euros)	France	Rest of European Union	Rest of World	Total
Total sales by geographical area of origin	5,222.7	5,553.7	3,349.0	14,125.4
Intra-Group sales within geographical areas	(181.1)	(287.0)	(45.7)	(513.8)
Net sales by geographical area of origin	5,041.6	5,266.7	3,303.3	13,611.6
Intra-Group sales between geographical areas	(481.4)	(183.6)	(11.6)	(676.6)
Net sales outside the Group	4,560.2	5,083.1	3,291.7	12,935.0
Operating income	589.4	474.7	247.7	1,311.8
Equity in net earnings of affiliated companies	(2.9)	28.2	(0.6)	24.7
Capital expenditures	231.2	261.0	215.0	707.2
Cash flow from operations	684.8	455.5	272.6	1,412.9
Total assets	4,522.7	5,873.7	2,933.7	13,330.1

	Year ended December 31, 1997			
(In millions of euros)	France	Rest of European Union	Rest of World	Total
Total sales by geographical area of origin	5,959.2	5,604.0	3,097.1	14,660.3
Intra-Group sales within geographical areas	(221.9)	(247.1)	(38.8)	(507.8)
Net sales by geographical area of origin	5,737.3	5,356.9	3,058.3	14,152.5
Intra-Group sales between geographical areas	(455.8)	(198.0)	(10.6)	(664.4)
Net sales outside the Group	5,281.4	5,158.9	3,047.8	13,488.1
Operating income	591.9	430.5	203.4	1,225.8
Equity in net earnings of affiliated companies	(4.3)	21.8	15.1	32.6
Capital expenditures	249.1	256.0	285.8	790.9
Cash flow from operations	659.8	477.8	215.1	1,352.7
Total assets	4,700.4	6,041.7	2,645.8	13,387.9

NOTE 27—Activities of divisions by geographical area (Continued)

(In millions of euros)	Year ended December 31, 1996			
	France	Rest of European Union	Rest of World	Total
Total sales by geographical area of origin	6,021.1	5,386.2	2,401.4	13,808.7
Intra-Group sales within geographical areas	(205.5)	(156.7)	(22.6)	(384.8)
Net sales by geographical area of origin	5,815.6	5,229.5	2,378.8	13,423.9
Intra-Group sales between geographical areas	(383.8)	(230.2)	(13.3)	(627.3)
Net sales outside the Group	5,431.8	4,999.3	2,365.5	12,796.6
Operating income	589.2	405.1	159.3	1,153.6
Equity in net earnings of affiliated companies	0	21.6	5.9	27.5
Capital expenditures	305.8	214.3	157.8	677.9
Cash flow from operations	759.5	405.5	153.2	1,318.2
Total assets	5,373.8	6,337.3	1,905.2	13,616.3

Exports by French companies of GROUPE DANONE amounted to € 559 million, € 565 million and € 534 million in 1998, 1997 and 1996, respectively.

NOTE 28—Companies consolidated at December 31, 1998

Companies consolidated for the first time in 1998

DANONE CLOVER
STIAL / SOCOGES
GALBANI FRANCE
DANONE HAYAT
VILLA ALPINA
SHENZHEN HEALTH DRINKS
ASIA HOST
AQUA
PINGOUIN

Companies no longer consolidated at December 31, 1998

Companies sold or wound up

STOEFFLER
DIB SWITZERLAND
DIB BRAZIL
DIB HUNGARY
LA FAMILIA
SYG

Merged companies at December 31, 1998

MILDES — Company merged with DANONE POLAND

NOTE 28—Companies consolidated at December 31, 1998 (Continued)

