


DANONE Group


Annual Report

DANONE

| | |
|---|---|
| From the Chairman | 1 |
| 2000 Highlights | 2 |
| Key figures | 4 |
| Strategy | 6 |
| Lasting balanced growth | 8 |
| Fueling growth, Innovation and Research | 10 |
| Corporate governance | 12 |
| **Group business** | **18** |
| Highlights of the year | 20 |
| 2000 business and earnings | 22 |
| Stockmarket and shareholders | 27 |
| Human resources | 30 |
| **DANONE** business lines | 32 |
| Dairy products | 34 |
| Beverages | 38 |
| Biscuits | 42 |
| Asia-Pacific | 46 |
| Other food products | 49 |
| **Financial statements** | **50** |
| Auditor’s Report on the consolidated financial statements | 52 |
| Consolidated financial statements | 53 |
| Consolidated financial statements: notes | 56 |
| Parent company information | 72 |
| Board of Directors and Committees | 74 |
| Main DANONE Group companies | 76 |
| Ten-year financial data (1991-2000) | 77 |
| Key dates in 2001 | 77 |

# From the Chairman

Franck Riboud
Chairman
and CEO

The past year marked a decisive step forward in the development of the new DANONE, with several major acquisitions in our core businesses and our withdrawal from brewing in Europe. We have now entered a new phase in our history, offering a promise of continuing success in the future.

Clearly focused on three strategic business lines, we recorded not only sustained sales growth, but also a further improvement in our financial performance.

The most important reason for satisfaction is that the structures and strengths defining the new DANONE are now clearly in place – a focus on three core business lines, leading positions on our markets, outstanding capacity for innovation, and a significant international presence.

Today, 97% of our sales are in three high-potential business lines buoyed by consumer interest in health and personal well-being – dairy products, bottled water and biscuits. In each of these areas, our brands enjoy unrivaled strength and recognition.

Our position as a benchmark for the food industry reflects our commitment to leading the field in each of our businesses. Top positions on national and world markets provide added leverage for the success of new products, by the same token enabling us to achieve more rapid growth than competitors and improving profitability.

In 2000, sales growth thus quickened further to 7% like for like, one of the best performances in the worldwide food industry.

Innovation focused on consumer satisfaction was a major source of growth momentum. In this area, the development of cross-functional structures has made for new efficiency, as has concentration of marketing and R&D resources on our three strategic business lines.

Sales outside Western Europe now account for over 40% of our consolidated total. This reflects our success in building positions on emerging markets, which now make a significant contribution to the profitable growth we aim for. These positions are one of our group's major strengths.

Such successes would not have been possible without the dedication of our staff members, their talent and the creative flair they have shown in rising to the challenges of a constantly changing competitive environment. These achievements also reflect ongoing efforts to enhance organizational efficiency and promote the development of new working methods through cross-functional and cross-company initiatives to ensure that know-how is more broadly shared within the Group.

Finally, we remain firmly committed to DANONE's traditional dual project, combining social responsibility and business success. Which means that when we have to take decisions with painful consequences, we must ensure that they are implemented in an exemplary way. And I personally take full responsibility for this.

The values underpinning this dual project will continue to guide our action and that of all our teams, which have made the DANONE Group a world champion in its category.

# 2000 highlights

**Focus on three business lines** with high potential built on health and vitality

**No.1** worldwide in dairy products
**No.2** worldwide in bottled water
(No.1 worldwide in still water)
**No.2** worldwide in biscuits

by volume


## Powerful, dynamic brands backed by intensive advertising:

- Sales under the **Danone** brand totaled **€4.8** billion or **36%**[(1)] of the consolidated total, with growth averaging 12% over the past 3 years, one of the best performances of any major food brand on world markets
- **5 brands** – Danone, LU, Galbani, Evian et Wahaha – accounted for **62%**[(1)] of sales
- **Danone** is the is the world's **top brand** for dairy products
- **LU** is the world's **No. 2** brand for sweet biscuits
- DANONE Group counts **3 of the world's 4 top brands*** **for bottled water** Evian, Wahaha (in China) and Volvic

* by volume


**Strong positions on local markets** provide a sound basis for success in businesses where close ties to consumers are crucial – companies ranked **No.1** on local markets account for some **70%** of world sales


## Potential for growth through acquisitions

- Structurally high cash flow
- Proven expertise, with over 35 transactions successfully completed over the past 3 years
- Abundant opportunities, since **70%** of sales volumes in each of our three businesses are not controlled by major international firms

**Business focus** strengthens know-how and efficiency: **97%** of consolidated sales are in our **3** strategic business lines

**Operating margin** up for the 6th year running at **10.8%**

(1) Pro forma figures based on business at 31 December 2000.

## Organic growth among the highest

of any food-industry major:
**+7.0%**

## A high profile outside Western Europe

- **41%** (1) of sales overall, including **30%** (1) from emerging markets
- **68%** of DANONE Group staff
- **No.1** in our 3 business lines on emerging markets
- Organic growth averaging more than **10%** over the past **3** years
- Operating margin **8.9%**, and rising steadily to near the group average
- A major presence in the Asia-Pacific region, with sales up to **€1.7** billion and the **No.1** position for bottled water — one of the world's fastest growing markets


## 2000 sales on main markets

*In-country sales (€ millions)*

| | | | |
|---|---|---|---|
| France | 3,746 | Argentina | 635 |
| Italy | 1,541 | UK | 627 |
| US | 1,430 | Germany | 508 |
| Spain | 1,402 | Mexico | 411 |
| China | 1,064 | Belgium | 384 |

(1) Pro forma figures based on business at 31 December 2000.

# DANONE worldwide

### Western Europe

- Sales **€8.8 billion**, **59%** of consolidated total (1)
- **No. 1** in dairy products / **No. 1** in biscuits / **No. 2** in bottled waters
- **28,023** employees
- Main brands: Danone, LU, Evian, Volvic, Galbani
- Strong presence in France, Spain, Italy, Benelux

### North America

- Sales **€1.6 billion**, **12%** of consolidated total (1)
- **No. 2** in dairy products
- **No. 2** in bottled waters
- **4,968** employees
- Main brands: Dannon/Danone, Evian, Sparkletts

### Asia-Pacific

- Sales **€1.6 billion**, **12%** of consolidated total (1)
- **No. 1** in bottled waters / **No. 1** in biscuits / **No. 1** in dairy beverages
- **33, 736** employees
- Main brands: Wahaha, Robust, Britannia, Danone, Aqua
- Main countries: China, India, Malaysia, Indonesia, Pakistan


### Latin America

- Sales **€1.4 billion**, **11%** of consolidated total (1)
- **No. 1** in bottled waters / **No. 1** in biscuits / **No. 1** in dairy products
- **12,465** employees
- Main brands: Danone, Bagley, La Serenissima, Villa del Sur, Villavicencio
- Main countries: Argentina, Brazil, Mexico

### Eastern Europe

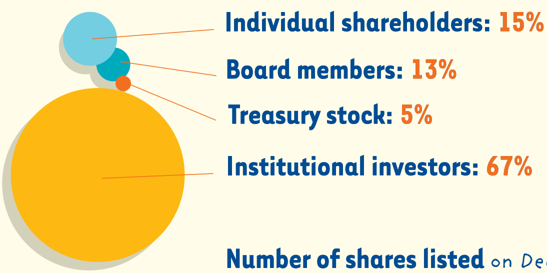
- Sales : **€0.6 billion**, **5%** of consolidated total (1)
- **No. 1** in dairy products **No. 1** in biscuits
- **7,415** employees
- Main brands: Danone, Opavia
- Main countries: Poland, Czech Republic, Hungary, Russia

### Other regions

- **No. 1** in dairy products in South Africa
- DANONE Group equity affiliates hold strong positions in North Africa, Latin America, Eastern Europe and the Middle East

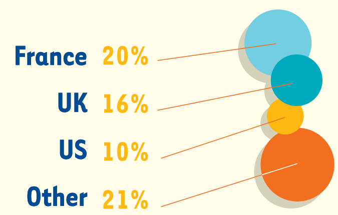
# DANONE – Key figures

## Share ownership at December 31, 2000

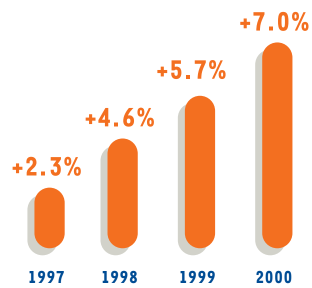



**Number of shares listed** on Dec. 31, 2000: **149.1 million**

## Institutional investors by country




## Organic growth (1)




## Financial highlights

| € millions FRF millions | 1999 | 2000 | 2000 | change |
|---|---|---|---|---|
| Net sales | 13,293 | 14,287 | 93,719 | +7.0% (1) |
| Operating income | 1,391 | 1,550 | 10,165 | +11.4% |
| Operating margin | 10.5% | 10.8% | | |
| Net income (excl. minorities) | 682 | 721 | 4,732 | +5.7% |
| Cash flow from operations | 1,423 | 1,558 | 10,219 | +9.5% |
| Capital expenditure | 703 | 798 | 5,238 | |
| Investment in subsidiaries and affiliates | 934 | 2,849 | 18,686 | |
| Net earnings per share (diluted) (3) | 4.69€ | 5.10€ | 33.47F | +8.7% |
| Net dividend per share (3) | 1.75€ | 1.90*€ | 12.46*F | +8.6% |
| Return on capital invested (4) | 8.8% | 9.0% | | |
| Return on equity | 10.8% | 10,8% | | |
| Shareholder value created (4) | 139 | 150 | 984 | |
| Net financial borrowing | 3,119 | 4,401 | 28,863 | |
| Stockholders' equity | 6,867 | 8,019 | 52,602 | |
| Debt ratio | 45% | 55% | | |
| | | | | |
| No. of shares at Dec. 31 ('000) | 148,271 | 149,086 | | |
| Share price at Dec. 31 (€) | 117.0 | 160.6 | 1,053F | +37.3% |
| Market capitalization at Dec. 31 | 17,347 | 23,943 | 157,056 | |

* submitted to the General Meeting of Shareholders (May 2001) for approval

## Presence at Dec. 31, 2000

Sales in **120** countries

**170** production plants

## Employees at December 31, 2000

**86,657** people

France: 11,759

Rest of European Union: 16,264

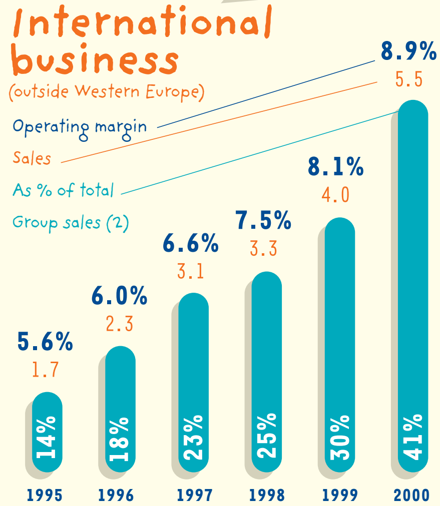
Rest of World: 58,634

## Sales and operating margin over 5 years

| € millions FRF millions | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Sales | 12,797 | 13,488 | 12,935 | 13,293 | 14,287 |
| | 83,940 | 88,476 | 84,848 | 87,195 | 93,719 |
| Change: | | | | | |
| - published | +5.7% | +5.4% | (4.1%) | +2.8% | +7.5% |
| - like for like (1) | +2.7% | +2.3% | +4.6% | +5.7% | +7.0% |
| Operating margin | 8.9% | 9.1% | 10.0% | 10.5% | 10.8% |

## International business

(outside Western Europe)



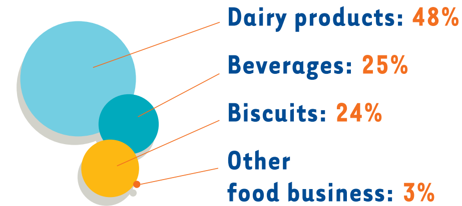

sales in € billions

(1) at constant scope of consolidation and exchange rates (2) based on businesses owned on December 31, 2000
(3) restated for two-for-one split in June 2000 (4) see definition page 26

## Sales by business line

| (€ millions) | 1999 | 2000 |
|---|---|---|
| **Dairy products** | 5,981 | 6,530 |
| **Beverages** | 3,565 | 4,141 |
| **Biscuits** | 2,822 | 3,255 |
| **Other food business** | 527 | 378 |
| **Containers** | 501 | – |
| Intra-Group sales | -103 | -17 |
| **Group total** | 13,293 | 14,287 |

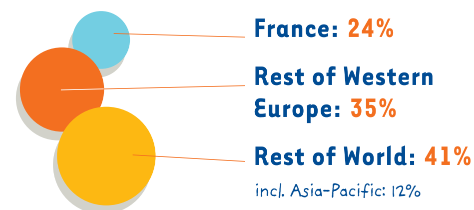
2000 pro forma (2)




## Sales by region

| (€ millions) | 1999 | 2000 |
|---|---|---|
| **France** | 4,963 | 4,298 |
| **Rest of Western Europe** | 5,084 | 5,273 |
| **Rest of World** | 3,960 | 5,512 |
| incl. Asia-Pacific | 1119 | 1571 |
| Sales within the Group | -714 | -796 |
| **Group total** | 13,293 | 14,287 |

2000 pro forma (2)



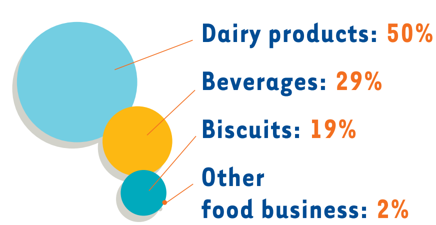

## Organic(1) growth in 2000 sales


(1) at constant scope of consolidation and exchange rates (2) based on businesses owned on December 31, 2000

## Operating margin and income by business line

| (€ millions) | Operating margin 1999 | Operating margin 2000 | Operating income 1999 | Operating income 2000 |
|---|---|---|---|---|
| **Dairy products** | 11% | 10.9% | 655 | 712 |
| **Beverages** | 12.3% | 12.4% | 440 | 513 |
| **Biscuits** | 7.9% | 8.7% | 222 | 282 |
| **Other food business** | 7.4% | 13.0% | 39 | 49 |
| **Containers** | 10.3% | – | 51 | – |
| Unallocated items | – | – | -16 | -6 |
| **Group total** | 10.5% | 10.8% | 1,391 | 1,550 |

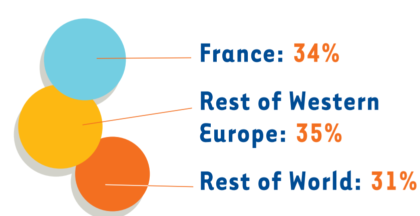
Pro forma 2000 (2)




## Operating margin and income by region

| (€ millions) | Operating margin 1999 | Operating margin 2000 | Operating income 1999 | Operating income 2000 |
|---|---|---|---|---|
| **France** | 11.8% | 12.2% | 587 | 526 |
| **Rest of Western Europe** | 9.9% | 10.3% | 501 | 541 |
| **Rest of World** | 8.1% | 8.9% | 319 | 489 |
| Unallocated items | – | – | -16 | -6 |
| **Group total** | 10.5% | 10.8% | 1,391 | 1,550 |

Pro forma 2000 (2)



# Strategy

## Leveraging strength

**A** unique model for profitable growth driven by innovation and international expansion.


DANONE Group remains committed to the strategy for profitable growth that has been the foundation of our success and is rooted in our values and culture. This enables us to achieve significantly higher rates of organic growth than the food industry as a whole, drawing on strengths that include:

- **A line-up of high-growth businesses associated with health and vitality**
- **Focus on a limited number of strong brands backed by extensive advertising**
- **A significant presence on emerging markets**
- **Leading positions on world markets for each business, in turn built on strong No. 1 rankings at local level**
- **Effective product innovation targeting consumer satisfaction**
- **Flexible, responsive structures ensuring a sense of personal responsibility and sharing of best practice worldwide**

### Focus on three growth businesses

Withdrawal from non-strategic businesses, which neared completion with the sale of European brewery businesses, frees DANONE Group **to concentrate financial and human resources on the development of its three core business lines** – dairy products, water and biscuits. These offer growth potential well above the average for the food industry, reflecting their association with health and vitality as well as opportunities for expansion on emerging markets.