LIST OF COMPANIES CONSOLIDATED AT DECEMBER 31, 1998

Fully consolidated companies

Companies	Country	Percentages Group's Control	Percentages Interest
Groupe Danone SA	France	Parent Company	
DAIRY PRODUCTS			
BLEDINA	France	100.00	100.00
DANONE	France	100.00	100.00
GALBANI	France	100.00	100.00
LAITERIE DE VILLECOMTAL	France	50.20	50.20
NUTRIPHARM ELGI	France	100.00	100.00
DANONE	Germany	100.00	99.88
DANONE	Austria	100.00	99.88
DANONE	Belgium	100.00	100.00
DANONE	Denmark	100.00	100.00
DANONE	Spain	55.72	55.72
DANONE CANARIES	Spain	75.65	42.15
DANONE	Finland	100.00	100.00
DANONE	Ireland	100.00	100.00
DANONE	Italy	100.00	99.72
GALBANI	Italy	90.00	90.00
DANONE	The Netherlands	100.00	100.00
DANONE	Portugal	96.00	52.81
DANONE	United Kingdom	100.00	100.00
DANONE SERDIKA	Bulgaria	54.05	54.05
DANONE	Hungary	100.00	100.00
DANONE	Poland	100.00	100.00
DANONE	Czech Republic	95.05	95.05
DANONE	Slovakia	100.00	100.00
DANONE	Argentina	51.00	51.00
DANONE	Brazil	100.00	100.00
DANONE CANADA DELISLE	Canada	100.00	100.00
DANNON COMPANY	United States	100.00	89.00
DANONE DE MEXICO	Mexico	100.00	100.00
DANONE CLOVER	South Africa	55.00	66.77
GUANGZHOU DANONE	China	100.00	90.34
SHANGHAI DANONE DAIRY	China	50.00	45.17
BEVERAGES			
BRASSERIES KRONENBOURG	France	100.00	100.00

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—Companies consolidated at December 31, 1998 (Continued)

Companies	Country	Percentages Group's Control	Interest
Groupe Danone SA	France	Parent Company	
SA DES EAUX MINERALES D'EVIAN	France	100.00	100.00
SEAT (Sté d'Exploitation d'Activités Touristiques)	France	100.00	100.00
SOFID (Sté de Financement et de Développement)	France	100.00	100.00
VOLVIC	France	100.00	100.00
BRASSERIES ALKEN-MAES	Belgium	100.00	99.64
AGUAS DE LANJARON	Spain	95.00	78.51
FONT VELLA	Spain	94.26	77.79
SAN MIGUEL	Spain	72.10	80.51
ITALAQUAE	Italy	100.00	91.01
AGUAS MINERALES	Argentina	50.00	50.00
VILLA ALPINA	Argentina	65.00	65.00
AQUATERRA	Canada	100.00	100.00
DANNON WATER	United States	100.00	89.00
BONAFONT	Mexico	100.00	100.00
WUHAN EURO DONGXIHU BREWERY	China	60.00	54.20
TANGSHAN UNITED EUROPEAN & HAOMEN BREWERY	China	70.00	63.24
SHENZHEN HEALTH DRINKS	China	60.00	54.20
WAHAHA	China	51.00	41.01
BISCUITS			
COMPAGNIE FINANCIERE BELIN	France	100.00	100.00
GENERALE BISCUIT GLICO FRANCE	France	50.00	50.00
HEUDEBERT	France	100.00	100.00
LU	France	100.00	100.00
SA DES BISCUITS BELIN	France	100.00	100.00
VANDAMME PATISSERIE	France	100.00	100.00
GENERAL BISCUITS	Germany	100.00	100.00
GENERAL BISCUITS OESTERREICH	Austria	100.00	100.00
GENERAL BISCUITS BELGIE	Belgium	99.63	99.63
GENERAL BISCUITS ESPANA	Spain	100.00	100.00
PAPADOPOULOS	Greece	60.00	60.00
W.&.R. JACOB (Irish Biscuits)	Ireland	100.00	100.00
NEWCO	Italy	100.00	100.00
SAIWA	Italy	100.00	100.00
GENERAL BISCUITS NEDERLAND	The Netherlands	100.00	99.63
JACOB'S BAKERY	United Kingdom	100.00	100.00
BAGLEY	Argentina	64.04	64.04
JIANGMEN DANONE BISCUITS	China	100.00	90.34

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—Companies consolidated at December 31, 1998 (Continued)