### Strong brands and concentration

The high proportion of worldwide sales under **a narrowing range of top brands** such as Danone and LU means that advertising outlays are becoming more effective, making a major contribution to our strategy of profitable growth built on product innovation. This capacity to build ties to consumers at optimum cost is being further enhanced with the use of top brands as tag-ons for new product names.

**In Europe, our Taillefine/Vitalinea range now includes products for health-conscious consumers in all three business lines: dairy products, biscuits and – since 2000 – water**

## World leadership built on local strength

The DANONE Group is a leader on world markets for each of its businesses, giving us a significant competitive edge in terms of marketing know-how, industrial efficiency, product ranges and R&D capacity. Recognizing the crucial role of close ties to consumers as the key to success in our businesses, we have built our top positions in world markets on **strong number-one rankings in each country**. This plays a crucial role in developing lasting and balanced relationships with major retailers.

## Unique market positioning based on health and vitality

Consumers increasingly look for safe, healthy foods contributing to a balanced diet.
DANONE Group enjoys a unique position with **products combining eating pleasure and nutritional value under brands synonymous with quality and health.**
Danone is now one of the world's leading brands for health and vitality, borne out by sales growth well above the average.

### The Danone brand in 2000

- **Sales of €4.8 billion**
- **36%* of group sales**
- **+12% average annual growth over three years**

*pro forma on the basis of business structure at December 31, 2000

## A steady flow of innovation serving consumers

**Product innovation to constantly improve offerings available to consumers** makes a key contribution to profitable growth, drawing on high-quality R&D resources with a special focus on competitive edge.
To further enhance efficiency in this area, we are now concentrating worldwide R&D resources at a single multi-disciplinary site to be called Danone Vitapole.

## Added momentum from successful internationalization

Over recent years, the DANONE Group has made a major push to expand its presence outside Western Europe, **winning strong positions on many high-growth markets.** Each of our three business lines now ranks first in its category on emerging markets.

- **41%* of 2000 sales outside Western Europe**
- **30%* on emerging markets**

* Pro forma on the basis of business structure at December 31, 2000

Our aim is now to raise sales outside Western Europe to over 50%, through a combination of above-average organic growth in these regions and continuing acquisitions.

## Shared commitment to success

In recent years, commitment to common goals and a simple organizational structure based on individual responsibility have ensured that our group has the **responsiveness to make change the key to new success**.
In keeping with this approach, sharing of know-how and experience play an essential role in the adoption of best practices across Group businesses in all parts of the world. By the same token, they contribute to the success of on-going efforts to ensure competitiveness and optimize costs. The development of effective cross-functional and cross-company structures, backed by state-of-the-art information systems, is a promise of further progress in this area.

## Sustainability

In the pursuit of our growth strategy, we remain fully committed to the culture and values that underpin the success of the DANONE Group.
**These place equal emphasis on financial performance and respect for both people and the environment.**

# Lasting, balanced growth

## Quality and transparency at every stage, from supplier to consumer

DANONE Group applies uncompromising standards to ensure that its products meet the highest levels of quality and safety. In this, it draws on the support of a food safety committee made up of ten internationally recognized experts, as well as a specialized center coordinating food safety worldwide.

**Quality ingredients – an absolute priority**

On-going efforts to ensure full control of supplies are based on advanced product know-how and close monitoring of production and distribution to ensure complete traceability of all ingredients.

**Consumer choice and information**

Our group commits significant resources to sounding out consumers and meeting their needs, which in many cases entails the application of standards that go well beyond what is legally required.

To take one example, in recent years genetically modified foods and the risks they may involve have regularly been the subject of heated debate in Europe. In response, our group has decided to use only conventional soybeans and corn for the products it distributes in this region. Rigorous inspection procedures ensure that this policy is implemented to the letter.

By the same token, we have an active labeling policy to inform customers of ingredients known to trigger allergic reactions, while minimizing the use or occurrence of such substances in our products.

## Responsibility to the community and employees

Consideration and respect for individuals are fundamental to DANONE Group's culture. In practical terms, this includes initiatives that provide support in the event of business restructuring, improve safety and working conditions, and help young people get training.

**Employee support in restructuring**

Our sense of responsibility to employees takes on its full meaning in cases of staff cuts or business reorganization. Whatever the country, we apply procedures to ensure that no individual is left to deal with the problem alone.

A job center is set up on each site affected, carrying out one-on-one interviews, evaluating skills and assisting with prospection. The results speak for themselves, since on average 95% of employees find alternative employment. Similarly, we undertake programs for the sites themselves, seeking to identify viable industrial alternatives.

**Focus on safety and working conditions**

DANONE Group has teamed up with the International Union of Food Industry Workers (IUFI) to conduct a sweeping survey of safety and working conditions of all Group units throughout the world. Answers to questions concerning issues such as national safety laws, special training for potentially dangerous jobs, and control of fire hazards provide a sound basis for continuing improvement in procedures and overall standards of safety.

**Training for youth employment**

Since 1993, DANONE's on-the-job training program in France has aimed to take on a number of young people equal to 2% of total staff. In 1999, initiatives were extended to include a new program for those with special difficulties. Dubbed *Apprentissage* and conducted in tandem with the *Fondation Agir Contre l'Exclusion*, this is based on a tutor system involving DANONE Group employees.

# The DANONE Way

The DANONE way of doing business is based on an equal commitment to business efficiency and social progress, as regards relations both within the Group and with our customers and suppliers.
Reflecting this dual commitment, our Group has set up a special DANONE Way steering organization charged with fostering these values and contributing to progress in all areas where social responsibility is a key consideration – in particular human resources policies, the environment and relations with consumers, suppliers, civil society and shareholders.

## Protecting the environment

In all countries where DANONE Group is present, we do all we can to limit environmental hazards at our production plants and reduce consumption of non-renewable resources, through measures that include active support for recycling.
In keeping with the same commitment, we also actively promote sustainable farming.

**Strict in-house standards**
The strict standards applied by all Group companies in all parts of the world are set out in an Environmental Charter adopted in 1996.

**Monitoring**
Since 1996, independent consultants have carried out no fewer than 40 full audits of environmental standards at Group sites.
We are also full participants in programs for selective waste collection and recycling in a number of countries.

## Winning shareholder loyalty

**Aiming for the long term**
Transparency, effective risk management and commitment to profitable growth are the foundations for lasting partnerships with our shareholders.

**Respecting the rights of minority shareholders**
We aim to develop constructive relationships with the minority shareholders of the many operating entities where our Group is associated with local partners.

# Fueling growth, innovation and research

## The DANONE business model


### Our priority — profitable growth

The new strategy adopted in 1996 stresses strong organic sales growth as the key to higher profitability, since it is the basis for:

- **close and lasting ties to consumers**, backed by a steady flow of **innovation**
- **balanced, long-term relationships** with major retailers
- **steady rises** in margins.

With this in mind, policies pursued over recent years are designed to:

- expand business in **the fastest growing sectors of the food industry**
- build positions in **countries and regions with high growth potential**
- enhance efficiency in **marketing and product innovation.**

### Getting more out of growth

DANONE Group applies a clearly defined methodology set out in its **Growth Project**. This provides an operational basis for:

- more effective advertising through concentration on **top brands**
- marketing focused on **consumer satisfaction**, with significant resources committed to identify and meet expectation
- innovation aimed at achieving **genuine breakthroughs** rather than simply extending ranges or offering new versions of existing projects
- effectively **extending innovation to new areas** through international, cross-company initiatives to share best practices and generate savings.

**Organic growth in sales accounted for over 70% of the rise in gross margin from 1999 to 2000**



### Products to make the most of life

- **at all times of the day,** from energy-packed biscuits in the morning to a quick snack at the office or full-flavored gourmet specialties in the evening
- **for people of all ages,** from dairy products for children to calcium-enriched water for the elderly
- **for enjoyment and well-being,** from rich chocolate biscuits to Actimel health drinks and diet waters
- **for all types of buying,** from family shopping at the supermarket to snacking at the gas station and home delivery of water in large containers
- **in all sizes:** water in 33-cl bottles for people on the move, in one and 1.5-liter bottles for the dinner table, and Volvic's 5-liter container fitted with a tap for convenient family use

The DANONE **Growth Project** is behind practical initiatives that have included:

- •> use of the **Danone/Dannon** brand for bottled water in the US, Indonesia and Europe, as well as for biscuits in China and Indonesia
- •> extension of **Taillefine/Vitalinea** brands from dairy products to biscuits and water, making the most of a strong image for slimming and fitness
- •> the introduction of **1-liter bottles** in many countries in response to clearly expressed demand for easy-to-carry water to drink at the office or on the move
- •> the highly successful development of **products marking a break** with convention. Examples include Actimel in dairy products, the Taillefine/Vitalinea range of diet biscuits, Danao dairy drinks, 5-liter Volvic containers, mineral-enriched Danone Activ' water and Danimals Drinkable yogurts for children in the US
- •> the **extension** of a growing number of products to new countries — Danette is now sold in 23 countries, Actimel in 14, and diet biscuits in ten, while Danone Activ' water recently made simultaneous market debuts in France, Belgium and the UK.

## R&D — a driver for the DANONE Growth Project

The DANONE Group has restructured organization to make research and development a key contributor to profitable growth processes, in particular through involvement from the earlier stages of product planning and design.
It can thus better fulfill its fundamental mission, which is to win major **competitive advantages** through greater:

- •> **consumer satisfaction**
- •> continuing improvements in **industrial efficiency**.


## Research policy: efficiency to the fore

- •> **Focus** on a limited number of fields offering scope for major strategic advantage further down the road
- •> Danone Vitapole, set to **bring expertise in a range of disciplines** together under a single roof
- •> A range of accords and **partnership** agreements with scientists to make use of expertise developed outside DANONE

## Research priorities

- •> **Vitavaleur®:** on-going efforts to identify and exploit the natural features of ingredients
- •> **Technovaleur®:** putting new technology to work to optimize production processes
- •> **Sensovaleur®:** honing mastery of principles underlying the senses to better meet consumer expectations
- •> **Nutrivaleur®:** improve products' nutritional features for tasty, healthy eating


## Dan'inov: winning ways with innovation

Each year **Dan'inov** prizes reward the most exciting new, relaunched or repositioned products rolled out by DANONE entities around the globe. **A special Year 2000 award** went to **Evian Millenium**

# Corporate governance

## Transparency and risk management

### DANONE Group's governing bodies

#### Board of Directors

at March 15, 2001

**15 members, including 5 independent directors[1], appointed for renewable periods of 3 years.**

**Directors are required to personally own at least 1,000 DANONE shares.**

**The Board met 7 times in 2000, with average attendance close to 79%**

[1] As defined in the Viénot report on corporate governance in France.

The Board has set up three specialized committees to enhance the quality of supervision and control.

#### Strategy and Appointments Advisory Committee

The Committee contributes to the definition of group strategy and helps identify the people best able to deal with the challenges facing the group.

Members of the Board of Directors and Committees are listed on page 74.

#### Audit Committee

The Audit Committee ensures compliance with the management principles and prudence in the definition of standards and procedures, as well as in the preparation of financial statements and risk management.

#### Compensation Committee

The Compensation Committee ensures that management compensation is consistent with market standards for comparable companies.

#### Management

#### Executive Committee

The Executive Committee is responsible for the overall coordination of group businesses, and meets once or twice a month.
Members represent a wide variety of backgrounds, providing the breadth and depth of experience necessary to effectively meet challenges associated with international expansion, new developments in retailing, product innovation and information technology.

#### International Committee

Set up to provide the Executive Committee with additional insights into the operational implications of market developments, the committee is made up of managers representing the different regions of the world where our Group is present.

## Executive compensation and stock options

DANONE Group compensation policies are designed to consolidate the commitment of managers to shareholders' interests both at Group level and within each Group company.
Some 950 managers around the world thus benefit from a system combining:
• a bonus averaging 20% of annual salaries, of which approximately 60% is dependent on value-creation criteria,
• stock options allocated in accordance with levels of responsibility and individual performance.

### Stock options at DANONE

•> **Allocations every two years**(*)

•> **Approximately 950 beneficiaries**

•> **Exercise period: 6 to 8 years after allocation**

•> **Strike price equal to the average price over the 20 trading days preceding the meeting of the Board at which the options are allocated**

•> **At December 31, 2000 there were 2,519,650 options remaining unexercised and potentially representing 2,519,650 shares, including 527,000 for members of the Group Executive Committee. Exercise prices range from €45.73 to €155.82**

(*) with the exception of members of the Executive Committee and changes in function

## Risk management

DANONE takes an active approach to risk management, working to preserve the interests of employees, consumers, the environment and our shareholders. This involves:
• a methodical approach to the **identification** of risk through regular reporting, appraisals and internal inspection procedures
• **preventive** measures to limit the extent and recurrence of the risks identified
• **use of financial instrument** to reduce exposure to various forms of market risk
• effective **crisis management** procedures and tools for rapid responses to the first signs of an incident.

### Reinforcing risk management

**All operational entities will be participating in a new program running from 2000 to 2002.
This involves:**

**• specialized training to raise employee awareness**

**• worldwide risk appraisal and review**

### Protecting property and people

Preventing personal injuries and damage to plant is a critical priority at all times.
Since 1994, we have regularly called on the support of independent consultants to carry out annual safety inspections of our industrial sites, thus helping operational units to adopt appropriate preventive measures.

### Protecting plant and equipment

•> **An average of 180 complete inspections each year**

•> **Rating on a one-to-five scale in accordance with the strictest international standards**

•> **At December 31, 2000, 32 sites were rated 5, representing the highest level of certification**

•> **The average rating of DANONE Group sites rose from 1.8 to 3.4 over the period from 1994 to 2000**

## Political risk

Social conflict, economic strains and currency upsets can make for significant changes in patterns of consumer demand. In some countries, they may also lead to restrictions on transfers of capital or nationalization of certain assets.

Active in many emerging markets, DANONE Group is naturally attentive to this form of risk in asset allocation, factoring it into financial valuations so as to ensure an adequate return on capital invested. We also aim for a balanced geographical presence to diversify and thus limit overall risk. Finally, we have taken out cover to minimize the financial impact of possible nationalizations in the countries where this risk is highest.

**No single emerging economy accounted for more than 8% of total Group sales for the 2000 financial year, and none of the major emerging economy regions accounted for more than 12%**

## Customer risk

Operating entities in each country apply strict in-house standards for the management of customer risk.

At group level, we apply centralized monitoring and control procedures, with regular reports from operational units providing a basis for the accurate assessment of overall exposure.

Major retailing chains account for a significant proportion of our Group's worldwide sales, and sector concentration over recent years has added to the relative weight of our main customers. However, this approach also means that exposure to customer risk mainly concerns a limited number of large firms, most with a stronger financial bases than in the past, which allows more effective centralized monitoring focused on genuinely important issues.

In addition, we have taken out cover to minimize the financial impact of any major incident affecting payments.


### Main customers

- **Our 10 largest customers together account for 32% of worldwide sales**
- **Carrefour Promodès is our largest single customer, accounting for 11% of total sales**

at December 31, 2000

## Raw materials

The nature of the products we buy and our broad geographical presence mean that there is little risk of a major interruption to supplies.
While the products we use are generally not considered speculative, some may be subject to wide price swings as a result of a temporary imbalance between supply and demand or because of economic or political developments.

### Main materials purchased by DANONE

- **Milk and milk by-products**
- **Fruit and fruit preparations**
- **Plastics**
- **Cardboard packaging**
- **Sugar**
- **Grain**

Such variations can have a significant impact on profitability.
Some long-term contracts provide for various forms of cover, limiting the impact of both price rises and falls on Group accounts.

## Environment

The environmental impact of our current businesses is by nature limited. Despite this, we have for many years actively pursued policies designed to ensure that our industrial operations and packaging are environment friendly.
Similarly, we are committed to the most efficient use of non-renewable resources and promotion of reasoned, responsible agriculture, an area where we build on close ties to farming communities.
In our production, we apply standards that go well beyond local regulatory requirements, calling on the assistance of independent consultants to carry out full environmental reviews of our sites in accordance with strict criteria.
Similarly, we are actively pursuing efforts to ensure that all sites obtain ISO 14001 certification.

### ISO certification

**The International Organization for Standardization (ISO) began setting standards for quality and the environment in 1987.**

**Its 9000 series for quality and 14000 series for the environment provide an effective means to consolidate confidence in a business.**

**ISO certification requires compliance with strict criteria and is granted for periods of 3 years by independent bodies on the basis of their own assessments.**

**Since the end of 2000, ISO 9000 certification has factored in client satisfaction and the company's commitment to efficiency**

- **1991: creation of a corporate department to coordinate environmental policy**
- **Since 1996, a Charter for the Environment covers all DANONE business lines and countries where the Group operates**


The Group also applies centralized monitoring procedures to track environmental standards at production sites on the basis of key indicators. Environmental issues are naturally considered when new companies are acquired and corrective action is taken as soon as possible where necessary.

**40 environmental inspections of production sites were carried out by independent consultants between 1996 and 2000**

**23 sites had won ISO 14000 certification by the end of 2000**

With a view to limiting the environmental impact of packaging used for its products, the DANONE Group actively contributes to campaigns for selective waste collection and recycling in a number of countries. In France, we were the initiators of a program of this kind dubbed Eco-Emballages. Similarly, our research teams are involved in on-going efforts to reduce the weight of packaging and wrappings, and Group entities are encouraged to factor environmental considerations into product development from the initial planning phase. To this end, DANONE has circulated guidelines for environmentally sound packaging to all Group entities since 1998.

## Food safety

Food safety and consumer protection clearly represent a major area of risk in our industry and as such are absolute priorities for the DANONE Group, as we have demonstrated through the commitment of substantial resources over many years. In keeping with this approach, in 1998 we set up an advisory food safety committee made up of ten internationally recognized experts in the field. They provide management with scientific input on both identified and emerging risks.

**In 1999, DANONE Group opened a specialized food safety center as part of its new worldwide research organization, Danone Vitapole**

**54% of DANONE Group sites are ISO 9000 certified**


On-going efforts to ensure full control of supplies are based on advanced product know-how and close monitoring of production and distribution to provide complete traceability of all ingredients. Strict criteria and procedures are applied systematically for the acceptance of products, and producers are subject to thorough inspections. In this area, our aim is to build long-term partnerships with suppliers offering a guarantee of reliability.

In our own production, we have launched a far-reaching program to enhance process control with the adoption of Hazard Analysis and Critical Control Point – HACCP – procedures. Quality control also naturally involves an extensive range of sampling and analysis at different stages in production.

Similarly, in 2000, the Group reorganized quality training, introducing new tools and launching a major drive to ensure that best practices developed within the group are as widely shared as possible.

In distribution of our products, we are actively pursuing a program to ensure downstream traceability, drawing on extensive information technology resources as well as close links to retailers.

### Evian—safety first

- **350 daily samples for micro-biological analysis**
- **3,000 packaging tests a day**
- **75,000 production-line checks a day**

### Meeting consumer expectations

- **DANONE Group has decided not to use genetically modified ingredients for products sold in Europe.**
- **Group entities around the world apply strict procedures to limit the presence of allergy-related products.**

Our Group maintains close relationships with many consumer groups, examining issues of common concern and adopting new policies where appropriate.

Reflecting our awareness of the fundamental importance of consumer satisfaction for our businesses, we go well beyond compliance with regulatory requirements in a large number of areas. In this, we not only offer added guarantees of consumer safety – an absolute priority at all times – but also effectively defend the value of our brands and, by the same token, the interests of our shareholders.

## Currencies and interest rates

In this area, our Group limits intervention to the management of positions resulting from industrial and sales operations, excluding any speculative transactions.

Management of these positions is centralized and is the exclusive responsibility of specialized staff in the Group Financial Department, applying strict guidelines.

Procedures are subject to regular review by the Audit Committee and by the statutory auditors.

**Our production is mostly for local markets, which means that exchange-rate exposure relating to export sales is very limited for the Group as a whole. It mainly concerns sales of Evian and Volvic to the US, Japan and the UK.**

## Switch to the euro

Our Group has for several years been actively preparing for the switch to euro coins and notes, which will become the sole legal tender for all euro-zone countries in 2002. A special concern has been to assess strategic implications in terms of relationships with both consumers and retailers. Preparatory measures have also naturally included adaptation by stages of our information systems.

The switch to the euro in relationships with customers, a move which began with several pilot projects in 1999, continued in 2000 with agreements reached with major retailers in France and Belgium. These were followed in early 2001 by others in Ireland, Spain and Germany. All billings and payments for business with these customers are now in euros. Similar agreements have been concluded with major suppliers. In the course of 2001, the change will be extended to other Group customers and suppliers, particularly small and medium-sized business.

At the same time, we are conducting a campaign to raise employee awareness and will be making an active contribution, through both individual and joint initiatives, to prepare consumers for the change.

We will also be helping them to get used to the new system with the commitment we have given, in association with major retailers, not to change prices during the period from November 1, 2001 to March 1, 2002 unless exceptional circumstance make this unavoidable.

DANONE financial statements have been in euros since 1998, although key figures are also given in French francs to allow for easier comparisons.

### DANONE and the euro

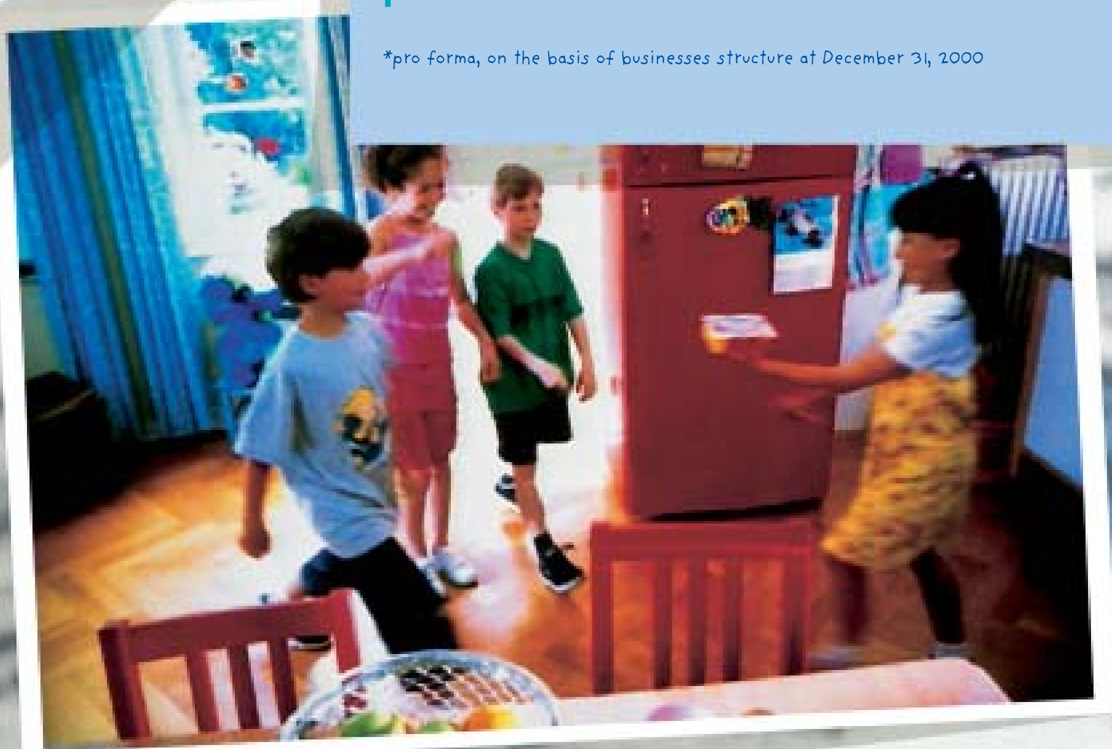
- **Billings between Group companies and all cash movements within the Group have been euro-denominated since the beginning of 1999**
- **Group companies based in the euro zone switched accounting systems and financial management to the euro in the first quarter of 2001. Most also made the change for payrolls**


# Group activities

## The new DANONE – focus on three businesses with high potential for profitable growth and international expansion

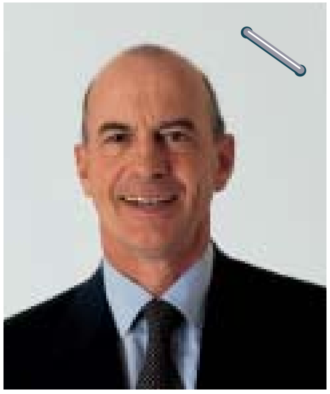
-> **41%*** of sales from business outside Western Europe -> with organic growth topping 10% on average over the past three years -> and margin up 80 basis points over the same period

*pro forma, on the basis of businesses structure at December 31, 2000



© David Hanover/Stone


evian



# 2000 Highlights

## Ushering in a new era

"Jacques Vincent, 55, French: Senior Executive Vice-President since 1998 and a member of the Executive Committee."

### DANONE Group completes refocus, selling European beer business

**March 2000:** DANONE Group completes its strategic refocus, announcing the sale of European beer operations. **Kronenbourg** and **Alken Maes** were sold to Scottish & Newcastle in the UK and our 66% interest in **San Miguel** sold to Spanish brewer Mahou, while a 24% stake in Italy's **Peroni** was bought by the company's other shareholders.

### Quality performance

**April:** DANONE Group announces a rise in first-quarter **sales**, up 8.1% like for like.

**July:** first-half figures confirm momentum, with **sales** up 8.1% like for like, as well as capacity to raise margins, with **operating margin** up from 10.2% to 10.6% of sales.

**October:** DANONE Group reports a 7.5% like-for-like rise in **sales** for the first nine months despite the negative impact of cool summer weather on beverage sales in Europe and on the eastern seaboard of the US.

**January 2001:** DANONE Group **sales** for 2000 show a rise of 7% like for like, with **operating margin** up from 10.5 to 10.8%. **Fully diluted net earnings per share** show a 13.2% rise excluding net capital gains.

### Brisk acquisitions €2.8 billion invested in 2000

**January:** DANONE Group takes the No. 2 place on the US market for water in containers, acquiring full ownership of **McKesson Water**, the leader for home and office deliveries with its **Sparkletts** brand.

**February:** DANONE Group announces plans to buy a selection of United Biscuits worldwide assets, offering access to new markets with leading positions or consolidating existing positions. These include savory biscuit operations in the UK, as well as biscuit business in Poland, Hungary, Scandinavia, Italy and Malaysia.

**March:** DANONE Group consolidates leadership on the Chinese water market, acquiring 93% of **Robust**, the country's No. 2 brand.

**May:** DANONE Group announces that it is considering a response to the offer for sale of **Nabisco**, No. 1 on the US biscuit market. Adhering strictly to its financial criteria for acquisitions, it ultimately decides against a bid.

**July:** DANONE Group consolidates its No. 1 position for water in Canada, buying the bulk of **Naya**'s assets.

**September:**

- DANONE Group acquires 51% of **Logistica Serenissima**, distributor of dairy products in Argentina.
- DANONE Group and AMBEV of Brazil join forces to take control of **Salus**, No. 1 for mineral water in Uruguay.

## Innovation

**•> Dairy products**

**Launch of Danimals Drinkable yogurts in the US and a 0% fat version of Actimel on selected European markets.**

**•> Water**

**Launch of Volvic 5-liter containers in France and a range of water under the Danone brand in some other parts of Europe.**

**•> Biscuits**

**A series of new breakfast products are launched in France, Poland, the Czech Republic and other countries.**

**November:** DANONE Group signs an agreement for the acquisition of 50.1% of **Al Safi Danone**, a leader for dairy products in Saudi Arabia.

**December:**

- DANONE Group expresses an interest in **Quaker Oats**, but decides not to go ahead with the move after detailed consideration of conditions.
- DANONE Group signs an agreement for the acquisition of a 50% interest in **Aquarius Water**, No. 1 for home and office water deliveries in Shanghai.
- DANONE Group gains significant new reach on the Brazilian market for dairy products, acquiring the country's No. 3 business, **Paulista**.

The transaction makes the DANONE Group a strong No. 1 on Latin America's largest market.

## Stockmarket and finance

**January-March:** early redemption of the 3% **convertible bonds** issued in 1993.

**April:** **capital reduced** with the cancellation of 6.4 million shares (after split).

**May:** AGM authorizes new **share buyback program**.

**June:** **two-for-one share split.**

**September:** DANONE Group is included in the **DJ Euro Stoxx 50 index** representing the 50 largest companies in the euro zone by market capitalization.
DANONE Group is also a component of the **Dow Jones Sustainability Group Index**, which represents companies pursuing sustainable growth policies in all parts of the world.

**November:** DANONE Group's **share price** reaches an all-time high of €173.

**December:** DANONE Group shares close the year at €160.6, showing a **37% rise** from the end of 1999. This was a much stronger performance than that of the Paris market's benchmark CAC 40 index, and one of the best for any of the world's major food businesses.

## Information systems

**January:** DANONE Group begins worldwide deployment of **Enterprise Resource Planning** based on software developed by SAP for use at all operational units.

**March:** DANONE Group announces the launch of a new electronic marketplace, **CPGmarket**, in association with Nestlé, Henkel and SAP.

**November:** **CPGmarket** starts operation and DANONE Group begins deployment at European subsidiaries.

## Early 2001

**•> DANONE acquires control of Aqua in Indonesia. Aqua is the world's second largest producer of water in containers by volume.**

**•> DANONE announces reorganization of European Biscuit operations with a view to enhancing production efficiency.**

# 2000 business and earnings

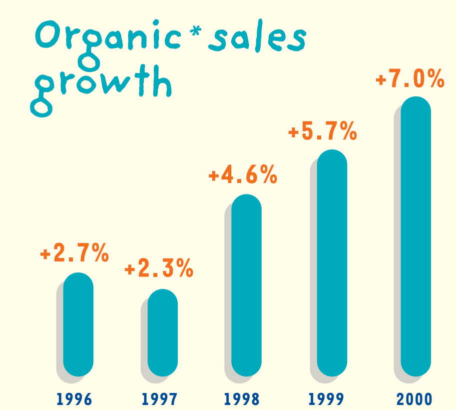
## Promising trends

Performances recorded in 2000 confirm the soundness of the DANONE business model, with organic sales growth a strong 7% and operating margin showing a healthy rise for the sixth year running • Fully diluted earnings per share were up 13% excluding capital gains • These firm trends reflect the combined benefits of successful international expansion, product innovation and effective cost control, which together offering a promise of continued momentum.

"Emmanuel Faber, 37, French: Senior Vice-President, Chief Financial Officer, since January 1, 2000, and a member of the Executive Committee."


### Sales up 7% like for like

Consolidated sales rose 7.5% from €13,293 million in 1999 to €14,287 million in 2000. During the year, European brewery businesses including Kronenbourg, Alken Maes and San Miguel were sold, and the impact on sales was only partly offset by the contributions of newly acquired business, primarily McKesson in the US, Robust in China and selected United Biscuits assets. Currency translation had a positive accounting impact of 4.6%, mainly due to the rise in the US dollar and associated currencies.
Sales growth at constant scope of consolidation and exchange rates quickened significantly to 7% after 5.7% in 1999. This was despite the adverse impact of unseasonable weather on summer beverage sales in Europe and on the eastern seaboard of the US. Our Group's best performance in ten years, the rise was also one of the strongest recorded by any major international food group in 2000.



*at constant scope of consolidation and exchange rates

Overall organic growth benefited from substantial gains in our three core businesses, combined with the sale of other businesses generating growth below the Group average. Volumes accounted for 5.1% of the total 7% rise, and prices for 1.9%, which was largely attributable to shifts in product mix.