Companies	Country	Percentages Group's Control	Interest
Groupe Danone SA	France	Parent Company	
SHANGHAI DANONE BISCUITS FOODS	China	60.00	54.20
BRITANNIA INDUSTRIES	India	38.71	18.39
DANONE	Indonesia	100.00	90.34
BRITANNIA BRANDS MALAYSIA	Malaysia	100.00	90.34
GRIFFIN'S FOODS	New-Zealand	100.00	90.34
CONTINENTAL BISCUITS PAKISTAN	Pakistan	49.49	44.71
GROCERY PRODUCTS			
GENERALE TRAITEUR	France	100.00	100.00
MARIE SURGELES FRANCE	France	100.00	100.00
COFRALIM	France	100.00	100.00
SADIFROID	France	100.00	100.00
PYCASA	Spain	100.00	100.00
HP FOODS	United Kingdom	100.00	100.00
LEA and PERRINS	United States	100.00	100.00
AMOY	China	100.00	90.34
BEST CORPORATION	New-Zealand	100.00	90.34
CONTAINERS			
B S N EMBALLAGE	France	100.00	100.00
VERDOME	France	100.00	100.00
VMC	France	99.75	99.75
VEREENIGDE GLASFABRIEKEN	The Netherlands	100.00	100.00
VIDRIO ESPANA	Spain	100.00	100.00
OTHER			
Cie GERVAIS DANONE	France	100.00	100.00
GENERALE BISCUIT	France	100.00	100.00
COFINDA	France	100.00	100.00
DANONE FINANCE	France	100.00	100.00
FINALIM 3	France	100.00	100.00
FINALIM 4	France	100.00	100.00
GAAP	France	100.00	100.00
ALFABANQUE	France	100.00	100.00
DANONE HOLDING	Germany	99.88	99.88
DANONE VERMOGENS VERWALTUNG	Germany	100.00	99.88
DANONE FINANCE BENELUX	Belgium	100.00	93.69
COFIVE	Belgium	100.00	99.96
MECANIVER	Belgium	89.00	89.00
DANONE FOODS	United States	100.00	89.00

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—Companies consolidated at December 31, 1998 (Continued)

Companies	Country	Percentages Group's Control	Percentages Interest
Groupe Danone SA	France	Parent Company	
FINANZIARIA IMPERIESE	Italy	100.00	91.64
SCIA	Italy	92.97	91.31
SIFIT	Italy	100.00	98.21
SOGEPA	Italy	99.73	99.68
DANONE RE	Luxemburg	100.00	100.00
SELBA	The Netherlands	100.00	100.00
SETEC—SOBELPAR	Portugal	100.00	100.00
ABIH	United Kingdom	50.00	45.17
ABIL	United Kingdom	100.00	45.17
BRITANNIA BRANDS	United Kingdom	100.00	90.34
DANONE HOLDINGS UK	United Kingdom	100.00	100.00
JINJA	China	89.02	80.40
ASIA HOST	China	100.00	90.34
BANNATYNE ENTERPRISES	Singapore	40.00	18.07
BHPL	Singapore	100.00	100.00
BRITANNIA BRANDS KUAN	Singapore	100.00	90.34
DANONE ASIA	Singapore	90.34	90.34
DOW BIGGIN ENTERPRISES	Singapore	40.00	18.07
KUAN ENTERPRISES	Singapore	100.00	90.34
NACUPA ENTERPRISES	Singapore	40.00	18.07
PEERLESS BRANDS	Singapore	100.00	90.34
SPARGO ENTERPRISES	Singapore	40.00	18.07
VALLETORT ENTERPRISES	Singapore	40.00	18.07
COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD			
CLOVER	South Africa	22.75	26.15
AYMORE	Brazil	25.00	25.00
MAHOU	Spain	33.34	33.34
MINUTE MAID DANONE	France	50.00	50.00
DELTA DAIRY	Greece	20.00	20.00
AQUA	Indonesia	40.00	36.14
STRAUSS	Israel	20.00	20.00
FIMEPAR	Italy	20.00	18.04
PERONI	Italy	24.50	24.42
STAR	Italy	50.00	50.00
CALPIS AJINOMOTO DANONE	Japan	25.00	25.00
CENTRALE LAITIERE DU MOROCCO	Morocco	20.00	20.00
PINGOUIN	Morocco	20.00	20.00

NOTE 28—Companies consolidated at December 31, 1998 (Continued)

Companies	Country	Percentages Group's Control	Percentages Interest
Groupe Danone SA	France	Parent Company	
FOOD SOLUTIONS	New Zealand	30.00	27.10
GB POLSKA	Poland	100.00	100.00
COKOLADOVNY	Czech Republic	49.05	49.05
BOLSHEVIK	Russia	72.77	72.77
STIAL / SOCOGES	Tunisia	50.00	50.00
DANONE HAYAT	Turquie	50.00	50.00

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 18, 1999

GROUPE DANONE

By: /s/ CHRISTIAN LAUBIE

Name: Christian Laubie
Title: Director
Senior Executive Vice-President
Chief Financial Officer