Business outside Western Europe showed a strong 9.4% rise in sales, while trends in Europe remained firm, with sales up 5.6%. Sales under the Danone brand were up to 36% of sales generated by businesses remaining within the scope of consolidation, and showed a vigorous 12.2% like-for-like rise from the previous year.

| | |
|---|---|
| **Sales** | |
| **€14,287 million** | |
| **+ 7.5%** | **+ 7% like for like** |

| | |
|---|---|
| **Operating income** | |
| **€1,550 million** | |
| **+ 11.4%** | **+13.1% like for like** |

| | |
|---|---|
| **Operating margin** | |
| **10.8%** | **vs 10.5% in 1999 and 10% in 1998** |

| | | |
|---|---|---|
| **Net income excluding minorities** | | |
| | **€721 million** | **+5.7%** |
| *excl. net capital gains* | **€720 million** | **+10.2%** |

| | | |
|---|---|---|
| **Diluted earnings per share** | | |
| | **€5.10** | **+8.7%** |
| *excl. net capital gains* | **€5.09** | **+13.2%** |

## Operating margin up from 10.5% to 10.8%

Operating income rose 11.4% to €1,550 million. At constant scope and exchange rates, the rise was 13.1% and thus significantly higher than sales growth on a comparable basis.

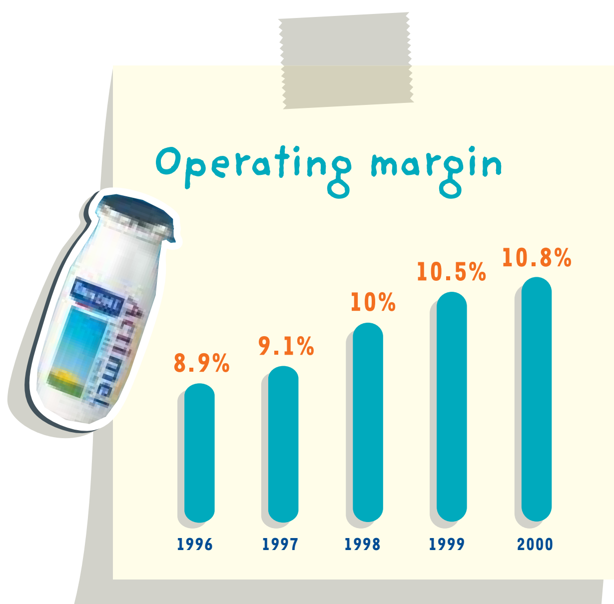
Operating margin was up for the sixth year in a row, rising from 10.5 to 10.8%. At constant scope and exchange rates, the rise in operating margin reached 58 basis points. This was despite the adverse impact of rising prices for plastics worldwide and for milk in Europe, which together cut 80 basis points off consolidated operating margin.

Changes in the scope of consolidation had a limited negative impact on margin, as did the rise in the dollar, which increased the relative weight of businesses generating margins below the Group average. Earnings dilution resulting from the sale of high-margin brewery business in Europe was offset by an agreement providing for the payment of royalties on the brands concerned.

Overall, the rise in operating margin resulted from a decline in "cost of goods sold" and "other expense" items, partly counterbalanced by a rise in selling expense.

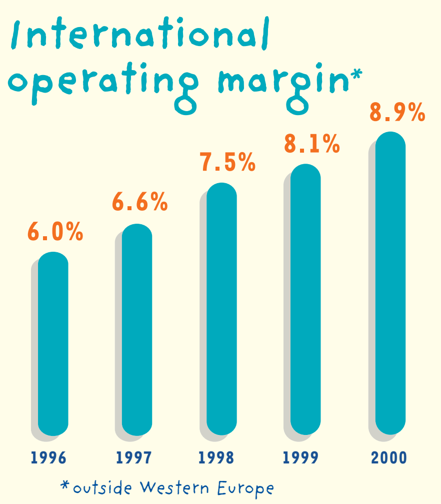
These trends reflect a strategy involving the partial allocation of cost savings to additional advertising to build the brand awareness essential to success.

Improvement in operating margin shows the combined benefits of sustained sales growth, a more favorable product mix with added weight for high-value products, and on-going efforts to raise productivity. These broad-ranging efforts target not only industrial efficiency but also the supply chain as a whole, overheads and purchasing.




Our group is now able to draw on new strengths associated with cross-company organizations in fields such as information systems and research, as well as the critical mass achieved in many emerging markets. As a result, business outside Western Europe contributed to a rise in consolidated operating margin for the first time

**The drive to improve purchasing conditions launched three years earlier generated additional savings of over €100 million in 2000.**




in 2000, accounting for nearly 25% of the overall increase. This confirms the potential of our strategy for international expansion, which should make a key contribution to future improvements in margin.

## Net income up 10.2% excluding net capital gains

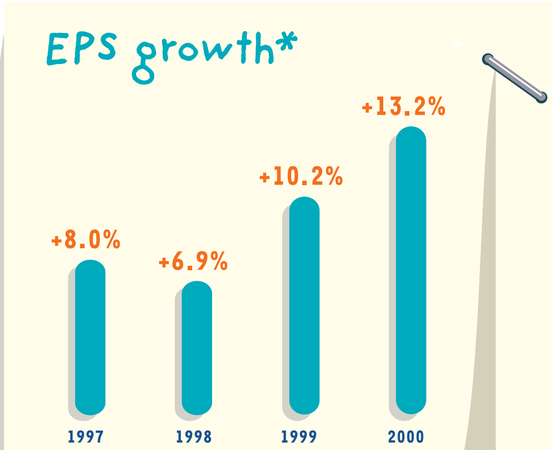
Net income rose 5.7% to €721 million in 2000. This factors in **exceptional items** representing a net charge of €17 million after tax (versus a net gain of €23 million before tax).
The exceptional items concerned include an €18 million (€41 million before tax) charge for restructuring, a net capital gain of €1 million (€64 million before tax) resulting from the €156 million capital gain on the first stage in the sale of European beer business, and a charge of €92 million without tax impact, mainly concerning an impairment charge for the intangible assets of Bagley in Argentina.
The €41 million pre-tax charge for restructuring provision is essentially concerned reorganization in Spain. The impairment charge for intangible assets in Argentina represents the difference between the value under current valuation methods and the book value of these assets. This difference reflects changes in market conditions since the acquisition of the company associated with difficult economic conditions. Excluding net capital gains (i.e., capital gains on asset sales less impairment charge for intangible assets) consolidated net income of the DANONE Group rose 10.2%.
**Net interest expense** and other financial items rose from €131 million in 1999 to €193 million in 2000, reflecting the rise in average debt associated with acquisitions and, to a lesser extent, a rise in interest rates. The average rate paid on Group debt was up from 4.33% in 1999 to 5.52% in 2000. The overall charge for interest and other financial items includes €38 million in dividends received in connection with the sale of European beer business.
The overall rate of **corporate income tax**, excluding the impact of net capital gains, showed a modest decline reflecting lower rates in France, a more favorable geographical mix for earnings, and low rates applicable to the dividend income received.
**Minority interests** rose from €110 million in 1999 to €130 million in 2000, mainly due to strong performances from Wahaha in China and Danone in Spain.
Equity in the earnings of **unconsolidated affiliates** rose from €29 million to €33 million, with the former container division, in which the Group has held an interest of only 44% since mid-1999, accounted for by the equity method over the full year, this being partly offset by the exclusion of Star, sold in 1999.

## Net income per share up 13.2% after dilution and excluding net capital gains

Fully-diluted **net income per share** rose 8.7% from €4.69 in 1999 (after allowance for the two-for-one share split) to €5.10.
Excluding the impact of net capital gains, the rise was 13.2%. Improvement reflected the combined benefits of a rise in net income and share buybacks in the course of 1999 and the first half of 2000.
Over 2000 as a whole, **share buybacks** were limited to €169 million, down from €1.72 billion in 1999.

### Sound finances

- **Debt equity ratio 55% at December 31, 2000**
- **Potential cash income of €2.4 billion in connection with brewery divestments over coming years**



* Earning per share (fully diluted) excluding net capital gains/losses.

### Main acquisitions in 2000

- **McKesson Water in the US, a top contender in home and office water deliveries**
- **93% of Robust, China's No. 2 brand for bottled water**
- **Selected assets of United Biscuits in the UK, Italy, Scandinavia, Hungary, Poland and Malaysia**
- **Acquisition of Paulista, Brazil's No. 3 name in dairy products**

## Sound financial position

Significant acquisitions in the course of the year raised **net financial debt** from €3,119 million at the end of 1999 to €4,401 million at the end of 2000, setting the debt/equity ratio at 55%. This leaves ample leeway for strategic initiatives, while at the same time optimizing the average cost of capital for the creation of value.
**Cash flow from operations** rose 9.5% to €1,558 million, while **operational working capital requirement** remained practically unchanged, rewarding on-going efforts to optimize capital invested.
**Capital expenditure** amounted to €798 million or 5.6% of total sales, a figure including major investment in China to meet vigorous demand for bottled water.

**Acquisitions and investments in new affiliates** showed a steep rise from €934 million in 1999 to €2,849 million in 2000.
In the course of the year, our strategic drive to **refocus operations** was completed with the sale of European beer businesses.
Kronenbourg and Alken Maes were sold to Scottish & Newcastle in the UK, and our 66% interest in San Miguel to Spanish brewer Mahou, while a 24% stake in Italy's Peroni was bought by the company's majority shareholders.
Our 33% interest in Mahou, accounted for under the equity method, has been retained but could be sold at a later date.
These transactions cover several stages.
In 2000, they resulted in a reduction of some €800 million in net financial debt, while ordinary

and preferred shares of Scottish & Newcastle were recorded on the DANONE Group's balance sheet for an amount of approximately €400 million. Subsequent stages entitle DANONE to receive, in one or several payments, a total of some €2 billion from Scottish & Newcastle between now and April 2003. At the close of this period, DANONE may opt to take a 25% financial interest in the beer business of Scottish & Newcastle in lieu of payment. DANONE also has an option to sell its 33% interest in Mahou to Scottish & Newcastle for approximately €400 million.

## Continued rises in return on invested capital and value creation

**Return on invested capital** was up for the fourth year in a row, rising from 8.8% in 1999 to 9%. At the same time, the weighted average cost of capital edged up from 7.5% to 7.75%, mainly due to a rise in interest rates. All told, **shareholder value** created in 2000 came to €150 million, up from €139 million in 1999.

## Outlook

Our group will continue to pursue its strategy of profitable growth focused on our three business lines. In this, priorities will include the development of increasingly effective cross-company organizations, significant commitment to advertising, and a continuing drive for international expansion.
The relative contributions of businesses outside Western Europe should thus rise further, reflecting a combination of organic growth above the group average and continuing acquisitions. At the same time, operating margin and diluted earning per share should remain on an upward track despite expected price rises for milk in Europe and PET on world markets.

## Return on invested capital and creation of shareholder value

### Principles

Our group has for several years made return on invested capital and creation of shareholder value key criteria for the assessment of performances and for reporting both within the group and with the financial community, as well as for the calculation of management compensation.

Unlike most other management indicators, these criteria provide an objective basis to assess the wisdom of asset allocation and the real level of profitability achieved, which in turn is essential to accurate appraisal of share value.

**Return on invested capital** is operating profit expressed as a percentage of the total amount invested to carry on the business concerned, including property, plant and equipment, intangible assets, financial investments and working capital requirement.

**Contributions to shareholder value** represent the theoretical profit when a business is able to generate a return on invested capital exceeding the weighted average cost of capital.

### Definitions

**Invested capital** represents the net total of property, plant and equipment, intangible assets, financial investments and working capital requirement. Goodwill included is before amortization. Invested capital for a given period is calculated by averaging the sums at the beginning and end of that period.

**Return on invested capital** or ROIC is the sum of operating income less tax at the rate theoretically payable by the group and of amortization of goodwill, divided by invested capital.

**The weighted average cost of capital** or WACC is based on the average after-tax cost of net financial debt and the cost of equity capital, these being then averaged in accordance with the ratio of net financial debt to average market capitalization of the commune over the year.

The cost of equity capital is calculated by taking a proxy for a risk-free interest rate – which in France means the average yield on 10-year French treasury bonds – to which is added the risk premium on the French equity market multiplied by the beta for DANONE shares. The risk premium and the beta applied for this purpose are supplied by independent financial institutions with international reputations.

Data used for the calculation of DANONE's weighted average cost of capital:

| | |
|---|---|
| Cost of stockholders' equity | 8.5% |
| Risk-free interest rate | 5.4% |
| Market risk premium | 4.5% |
| Beta | 0.69 |
| After-tax cost of debt | 3.3% |
| Average pre-tax interest rate | 5.3% |
| Average rate of taxation | 37.0% |
| WACC | 7.75% |

Weightings: 85% equity, 15% debt

**Contribution to shareholder value** = (ROIC-WACC) X invested capital.

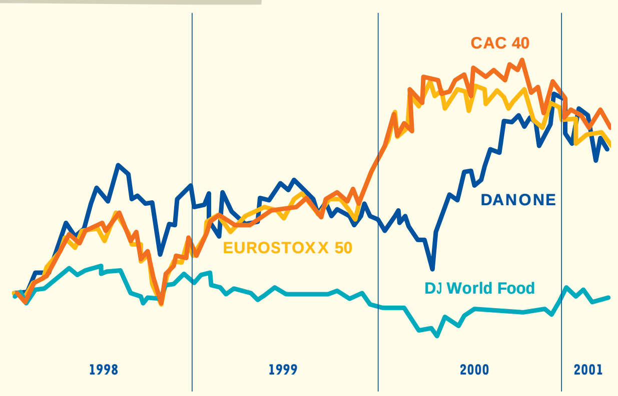
# Stockmarket and shareholders

## Sound fundamentals

### DANONE share price

- **+37% in 2000**
- **-5% in 99**
- **+48% in 98**
- **+49% in 97**

Change from year end to year end




Danone share performance compared with CAC 40 and DJ World Food indices, December 31, 1997 to February 13, 2001

After hitting a low for the year at €90.6 on March 10, DANONE shares staged a vigorous rally, climbing to a peak of €173 on November 10, then closing the year at €160.6.

### One of the strongest showings in the food sector

DANONE made one of the strongest showings of any food stock in 2000, when its 37% rise contrasted with a fall of 16% in the DJ World Food Index, the sector benchmark.

## DANONE share performance

### A rise of over 37% in 2000

DANONE shares put on over 37% in 2000, contrasting with declines of 0.5% in the CAC 40 and 2.7% in the Euro STOXX 50. Against a backdrop of market trends dominated by the technology sector, this performance reflects investors' confidence in our strategy and our group's sound financial basis.

### DANONE share information

**Nominal value: €1 per share**
(at December 31, 2000)

**Number of shares: 149.1 million** (at December 31, 2000)

**Listing:**
**Paris (deferred settlement)**
**London, Brussels, Swiss Stock Exchange, NYSE**
(American Depository Shares; 5 ADS for one share)

**Codes:**
**EUROCLEAR •> 12064 REUTERS •> DANO.PA**
**BLOOMBERG •> BN FP DATASTREAM •> F : BSN**

**Main indices including DANONE:**
**DJ EUROSTOXX 50 •> CAC 40 •> DJ WORLD FOOD**

## DANONE included in Euro STOXX 50 index

Inclusion in the Euro STOXX 50 index in the second half of 2000 raised DANONE's profile on international equity markets, contributing to a rise in liquidity, with trading volumes up 10% over the year. DANONE also joined the Dow Jones Sustainability Group Index, which tracks the shares of companies that pursue growth models based on responsible social and environmental policies.

## Average annual return over three years

**From 1998 to 2000, return on DANONE shares averaged +26% a year**

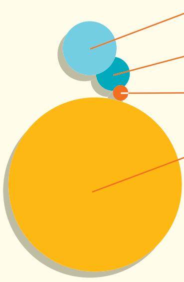
**Over the same period, a sample of leading food-industry stocks generated an average annual return of only +7%.**

Rise in share price plus dividends inclusive of tax credit over the period from December 31, 1997 to December 31, 2000. * Sample made up of Unilever NV, Nestlé, Kellogg's, General Mills, Coca Cola, Pepsi, Cadbury Schweppes and Philip Morris.

## Group shareholders

- **Free float** exceeding 80%
- Nearly 50% of shareholders **outside France**
- Nearly 15% of equity held by **individuals**
- Two-thirds held by **institutional investors**

## Share ownership at December 31, 2000




## Main shareholders (Dec. 31, 2000)

| | % of equity | % of voting rights |
|---|---|---|
| **Eurafrance*** | **5.99%** | **9.46%** |
| **Worms & Cie** | **4.24%** | **7.84%** |
| **FINDIM** | **1.46%** | **1.77%** |

* On March 14, Eurafrance declared a direct equity interest of 4.1% with 7.45% of voting rights

## Changes in capital stock

**Unless stated otherwise, the number of shares is after allowance for the two-for-one split.**

**Early redemption of convertible bonds:** the 3% convertible loan issued in 1993 was redeemed in early 2000, ahead of the initial maturity date.

**Cancellation of shares:** 6.4 million shares in the company's own possession were cancelled in April 2000. Following the cancellation of 9 million shares in 1999, this exhausts the authorization to cancel shares granted by the General Meeting of May 19, 1999.

**Share split:** on June 5, 2000, our group made a one-for-two share split, dividing the nominal value per share by two. As a result, the number of shares with a nominal value of €1 each stood at 149,086,208 on December 31, 2000.

**Share buyback:** after proceeding at a brisk pace in 1998 and 1999 to make optimum use of the cash proceeds of divestments, share buybacks were much more limited in 2000. This reflected the scale of acquisitions, which totaled €2.8 billion during the year, as well as rises in interest rates which reduced the accretive impact of buybacks on earnings per share.

In the first half of 2000, DANONE bought back 1.57 million of its own shares for a total of approximately €169 million. No purchases were made after the Annual General Meeting of May 22, 2000.

## Share buybacks

- **Approximately 18 million shares or 12% of capital stock bought back since 1998**
- **15.4 million shares cancelled in 1999 and 2000**
- **8.1 million shares or 5.4% of capital stock held by the company at December 31, 2000**

## Financial communications and information to shareholders

At DANONE Group, we take a proactive approach to communications with individual and institutional shareholders. Financial results and major transactions are brought quickly to the attention of the financial community through announcements in the press and circulation of press releases to all the main international sites for on-line financial information.

We also have our own **website specializing in financial information**. This includes a special service enabling all those interested to receive an e-mail message whenever a new press release comes out.

**The Annual General Meeting** naturally remains a highlight of the year, providing a unique occasion for the exchange of views and information between management and shareholders.

**In 2000 DANONE Group management met over 350 investors and financial analysts in France, the UK, the US, Germany and other countries, with more than half in individual talks.**

**The DANONE Board of Directors has proposed a dividend of €1.90 per share* for financial 2000, +8.6% more than the dividend for financial 1999 paid out in 2000.**

* Subject to the approval of the AGM on May 29, 2001

## Staying in touch

- **A bi-annual newsletter, sent to all registered individual shareholders with more than 10 shares**
- **An annual report, available on request, in English or in French**
- **A reference document in French and a 20.F form in English filed with stockmarket authorities in France and the US**
- **A website dedicated to DANONE Group financial news at www.finance.danone.com**

## Stockmarket data

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Market capitalization at December 31 (€ millions) | 8,005 | 11,964 | 17,971 | 17,347 | 23,943 |
| Closing price for the year (€) | 55.1 | 82.0 | 122.0 | 117.0 | 160.6 |
| High for the year (€) | 63.3 | 86.0 | 143.7 | 137.6 | 173 |
| Low for the year (€) | 51.5 | 54.3 | 78.4 | 102.9 | 90.6 |
| Average number of shares traded daily ('000) | 331 | 510 | 535 | 525 | 600 |

## Per share data

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Number of shares representing capital stock ('000) | 145,278 | 146,143 | 147,850 | 148,271 | 149,086 |
| Number of shares for the calculation of diluted EPS ('000) | 158,153 | 158,185 | 157,115 | 148,990 | 141,373 |
| Diluted EPS (€) | 3.53 | 3.81 | 4.08 | 4.69 | 5.10 |
| Net dividend per share (€) | 1.3 | 1.4 | 1.5 | 1.8 | 1.9 (1) |
| Net dividend plus tax credit(2) (€) | 1.9 | 2.1 | 2.3 | 2.6 | 2.9 (1) |
| Payout ratio | 36% | 34% | 35% | 35% | 37% |

(1) Subject to the approval of the AGM
(2) Depending on law applicable to beneficiaries, given here as 50% of the dividend

# Human resources

## New challenges and loyalty to values

Maintaining our dual commitment to business success and social responsibility as international expansion gathers pace.

"Jean-René Buisson, 53, French. Senior Vice-President, Human Resources, since 1996 and a member of the Executive Committee."


### The DANONE Way — sharing our values worldwide

Our dual commitment to social responsibility and business success applies wherever we do business. Which is why this commitment is embodied in a set of principles under the name the DANONE Way. These principles concern in particular working conditions and safety, dialog with employee representatives, compensation and benefit policies, backup measures for restructuring, and, in a general way, attention to individuals and their careers.
In each of these areas, DANONE operating entities are to draw up plans for progress, with results subject to regular review.

### A key role in acquisitions

The DANONE Group has set up a special New Business organization to ensure that integration of recently acquired companies goes as smoothly as possible. This organization participates in the processes preceding acquisitions, from preliminary studies through to finalization, and is involved in human resource planning and organizational development as soon as control becomes effective. In this, the priority is for the new entities to share the business practices, systems and values of our Group.

### Odyssée — a management development program for the Group as a whole

The Odyssée program is designed to involve all group managers in the identification and development of talent. Under the guidance of the Group Executive Committee, it involves individual appraisals of all Vice-Presidents who then attend a two-day seminar covering the most effective ways to motivate employees and make the most of their capacities. This is to lead up the development of action plans reflecting Group values and growth targets. The program is to be extended to 8,000 managers in the period through to the end of 2002.

### Developing cross-company organizations

The development of cross-company and cross-functional organizations is a strategic priority for our group, with business growth entailing a continuing process of organizational change.

**Hiris — a common language for businesses around the world**

Hiris is our new human resource information system accessible over the internet. Major applications cover personnel administration, payroll, careers and training. Staff members will have access to their personal files and be able to bring these up to date when necessary.

Hiris will in time be deployed at all DANONE Group companies around the world, with the first stage in the program covering six countries in Europe, North America and South America in 2000 and 2001.

**Sharing resources**

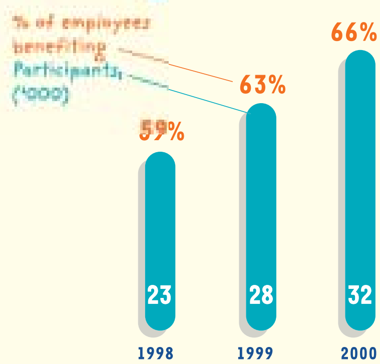
In a number of countries there is scope for group companies to share human resources support in some areas. Organizations have already been set up for this purpose in France, Italy and Argentina. These are intended to enhance overall efficiency through common recruitment and training programs, as well as increased mobility within the group, while at the same time generating economies of scale in payroll and general administration

**Special training programs dubbed "Colleges" have been set up for the Asia-Pacific region, drawing on experience acquired in Europe. These cover marketing, finance and purchasing, as well as management. In 2000, courses were attended by 1,124 managers from all parts of the region, extending from India to New Zealand.**

## Dan'owledge – sharing know-how

**The Dan'owledge intranet site launched in 2000 gives all group human resource managers rapid access to information on methods and best practice in management, recruitment, organization and more.**


## DANONE Group training*




*excluding Asia

## Employees by region (*)

| | 1999 | | 2000 | |
|---|---|---|---|---|
| France | 15,790 | 21% | 11,759 | 13% |
| Other Western Europe | 17,974 | 23% | 16,264 | 19% |
| Sub-total, Western Europe | 33,764 | 44% | 28,023 | 32% |
| Central and Eastern Europe | 7,146 | 10% | 7,415 | 9% |
| Asia-Pacific | 24,283 | 32% | 33,736 | 39% |
| North and South America | 10,772 | 14% | 17,483 | 20% |
| Sub-total, Rest of World | 42,201 | 56% | 58,634 | 68% |
| Group total | 75,965 | 100% | 86,657 | 100% |

## Employees by business line (*)

| | 1998 | 1999 | 2000 | 2000 (%) |
|---|---|---|---|---|
| Dairy products | 21,696 | 22,023 | 23,692 | 27% |
| Beverages | 20,651 | 23,031 | 31,042 | 36% |
| Biscuits | 24,797 | 27,849 | 28,835 | 33% |
| Other food business | 4,598 | 2,535 | 2,500 | 3% |
| Containers | 6,708 | - | - | - |
| Corporate departments | 495 | 527 | 588 | 1% |
| Total | 78,945 | 75,965 | 86,657 | 100% |

* Employees of fully-consolidated companies at December 31, 2000.

# DANONE
# business lines

## Three growth businesses attuned to consumer favors for fitness and health.

-> **No. 1** worldwide for dairy products

-> **No. 2** worldwide for biscuits

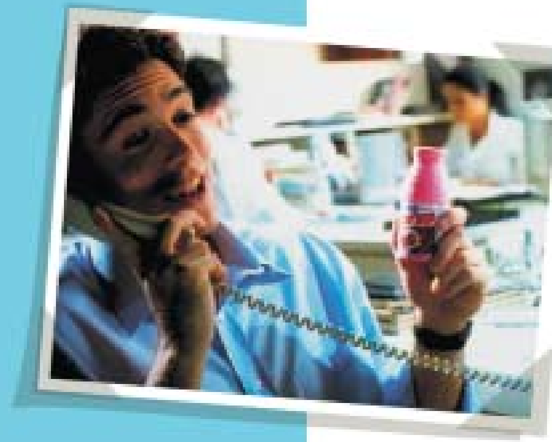
-> **No. 2** worldwide for bottled water

-> **No. 1** on emerging markets for all three businesses

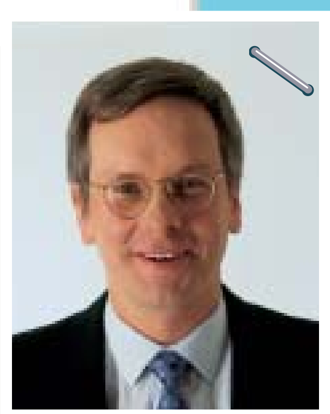

DANONE
Corpus
0%

# Dairy products

## Health, vitality and pure pleasure



DANONE is a strong No. 1 on world markets for dairy products, a sector synonymous with health — and thus increasingly popular with consumers • Our proven capacity for innovation means that we are well placed to make the most of the many opportunities for growth with new probiotic recipes and drinkable versions of other products, in step with the growing trend to eating on the move • Moreover, the industry is still fragmented, with local producers accounting for some 70% of world output.



"Jan Bennink, 44, Dutch. Senior Vice-President, dairy products worldwide, since 1997 and a member of the Executive Committee."


### Sales

Sales growth quickened from 5.4% in 1999 to 6.7% like for like for 2000. Excluding Galbani and Bledina, like-for-like growth in yogurts and allied products was a vigorous 8.8%. Sales were up in nearly all countries, as was market share in many cases. Effective innovation again provided much of the momentum with the support of organizations favoring cross-company links to share best practices and ensure optimum geographical deployment.

Sales growth was sustained in Western and Central Europe as well as in Mexico and North America.

In the US, pace quickened with demand particularly firm. In Argentina, unfavorable economic trends were reflected in flat sales, with conditions particularly difficult in the closing quarter. Brazilian sales, in contrast, showed a significant rise.

Drivers for growth included excellent performances from Actimel, firm trends in snacking products such Dania and Jockey Petit Encas, strong demand for Taillefine/Vitalinea diet products, and continuing momentum for drinkable products such as Danimals Drinkables, Dananino and Bio for adults and children.

### Operating margin

Operating margin edged down from 11% in 1999 to 10.9% in 2000, against a backdrop of particularly unfavorable trends in raw materials, with milk prices showing significant rises in most parts of Europe.

Prices for the plastics used in packaging also headed up sharply, in step with oil prices. These rises were only partly offset by continuing efforts to raise productivity and increases in our own prices to customers in some countries. Galbani's margin was particularly hard hit by steep rises in milk prices in Germany, the company's main source of supply.

## Europe

### France

With demand generally steady, DANONE made a relatively strong showing, with a 4% rise in sales increasing its share of the market. Among our most successful products were Crème de Yoghurt, Jockey Petit Encas, Actimel, Danao, Danone et Fruits Recette Crémeuse and dairy desserts under the Charles Gervais label. During the year, DANONE moved up to the first place for fruit yogurts.

Our subsidiary Blédina, France's leading producer of infant foods, turned in a no better than average performance, with business temporarily affected by delays in the launch of new products.


**No. 1 worldwide in dairy products, with 15.5% of the total market. The leader in Western and Central Europe, North and South America, and North Africa. Strong positions in Italian-style cheeses with Galbani and in infant foods with Blédina. Dairy products account for 48%* of DANONE Group sales and 50%* of operating income.**

* pro forma, on the basis of businesses remaining at December 31, 2000.

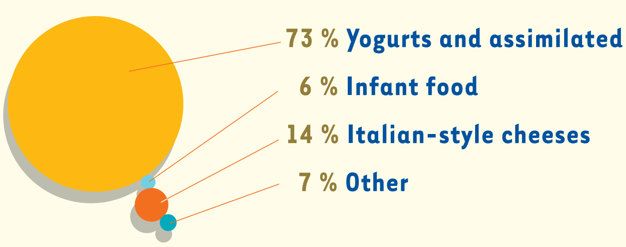
### Spain

Danone Spain, boasting a top 50% share of the market, reported sales growth of over 8%, including particularly vigorous rises for Actimel, Dan'up and diet products. Danio and Bio Drink, launched at the end of the year, got off to a promising start.

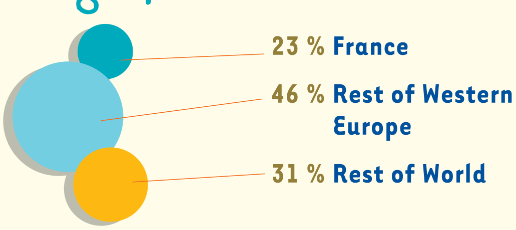
### Portugal

Consolidating its number-one position with a new rise in market share, DANONE turned in a strong performance, with sales up over 20%.

## Sales by segment




## Geographical breakdown




## Business by country

€ millions

| | Ranking (1) | Sales |
|---|---|---|
| France | No.1 | 1,483 (2) |
| Italy | No.1 | 1,245 (3) |
| Spain | No.1 | 886 |
| US | No.2 | 579 |
| Eastern Europe | No.1 | 404 |
| Germany | No.2 | 305 |
| Argentina | No.1 | 288 |
| Brazil | No.1 | 179 |

(1) Yogurts and assimilated products, volume
(2) Danone + Blédina
(3) Danone + Galbani

## Germany

DANONE registered moderate sales growth against a backdrop of difficult market conditions. Actimel continued to score vigorous gains, with added impetus coming from the launch of a 0% fat version.

## Belgium

Sales were up by over 10% in 2000, widening DANONE's lead on competitors, with Actimel and Vitalinea continuing to make strong showings.

## Netherlands

DANONE again recorded strong growth and a significant rise in market share.

### The world market at a glance*

- €41 billion, 23 million metric tons
- Main producers: DANONE, Nestlé, Yoplait, Yakult
- Over 70% supplied by local producers
- 40% of volumes sold outside Western Europe and North America
- Wide gaps between per capita consumption:
  - 20 kg a year in Western Europe
  - 3 kg a year for the rest of the World

* Yogurts and assimilated products

## Italy

DANONE reported strong showings for yogurts and assimilated products, with sales up nearly 10% and market share on the rise. Actimel made rapid gains, and Vitasnella diet products continued to perform very well. Galbani, in contrast, reported steady sales, with operating margin suffering a significant decline due to the rise in milk prices.


### Actimel

**Sold in 14 countries**
**Sales € 251 million**
**Up 53% from 1999**
**Non-fat version launched in 2000**

## UK and Ireland

DANONE again recorded strong growth in both the UK and Ireland, in particular thanks to the success of Actimel and Activia. These helped DANONE win first place in the health segment of the dairy products market.

## Eastern and Central Europe

DANONE consolidated its leading position in the region with sales growth topping 15%. The rise was particularly vigorous in Russia, but was also over 10% in nearly all other countries. Highlights of the year included a promising start for Actimel in the Czech Republic, a successful launch for Bio in Hungary, and the continued popularity of Danissimo snacks in Russia.

## North America

### USA

DANONE sales growth bounced back to reach nearly 8% against a backdrop of firm market trends. Business benefited from the successful relaunch of existing products as well as new products such as Danimals Drinkables, which proved a big hit with children. These favorable factors were reflected in significantly higher operating margin.

## Canada

No.1 on the market, DANONE again reported strong growth, with sales up by more than 10%.

## Latin America

DANONE, the region's leading producer of dairy products, generated sales growth in excess of 10% during the year.

## Mexico

Growth remained robust at over 20%, with the Vitalinea line-up of diet products getting off to a strong start in the course of the year. Other big successes were Danette and the Danonina brand for children.

## Argentina

While the market contracted as a result of unfavorable economic trends, DANONE was able to hold sales steady over the year. However the fourth quarter was particularly difficult and volumes suffered a significant decline.
The acquisition of 51% of Logistica Serenissima, the company distributing our dairy products in Argentina, should favor the development of sales and logistics organizations benefiting from our Group's know-how in these fields.

## Brazil

Sales were up by over 10% and the acquisition of Paulista at the end of 2000 gives our Group a strong No.1 position, with over 30% of the market.

## Milestones

**Brazil: DANONE Group acquires Paulista, making it a strong No.1 on Latin America's largest market**

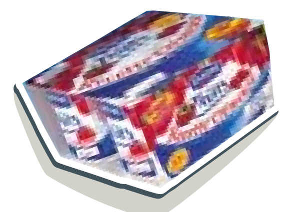
**Argentina: acquisition of a controlling interest in Logistica Serenissima, which distributes our products through 72,000 outlets**

**Saudi Arabia: acquisition of a 50% interest in Al Safi Danone, a leader on a market with strong demand for dairy products**

## Other

## South Africa

Sales growth exceeding 10% confirms the sound basis of our strategy for the South African market.



## Partnerships

Companies in which our Group holds minority interests, accounted for under the equity method, generally turned in very satisfactory performances in 2000.
Growth was firm in Morocco and Tunisia, while in Israel Strauss Dairy consolidated its leadership with a rise in market share. In Greece, Delta Dairy recorded moderate growth on a slack market.
Finally, in Japan Calpis Ajinomoto Danone reported a strong rise in volumes.

*Business in the Asia-Pacific region is reviewed on page 46 of this report.*

## Key figures

€ millions

| | 1997 | 1998 | 1999 | 2000 | 2000 FRF millions |
|---|---|---|---|---|---|
| Sales | 5,324 | 5,665 | 5,981 | 6,530 | 42,723 |
| Growth, like for like (*) | +4.6% | +5.2% | +5.4% | +6.7% | +6.7% |
| Operating income | 557 | 621 | 655 | 712 | 4,670 |
| Operating margin | 10.5% | 11% | 11% | 10.9% | 10.9% |
| Cash flow from operations | 542 | 586 | 615 | 667 | 4,375 |
| Capital expenditure | 277 | 253 | 312 | 308 | 2,020 |
| % of sales | 5.2% | 4.5% | 5.2% | 4.7% | 4.7% |
| Employees | 21,743 | 21,696 | 22,023 | 23,692 | 23,692 |

(*) At constant structure and exchange rates

# Beverages

## Momentum for worldwide leadership in water


Water in bottles and containers is one of the fastest growing sectors in the food industry, and our Group is one of the most dynamic and profitable businesses in the field. Prospects are highly promising in both developed countries and emerging markets, with products matching consumer priorities — increasingly centered on health, vitality and food safety. Our Group is uniquely equipped to make the most of this potential. Strengths include • 3 of the world's 4 top brands for bottled water*, Volvic, Evian and Wahaha (China) • No.1 world ranking in still waters, the fastest growing segment of the market • unrivaled geographical reach, as the only business in the world with strong positions on four continents and the top ranking on emerging markets.

* by volume

"Pedro Medina, 41, Venezuelan. Senior Vice-President, water Worldwide, since 1999, and a member of the Executive Committee."



### Sales

Sales grew 8.4% at constant scope and exchange rates, or 10.7% excluding breweries, with our European businesses in this field sold in the course of the year.

The overall figure covers rises of 11.4% in Europe and 10.3% in other parts of the world. Sales suffered from unseasonable summer weather in Europe and on the eastern seaboard of the US.

Growth in Europe was above the market average, reflecting the strength of our brands and a favorable business mix, with a significant presence on higher growth markets and business segments. In the US, Dannon Water continued its success, with sales up 17% in the year, while in the premium waters segment Evian gained 8%. In China, one of the world's fastest growing markets, our Group had another highly successful year, with organic sales growth in bottled water reaching 36%. During the year Wahaha took second place worldwide for volumes in bottled water.
Turning to Latin America, DANONE Group brands generated sustained growth despite the difficulties associated with economic conditions in Argentina.
Beer sales rose 0.9% like for like, reflecting slack market trends in Europe. French and Belgian brewery businesses were consolidated to June 30 and Spanish brewing to December 31 in 2000.

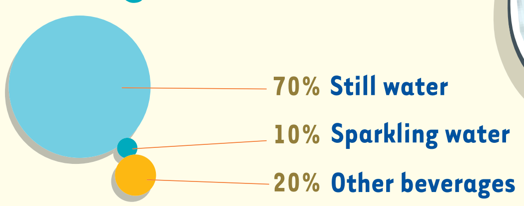
**No. 2 worldwide for water in bottles and containers with 10.4% of the market. No. 1 worldwide in still water. No. 1 worldwide for home and office deliveries. No. 1 in water on emerging markets. 3 of the world's top 4 brands[(1)] for bottled water (under 2 liters) with Wahaha, Volvic and Evian. Strong positions in North America, Europe and Latin America. A strong No. 1 in Asia. Beverages account for 25%* of DANONE group sales and 29%* of operating income.**

(1) By volume

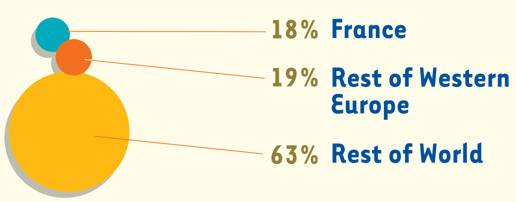
## Operating margin

Operating margin on beverage sales held steady at 12.4% in 2000, despite a sharp rise in PET prices and unfavorable changes in the scope of consolidation. Newcomers including McKesson and Robust generated margins after goodwill below the average for the business line, whereas European brewery business excluded from consolidation earned high margins.
At constant scope and exchange rates, operating margin on beverages rose 93 basis points overall, with nearly all subsidiaries reporting improvements. This reflects a combination of sustained business trends and major efforts to raise productivity, as well as price rises to cover the higher cost of PET in some countries.

## Sales by segment*




## Geographical breakdown*




## Business by country

€ millions

| | Ranking (1) | Sales 2000 |
|---|---|---|
| France | No. 2 | 777 |
| Spain | No. 1 | 194 |
| Italy (2) | No. 3 | 189 |
| US | No. 2 | 754 |
| Mexico (3) | No. 1 | 68 |
| Canada | No. 2 | 66 |
| Argentina (3) | No. 1 | 135 |
| China (3) | No. 1 | 298 |
| Indonesia (4) | No. 1 | 89 |

(1) By volume
(2) Sparkling water
(3) Bottled water
(4) Company accounted for under the equity method in 2000

* pro forma, on the basis of business remaining at December 31, 2000.

# Water


## Europe

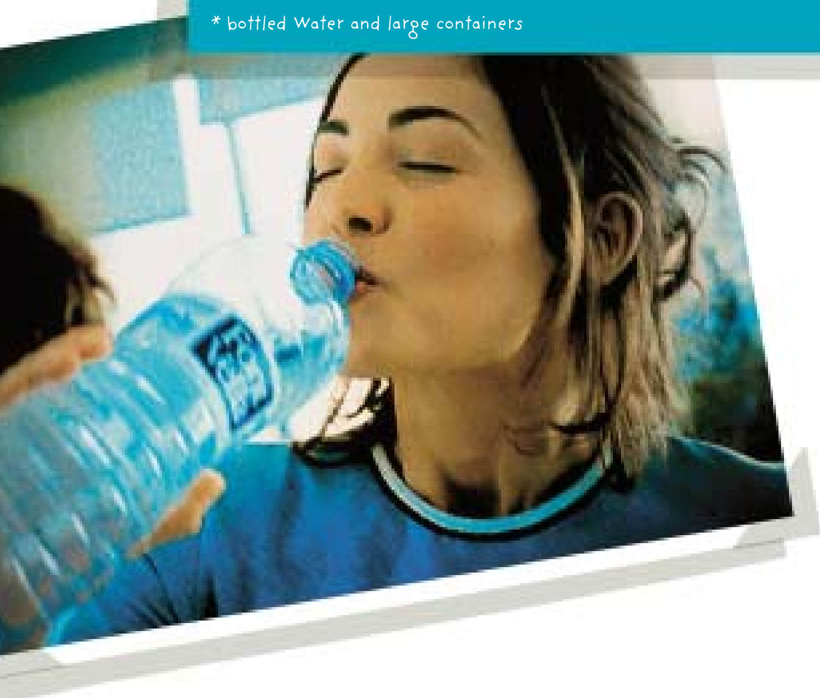
### France

Our Group raised its share of sales value on a market showing only a modest rise due to unseasonably cool summer weather. Despite these unfavorable conditions and increasingly fierce competition, our sales rose by over 5%. The year saw a number of new product launches, including the 75-cl Evian Nomade bottle designed for people on the move and the Volvic 5-liters container. In the final quarter, our new strategy for European markets gained pace with two Danone brand products, Danone Taillefine and Danone Activ', the latter a calcium-enriched water for the health conscious.

## World water market *

- €36 billion, 110 billion liters
- Strong growth with volumes up an average of 9.9% in the past three years
- Main contenders: Danone, Nestlé, Pepsi and Coca-Cola
- Over 70% still supplied by local producers
- 48% of volumes drunk outside Western Europe and North America
- Wide gaps in per-capita consumption:
  - 84 liters a year in Western Europe
  - 12 liters in the rest of the World

* bottled Water and large containers



### Spain

The DANONE Group enjoys a strong No.1 position on the Spanish market, where growth rates are among the fastest in eastern Europe. Sales of both Fontvella and Lanjaron rose by over 15%, increasing their share of the market.

### Italy

Against a backdrop of firm market trends, Italaquae reported a healthy rise in sales, up over 7%. Danone Vitasnella, designed for the diet conscious, got off to a good start following its launch at the end of the first half, quickly taking 3% of market value in the still water segment.

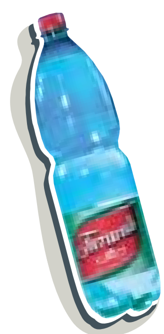
### European exports

Export sales of Volvic and Evian rose steeply in 2000 and our Group significantly increased its share of fast-growing markets for still waters in the UK and Germany. We thus hold nearly 40% of the British market and over 50% of the extremely brisk German market for still water. Finally, Dan'Activ was put on the UK market at the end of the year.

## North America

### US

The acquisition of McKesson significantly strengthened our No.2 position in the US, where we now enjoy a strong presence in all water market segments.
Evian is the uncontested leader in premium waters, while Dannon Water is the top brand for the core market in supermarkets nationwide. Sparkletts is the No.1 name for water in large containers.
In 2000, sales growth reached 17% for **Dannon Water**, over 8% for **Evian**, and over 7% for **Sparkletts**, which put in a good performance for home deliveries.



## 3 of the 4 top brands worldwide for bottled water (less than 2 liters)

- **EVIAN, No. 1 worldwide with 1,477 million liters sold in 2000**
- **WAHAHA, No. 2 worldwide with 1,137 million liters sold in 2000**
- **VOLVIC, No. 4 worldwide with 1,046 million liters sold in 2000**

## Milestones

**Europe:** DANONE Group sells its **European beer** business. Launch of bottled waters under the **Danone brand**.
**US:** acquisition of **McKesson Water**, a leader in home and office deliveries, significantly reinforcing DANONE Group's No. 2 position on the market.
**China:** DANONE Group consolidates its top ranking with the acquisition of a 93% interest in **Robust**, the country's No. 2 brand. An agreement is signed for the acquisition of a 50% interest in **Aquarius**, No.1 in China for home and office deliveries.
**Poland:** DANONE Group moves into Eastern Europe's largest market through a **joint venture** with Italy's San Benedetto.
**Canada:** acquisition of the bulk of **Naya's** assets consolidates our group No. 1 market ranking

**Early 2001**
**Indonesia:** DANONE Group acquires an additional 40% of **Aqua**, the Asia-Pacific region's largest water producer, raising its interest to 74%.

### Canada

DANONE Group consolidated its top ranking by acquiring the assets of Naya, a high-profile brand on the Canadian market.

### Latin America

### Argentina

Economic difficulties hit consumer demand hard, but water proved one of the more resilient segments. DANONE Group was thus able to raise its share of the market with a 7% rise in sales. The success of Brio has made our Group No.1 in still water, while sales in large containers under the Villa Alpina brand showed a steep rise.

### Mexico

Against a backdrop of vigorous market growth, Bonafont recorded a rise of nearly 80% in sales and significantly increased both market share and margin.

### Exports to Japan

Volvic is the best selling imported water in Japan, with a market share of nearly 15%.

## Beer

Our European beer businesses were sold in the course of the year. Kronenbourg and Maes were consolidated only over the first six months of 2000, and San Miguel was eliminated from the scope of consolidation from January 1, 2001. Beer sales rose 0.9% like for like over the period.

*Business in the Asia-Pacific region is reviewed on page 46 of this report.*

### Key figures

€ millions

| | 1997 | 1998 | 1999 | 2000 | 2000 FRF millions |
|---|---|---|---|---|---|
| Sales | 2,755 | 3,004 | 3,565 | 4,141 | 27,163 |
| Growth, like for like (*) | +7.0% | +8.2% | +9.4% | +8.4% | +8.4% |
| Operating income | 327 | 368 | 440 | 513 | 3,365 |
| Operating margin | 11.9% | 12.3% | 12.3% | 12.4% | 12.4% |
| Cash flow from operations | 383 | 456 | 533 | 537 | 3,522 |
| Capital expenditure | 235 | 241 | 247 | 395 | 2,591 |
| % of sales | 8.6% | 8.0% | 6.9% | 9.5% | 9.5% |
| Employees | 18,864 | 20,651 | 23,031 | 31,042 | 31,042 |

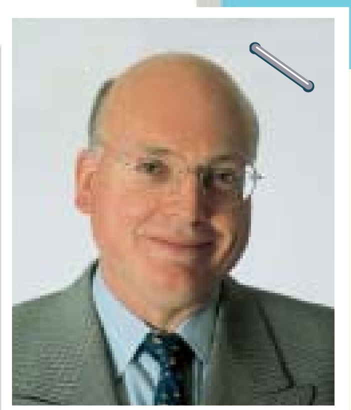
(*) At constant structure and exchange rates

# Biscuits

## Attuned to new demands for pleasure, vitality and convenience

Quickening organic growth and a healthy rise in margins bear out our strategy. DANONE Group will thus continue to pursue policies emphasizing differentiation and value through • a clear message focusing on the nutritional benefits of grains • a steady flow of new, high-value products combining taste appeal and nutritional balance • convenient packaging and sizes for snacking and eating away from home.

DANONE Group is the uncontested leader for biscuits on emerging markets.



"Jean-Louis Gourbin, 53, French. Senior Vice-president, biscuits Worldwide, since 1999 and member of the Executive Committee."



### Sales

Organic sales growth accelerated sharply from 3.4% in 1999 to 6.4% in 2000, reflecting both generally favorable conditions and the benefits of the sweeping changes to our business over recent years. These have focused on product innovation to drive growth, and intensive advertising centered on the nutritional value of biscuits. A focus on top brands has also contributed to strong growth, with sales up nearly 8% for LU, over 9% for children's brand Prince and over 40% for Taillefine diet ranges.

In Western Europe, business showed healthy rises in France, the Benelux and Spain, while in Eastern Europe, there was a strong rally in Russia and trends in Poland were vigorous, but sales in the Czech Republic were flat. Asian business again made a robust showing, with growth averaging over 12%, while economic troubles made for difficult conditions in Latin America, especially Argentina.

## Operating margin

Operating margin picked up from 7.9% in 1999 to 8.7% in 2000. Improvement was particularly marked on emerging markets, reflecting the combined benefits of firm sales and economies of scale as business reached critical mass in a number of countries.
In Europe, gains reflected a significant improvement in product mix, in turn due to the success of a number of high-value products.

## Europe

### France

French sales headed up in 2000, rewarding a strategy focused on value-added products to offset the structural decline in demand for traditional biscuits. The Taillefine diet range, which now includes snack bars as well as sweet and savory products, continued to gain ground.



**No. 2 worldwide in biscuits with 9.5% of the market. No. 1 in Western Europe and emerging markets. Strong positions in Central Europe, South America, Asia and North Africa. Biscuits account for 24%* of DANONE Group sales and 19%* of operating income.**

* pro forma, on the basis of businesses remaining at December 31, 2000.

### Benelux

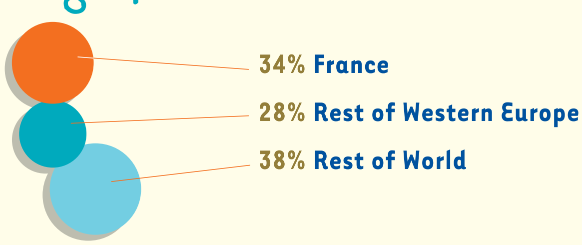
The LU brand continued to do well, while other leading group brands Prince, Liga and Vitalinea scored healthy gains.

### Italy

A focus on core brands brought a significant improvement in growth rates, with Tuc, Vitasnella, and Premium all doing better. As a result of our Group's acquisition of selected assets of United Biscuits, we took over the Fonzie brand, a leader in savory biscuits.

## Sales breakdown


## Geographical breakdown




## Business by country

€ millions

| | Ranking (1) | Sales |
|---|---|---|
| France | No. 1 | 1,137 |
| Benelux | No. 1 | 216 |
| Italy | No. 2 | 186 |
| Eastern Europe | No. 1 | 243 |
| Brazil | No. 2 | 159 |
| Argentina | No. 2 | 219 |
| India | No. 1 | 284 |
| China (2) | No. 1 | 64 |
| New Zealand | No. 1 | 102 |

(1) by volume
(2) Danone brand

## UK

We continued to put profitability first, focusing resources on a limited number of top brands.
Our Group held onto its share of a generally steady market, with the success of products such as Ritz offsetting decline in non-strategic lines, in particular in sweet biscuits.
We significantly reinforced our top position for savory products with the Tuc and Cheddar brands, included in the assets of United Biscuits acquired by our Group.

## Spain

Demand was brisk in Spain, and DANONE Group increased sales by some 10%, raising its share of the market. The Principe brand did particularly well, with a steep rise in sales reflecting the benefits of intensive advertising, and the successful launch of a breakfast range under the name Megamañana.

### The world biscuit market

- **13 million metric tons**
- **€42 billion**
- **Main contenders: Danone, Nabisco**
- **Over 70 % of supplies still from local producers**
- **Per capita consumption: 8.5 kg a year in Western Europe**
- **3 kg a year in the rest of the world**


## Eastern Europe

## Czech Republic and Slovakia

The leader on this fiercely competitive market, our Group reported no rise in sales for 2000.


### Taillefine/Vitalinea diet biscuits

- **Sold in 10 countries**
- **€108 million sales**
- **Up 40% from 1999**

## Poland

Our Group consolidated its No. 1 position with sales growth topping 10%. Our leading brands Delicje and Pleguski turned in strong performances backed by a combination of new products and relaunches.
During the year, the LU brand made its Polish debut, targeting the health and fitness segment.

## Russia

Against a backdrop of improved economic trends, Bolshevik's range, specially suited to local demand, scored a rise of over 20% in sales, raising its share of the market.
This rewarded a drive to focus on two top brands, Jubilee and Prichouda, backed by the launch of new varieties.

## Latin America

No.1 in the region, our group reported steady sales in 2000.

## Argentina

Despite weakening economic trends and market contraction, Bagley reported steady sales overall. Top brands even scored a rise of over 5%, reflecting the success of Traviata, Opera and Ser, the last a diet range showing strong growth.

## Brazil

While the market as a whole contracted, our DANONE Group was able to report a moderate overall rise in sales. Growth for our top brands exceeded 10%, with Gran Dia and Danyt's proving big successes. Aymore, now a wholly-owned subsidiary, was consolidated over 12 months.

## Partnerships

Companies in which our Group holds minority interests, accounted for under the equity method, made a generally satisfactory performance in 2000. Business took a favorable turn in Germany, Tunisia and Colombia, but trends were patchier in Morocco.

*Business in the Asia-Pacific region is reviewed on page 46 of this report.*

## Milestones

- **Brazil:** DANONE Group raises interest in **Aymore** to 100%.
- DANONE Group acquires selected assets of **United Biscuits**, consolidating existing positions and moving into new markets with a lead from the start.

  **UK:** acquisition of the Cheddar and TUC brands consolidates our number-one ranking in crackers.

  **Scandinavia:** previously little present, our Group is now No.1 in the region, where it has acquired a production site and stands to benefit from its high levels of consumer purchasing power.

  **Italy:** acquisition of the Fonzie brand

  **Poland** [1]**:** the San brand significantly reinforces our number-one market ranking.

  **Hungary**[1]**:** DANONE Group starts out a strong leader in its debut on the Hungarian market.

  **Malaysia**[1]**:** our existing lead widens significantly.

  *(1) These businesses will be consolidated from 2001*

**Early 2001**

DANONE Group announces plans for reorganization to enhance industrial performances in Europe.

## Key figures

€ millions

| | 1997 | 1998 | 1999 | 2000 | 2000 FRF millions |
|---|---|---|---|---|---|
| **Sales** | 2,674 | 2,607 | 2,822 | 3,255 | 21,359 |
| **Growth, like for like** (*) | -2.6% | +3.6% | +3.4% | +6.4% | +6.4% |
| **Operating income** | 182 | 203 | 222 | 282 | 1,850 |
| **Operating margin** | 6.8% | 7.8% | 7.9% | 8.7% | 8.7% |
| **Cash flow from operations** | 200 | 226 | 263 | 315 | 2,086 |
| **Capital expenditure** | 138.9 | 99.4 | 88 | 83 | 544 |
| **% of sales** | 5.2% | 3.8% | 2.9% | 2.5% | 2.5% |
| **Employees** | 26,644 | 24,797 | 27,849 | 28,835 | 28,835 |

(*) at constant structure and exchange rates

# Asia-Pacific

## Success for profitable growth

Over the past four years, our Group has recorded annual growth averaging 30% as well as steady gains in operating margin, now nearing 10%.
Looking ahead, we can build on a unique combination of strengths in what is one of the world's most promising regions:
• strong No. 1 positions in biscuits and water in bottles and containers • a broad presence, with sales close to € 1.7 billion, associated with significant economies of scale • outstanding marketing know-how to serve powerful local brands.

"Simon Israel, 47, New Zealander. Senior Vice-President, Asia-Pacific, since 1997 and a member of the Executive Committee."

### Sales

Growth in the region remained vigorous, with sales up 15.5% for non-alcoholic beverages, nearly 12.5% for biscuits, close to 10% for sauces, and over 20% for dairy products, which account for a still limited share of business. Performances in China, our Group's biggest market in the region, were again excellent, including rises of over 35% for bottled water and more than 20% for biscuits. In India, Malaysia and Pakistan, countries, where our Group is present through biscuit operations, sales were up by over 10% on all three markets. In Indonesia, improved economic conditions and product ranges better matching consumer expectations brought a vigorous rise in sales.

### Operating margin

Nearly all Group companies in the region reported higher operating margins in 2000. Overall, margin was up from 8.1% in 1999 to 9.7% in 2000, demonstrating the potential for profitable growth associated with the DANONE model for international expansion. Gains reflect momentum over time, since margin nearly doubled over the past three years.

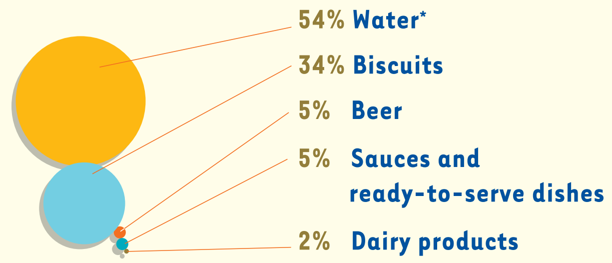
The second half saw significant investments in plant to ensure capacity keeps pace with rapid market growth.
Turning to **biscuits**, sales showed a vigorous rise of over 20% like for like.
A highlight of the year was the launch of Soda Crackers on the Chinese market.

Our strategy is built on high-profile brands for the general public, backed by extensive advertising stressing nutritional benefits.
At the same time, we aim to build new value into ranges over the medium term.

## China

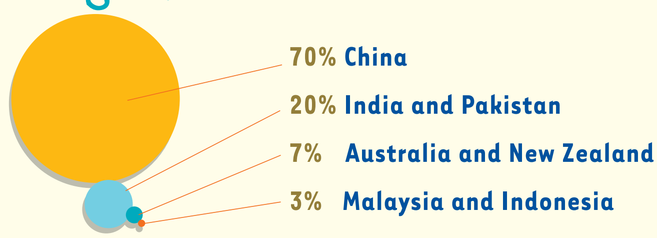
Business growth remained vigorous in China, with sales of bottled water and biscuits showing steep rises.
Our Group significantly strengthened its top position in **bottled water** with the acquisition of the country's No. 2 brand, Robust.
Combined sales of Wahaha and Robust reached 1.8 billion liters, while sales at constant scope and exchange rates rose by more than 35%.

### Sales breakdown




* Includes other non-alcoholic drinks

### Geographical breakdown




### Key figures

€ millions

| | 1998 | 1999 | 2000 | 2000 (FRF millions) |
|---|---|---|---|---|
| Sales | 851 | 1,119 | 1,571 | 10,303 |
| Growth, like for like (*) | +19.9% | +24.9% | +11.8% | +11.8% |
| Operating income | 53 | 86 | 136 | 890 |
| Operating margin | 6.2% | 7.7% | 8.6% | 8.6% |
| Cash flow from operations | 81 | 124 | 193 | 1,266 |
| Capital expenditure | 92 | 88 | 167 | 1,095 |
| % of sales | 10.8% | 7.9% | 10.6% | 10.6% |
| Employees | 20,651 | 23,878 | 33,736 | 33,736 |

(*) At constant stucture and exchange rates

### Main operating entities

€ millions

| | | Market ranking (1) | Sales |
|---|---|---|---|
| Wahaha<br>Robust | (China) | No. 1 (2) | 819 |
| Britannia (3) | (India) | No. 1 | 284 |
| Britannia (3) | (Malaysia) | No. 1 | 43 |
| Griffin's (3) | (N. Zealand) | No. 1 | 102 |
| Amoy (4) | (China) | No. 1 | 95 |

(1) by volume
(2) bottled water
(3) biscuits
(4) grocery products

On the rapidly expanding but still small market for **dairy products**, our Group teamed up with Shanghai Bright Dairy to expand distribution and reinforce our brand. DANONE contributed its assets in existing dairy business in exchange for a minority interest in the company, which is to handle production and sales for the Danone brand in China.

In **sauces**, Amoy turned in a healthy performance, with strong sales to continental China and on export markets.

Finally, our **beer** business had a difficult year due to competitive pressures from some local producers.

## Pakistan

Despite the difficulties resulting from a lengthy distributors' strike, sales were up by over 14%.

## Indonesia

A particularly steep rise in **biscuit** sales reflected both firmer economic trends and the rewards of the marketing policies pursued over recent years, focusing on the development of Danone-brand ranges attuned to local demand. Aqua, the country's leading producer of **water in bottles** and containers, had an excellent year, with sales revenues up by more than 40% like for like and volumes nearing 1.8 billion liters. Aqua, in which DANONE Group held a 40% interest, was accounted for under the equity method in the group's consolidated accounts for 2000.

## No. 1 on Asian water markets in 2000

- **A strong lead in the region as a whole, with market share over 20%**
- **Strong No. 1 positions on two of the region's largest markets: Wahaha in China and Aqua in Indonesia**
- **3.8 billion liters sold, 35% of the DANONE Group total**
- **Wahaha the world's No. 2 brand for bottled water under 2 liters**
- **Aqua, selling water in both large containers and bottles, ranks second worldwide for water overall, with volumes totaling nearly 1.8 billion liters**

## Milestones

- **China:** DANONE Group acquires **93%** of **Robust** significantly strengthening its **No. 1** position in bottled water and dairy beverages. Robust is particularly well represented in urban areas.
  DANONE Group is also to become a major contender for water in large containers following an agreement allowing for its acquisition of a **50%** interest in **Aquarius Water**
- **Malaysia:** our group reinforces its presence with the acquisition of assets formerly belonging to **United Biscuits**

**Early 2001**

- **Indonesia:** DANONE Group raised its interest in **Aqua,** the top water business in the Asia-Pacific region, from 40% to 74%.


## India

Britannia, No.1 for **biscuits** in India, made a good showing with sales up by more than 12% like for like. The **Tiger** range continued to generate strong growth and now accounts for 20% of the company's business.

## Malaysia

**Biscuit** sales in Malaysia were up by over 15%. The popular Tiger range, developed in India, got off to a strong start and business will expand following the acquisition in 2000 of the former assets of **United Biscuits.**

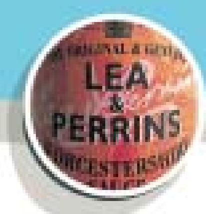
## New Zealand

**Griffin's**, New Zealand's top biscuit-maker, reported steady sales on a mature market.
The company made a successful move into cereal bar snacks with its Fruitli range based on products developed in Europe.

# Other food business

Bringing together our Group's sauce businesses in the UK, the US and China, the division accounts for less than 3% of consolidated sales.

"Georges Casala, 59, French. Senior Vice-President, Internationalization Strategy, since 2000 and a member of the Executive Committee."


**Sales** for 2000 came to € 378 million, showing a healthy 3.2% rise like for like. However the reported figure was down from the previous year, reflecting the sale of some business in groceries and ready-to-serve dishes, which were consolidated over part of 1999 and not at all in 2000.

**Operating margin** showed a strong rise from 7.4% in 1999 to 13% in 2000, reflecting good performances from remaining businesses as well as the elimination from the scope of consolidation of businesses sold, which generated lower margins.

## UK

Sales of traditional sauces HP, Lea & Perrins and Daddies were up nearly 5%, while Amoy imports from China scored major success with big retailers, significantly strengthening the brand's position in the ethnic sauces sector.

## US

Lea & Perrins Worcester sauce had another good year after a strong performance in 1999, thus reinforcing its lead in the segment. However, market share in steak sauces slipped in the face of fierce competition.

Business in the Asia-Pacific region is reviewed on page 46 of this report.

# Financial statements

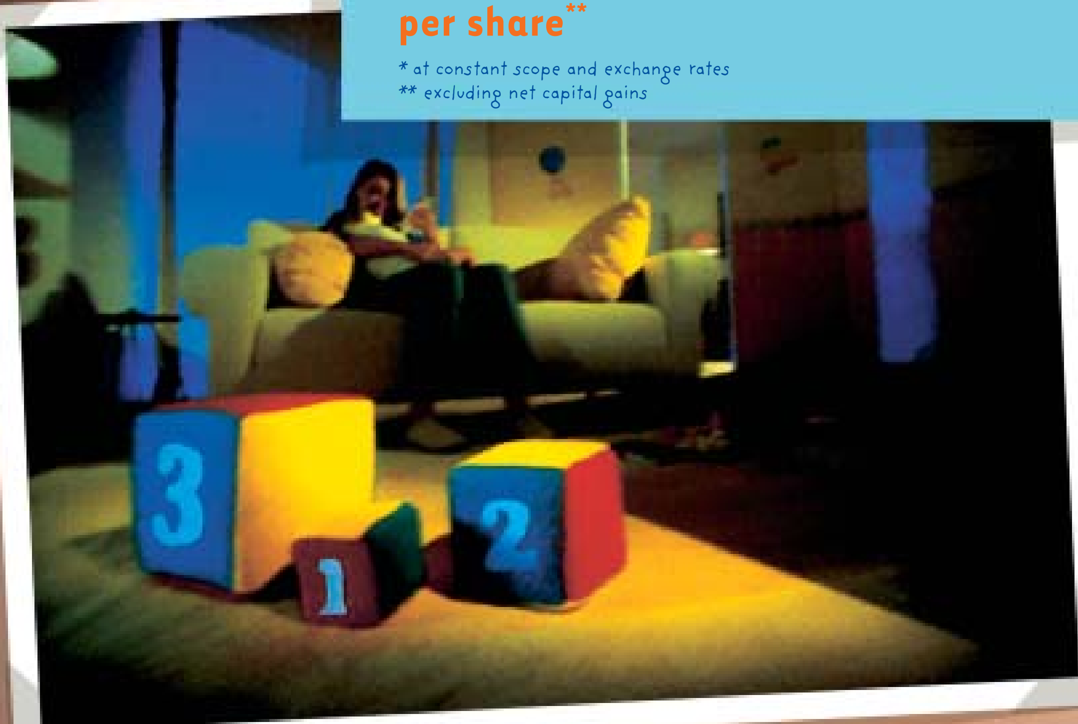
## Quality information for effective management

-> 7% organic growth *

-> Operating margin up from 10.5% to 10.8%

-> 13.2% rise in fully diluted earnings per share**

* at constant scope and exchange rates
** excluding net capital gains




LU
Vitalinea

# Auditors' report on the consolidated financial statements

## To DANONE Group shareholders

In accordance with the terms of our appointment at the Annual Stockholders' Meeting, we have audited the accompanying consolidated financial statements of Danone and its subsidiaries, established in euros, for the years ended December 31, 1999 and 2000, presented on pages 52 to 71.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with French generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of the financial statements, 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 present fairly, in all material respects, the consolidated financial position of Danone and its subsidiaries at December 31, 1999 and 2000 and the consolidated results of their operations for the years then ended, in accordance with the accounting principles described in Note 1 to the consolidated financial statements.

We have also reviewed the information given in the report of the Board of Directors concerning the Group. We have no comments as to its fair presentation and its conformity with the consolidated financial statements.

Paris, March 14, 2001

**The Statutory Auditors**

Mazars & Guérard
Yves Robin - Loïc Wallaert

Befec-Price Waterhouse
Member of PricewaterhouseCoopers
Pierre Coll - Patrick Seurat

# Consolidated financial statements

## Consolidated statements of income

| € millions French francs millions Year ended December, 31 | Notes | 1999 | 2000 | 2000 |
|---|---|---|---|---|
| **Net sales** | | **13,293** | **14,287** | **93,719** |
| Cost of goods sold | | (6,663) | (6,973) | (45,741) |
| Selling expenses | | (3,964) | (4,453) | (29,209) |
| General and administrative expenses | | (913) | (950) | (6,235) |
| Research and development expenses | | (122) | (125) | (819) |
| Other expense and income | 21 | (240) | (236) | (1,550) |
| **Operating income** | | **1,391** | **1,550** | **10,165** |
| Non-recurring items | 2 | 2 | 23 | 152 |
| Interest expense, net | 22 | (131) | (193) | (1,267) |
| **Income before provision for income taxes and minority interests** | | **1,262** | **1,380** | **9,050** |
| Provision for income taxes | 23 | (499) | (562) | (3,688) |
| **Income before minority interests** | | **763** | **818** | **5,362** |
| Minority interests | | (110) | (130) | (851) |
| Net earnings of equity method companies | | 29 | 33 | 221 |
| **Net income** | | **682** | **721** | **4,732** |

## Per share information (Note 1 R and Note 12) [1]

| (Amounts in euros in French francs (except number of shares) | | | |
|---|---|---|---|
| **Number of shares used in calculating:** | | | |
| – basic earnings per share | 139,877,348 | 140,662,272 | 140,662,272 |
| – diluted earnings per share | 148,990,002 | 141,373,721 | 141,373,721 |
| **Basic earnings per share** | **4.88** | **5.13** | **33.64** |
| **Diluted earnings per share** | **4.69** | **5.10** | **33.47** |

The notes on pages 58 to 71 are an integral part of the consolidated financial statements. (1) Data adjusted after the June 2000 two-for-one stock split.

## Consolidated statements of changes in stockholders' equity (excluding minority interest)

| | Number of shares[1] | | 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, 1998** | **147,849,620** | **139,854,308** | **113** | **2,812** | **4,711** | **(504)** | **(618)** | **6,514** |
| Capital stock issues | 1,135,102 | 1,135,102 | 1 | 72 | | | | 73 |
| Capital stock reduction | (9,000,000) | (9,000,000) | (7) | (1,015) | | | | (1,022) |
| Conversion of bonds | 8,286,454 | 8,286,454 | 6 | 553 | 24 | | | 583 |
| Net income for 1999 | | | | | 682 | | | 682 |
| Dividends paid | | | | | (208) | | | (208) |
| Translation adjustments | | | | | | 331 | | 331 |
| Change in treasury stock | | (5,148,120) | | | | | (807) | (807) |
| **Balance at December 31, 1999** | **148,271,176** | **135,127,744** | **113** | **2,422** | **5,209** | **(173)** | **(1,425)** | **6,146** |
| Capital stock issues | 655,610 | 655,610 | | 45 | | | | 45 |
| Capital stock reduction | (6,400,000) | (6,400,000) | (6) | (788) | | | | (794) |
| Conversion of bonds | 6,559,422 | 6,559,422 | 7 | 547 | | | | 554 |
| Capital conversion in euros | | | 35 | (35) | | | | - |
| Net income for 2000 | | | | | 721 | | | 721 |
| Dividends paid | | | | | (234) | | | (234) |
| Translation adjustments | | | | | | 110 | | 110 |
| Change in treasury stock | | 5,037,560 | | | | | 641 | 641 |
| **Balance at December 31, 2000** | **149,086,208** | **140,980,336** | **149** | **2,191** | **5,696** | **(63)** | **(784)** | **7,189** |

At December 31, 2000 the negative translation adjustments related to currencies in the euro zone amount to € 334 million.
The notes on pages 56 to 71 are an integral part of the consolidated financial statements.
(1) Data adjusted after the June 2000 two-for-one stock split.

# Consolidated balance sheets

## Assets

| € millions French francs millions at December 31, | Notes | 1999 | 2000 | 2000 |
|---|---|---|---|---|
| Property, plant and equipment | 5 | 8,413 | 8,044 | 52,765 |
| Less: accumulated depreciation | | (4,692) | (4,080) | (26,764) |
| | | **3,721** | **3,964** | **26,001** |
| Brand names | 6 | 1,850 | 1,652 | 10,835 |
| Other intangible assets (net) | | 303 | 121 | 797 |
| Goodwill | 6 | 3,367 | 4,948 | 32,454 |
| | | **5,520** | **6,721** | **44,086** |
| Long-term loans | | 266 | 286 | 1,877 |
| Long-term investments | 7 | 583 | 571 | 3,748 |
| Equity method companies | 8 | 289 | 408 | 2,676 |
| Other | 9 | 198 | 981 | 6,434 |
| | | **1,336** | **2,246** | **14,735** |
| **Non-current assets** | | **10,577** | **12,931** | **84,822** |
| Inventories | 10 | 752 | 728 | 4,776 |
| Trade accounts and notes receivable | 11 | 1,864 | 1,784 | 11,701 |
| Other accounts receivable and prepaid expenses | 11 | 748 | 841 | 5,515 |
| Short-term loans | | 123 | 166 | 1,087 |
| Marketable securities | | 487 | 235 | 1,545 |
| Cash and cash equivalents | | 464 | 548 | 3,594 |
| **Current assets** | | **4,438** | **4,302** | **28,218** |
| **Total assets** | | **15,015** | **17,233** | **113,040** |

## Liabilities and stockholders' equity

| | | | | |
|---|---|---|---|---|
| Capital stock (par value € 1 per share; shares issued 2000: 149,086,208 - 1999: 148,271,176) (1) | | 113 | 149 | 978 |
| Capital surplus | | 2,422 | 2,191 | 14,376 |
| Retained earnings | 12 | 5,209 | 5,696 | 37,361 |
| Translation adjustments | | (173) | (63) | (413) |
| Treasury stock | | (1,425) | (784) | (5,147) |
| **Stockholders' equity** | | **6,146** | **7,189** | **47,155** |
| Minority interests | | 721 | 830 | 5,447 |
| Convertible bonds | 14 | 513 | - | - |
| Long-term debt | 15 | 2,994 | 4,171 | 27,359 |
| Retirement indemnities, pensions and post-retirement healthcare benefits | 16 | 325 | 319 | 2,090 |
| Provisions and long-term liabilities | 17 | 356 | 387 | 2,543 |
| **Stockholders' equity and non-current liabilities** | | **11,055** | **12,896** | **84,594** |
| Trade accounts and notes payable | 18 | 1,798 | 1,719 | 11,279 |
| Accrued expenses and other current liabilities | 18 | 1,599 | 1,605 | 10,524 |
| Short-term debt and bank overdrafts | | 563 | 1,013 | 6,643 |
| **Current liabilities** | | **3,960** | **4,337** | **28,446** |
| **Total liabilities and stockholders' equity** | | **15,015** | **17,233** | **113,040** |

The notes on pages 56 to 71 are an integral part of the consolidated financial statements.

(1) Data adjusted after the June 2000 two-for-one stock split.

# Consolidated statements of cash flows

| € millions French francs millions Year ended December, 31 | 1999 | 2000 | 2000 |
|---|---|---|---|
| **Net income** | **682** | **721** | **4,732** |
| Minority interests in net income of consolidated subsidiaries | 110 | 130 | 851 |
| Net earnings of equity method companies | (29) | (33) | (221) |
| Depreciation and amortization | 758 | 757 | 4,966 |
| Other | (98) | (17) | (109) |
| **Cash flows provided by operations** | **1,423** | **1,558** | **10,219** |
| Decrease in inventories | (23) | (32) | (209) |
| Net variation in trade accounts and other accounts receivable | (260) | (344) | (2,256) |
| Net variation in trade accounts and other accounts payable | 208 | 224 | 1,468 |
| Other variations | (23) | 16 | 106 |
| Net change in current working capital | (98) [1] | (136) | (891) |
| **Cash flows provided by operating activities** | **1,325** | **1,422** | **9,328** |
| Additions to property, plant and equipment | (703) | (798) | (5,238) |
| Investment in subsidiaries and equity method companies | (934) | (2,849) | (18,686) |
| Proceeds from the sales | | | |
| of businesses and other investments | 1,285 | 712 | 4,670 |
| **Cash flows used in investing activities** | **(352)** | **(2,935)** | **(19,254)** |
| Increase in capital and capital surplus | 608 | 554 | 3,632 |
| Purchases of treasury stock | (1,724) | (169) | (1,111) |
| Dividends | (350) | (366) | (2,399) |
| Net change in long-term debt | 517 | 1,170 | 7,678 |
| Net increase in long-term loans and other assets | (83) | (224) | (1,469) |
| Net change in short-term debt | 72 | 357 | 2,341 |
| Proceeds from the sales of marketable securities | 47 | 263 | 1,727 |
| **Cash flows used in financing activities** | **(913)** | **1,585** | **10,399** |
| **Effect of exchange rate changes on cash and cash equivalents** | **33** | **12** | **77** |
| **Increase (decrease) in cash and cash equivalents** | **93** | **84** | **550** |
| **Cash and cash equivalents at beginning of year** | **371** | **464** | **3,044** |
| **Cash and cash equivalents at end of year** | **464** | **548** | **3,594** |

The notes on pages 56 to 71 are an integral part of the consolidated financial statements.

(1) Including € 136 million negative change of the working capital of the Containers division during the 1st semester 1999.

# Consolidated financial statements Notes

In 2000 and 1999, 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, 2000. All the data related to capital stock and earnings or dividends per share have been adjusted to take into account the June 2000 two-for-one stock split.

## NOTE 1 - Summary of significant accounting policies

### 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"). The French rule 99-02 applied as of January 1, 2000 did not entail any amendment to the practices previously followed. The application of these principles does not give rise to material differences compared with US generally accepted accounting principles (US GAAP), which the Group also complies with because of its international operations and business, except for the brand amortization (brands are not systematically amortized as required per US GAAP but can be exceptionally impaired) and the valuation of some financial assets (which are not recorded at their fair value at the closing date as required per US GAAP).
The application of US GAAP (based on a 40-year amortization period for brand names) would result in an increase in 2000 consolidated net income of € 86 million (reduction of € 45 million in 1999) to € 807 million (€ 637 million in 1999), and a reduction in stockholders' equity at December 31, 2000 of € 148 million (€ 358 million at December 31, 1999) to € 7,041 million (€ 5,788 million at December 31, 1999).
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 balances, 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 recorded using the equity method of accounting. Under the equity method, the Group recognizes as income its proportionate share of the investee's net income and records an increase to the equity investments; such investments are reduced by the amount of any dividends received.
In 2000, of the 156 companies included in the consolidation (1999: 156), 139 are consolidated (1999: 140) and 17 are accounted for under the equity method (1999: 16). A list of subsidiaries and equity investee companies included in the consolidation at December 31, 2000, 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 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 the 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 acquisition cost of a subsidiary is allocated to the identifiable tangible and intangible assets acquired, including brands when relevant, and liabilities assumed based on their fair market values at the date of the acquisition (fair market values being determined based on independent appraisals and management estimates). Any excess of acquisition cost over the identifiable assets acquired and liabilities assumed is allocated to goodwill.
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 recorded via a charge to income.

Purchased goodwill ("fonds de commerce"), licenses, patents and leasehold rights are recorded at cost and 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 the 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 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 the 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) less 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 2000 and 1999, the cost approximates the market value.

## 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 the 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 under the asset / liability method for all temporary 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.

Deferred taxes are calculated using the last enacted tax rates applicable at the date of reversal of the temporary differences. No provision is made on retained earnings of consolidated companies when the Group decided not to distribute them in a foreseeable future. Provision is made for withholding taxes on foreseen distributions when irrecoverable or when they do not confer right to tax credits; in the same way, tax credits available to certain consolidated companies on foreseen distributions are taken into account.

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 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 assets held in externally managed funds to which the Group contributes; 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.

## 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 operations. 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 the accounting criteria to qualify 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.

Revenue from distribution of beverages (mainly beer) sold under names other than group brand names, are recorded via their gross margin.

## O. Advertising expenses

Advertising costs are charged to expense as incurred, in the amount of € 790 million and € 664 million for 2000 and 1999 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 depreciation 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 calculated in the same way, but the denominator is increased by all the shares that could be potentially created (convertible bonds, options to subscribe or purchase shares) and the numerator by the related theoretical reduction in interest charges, net of tax.

## 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 amount in the accompanying 1999 financial statements could have been reclassified from previously issued financial statements to conform to the 2000 presentation.

# NOTE 2 - Non-recurring items

In 2000, the following non-recurring items resulted in a € 23 million increase in consolidated income before tax and minority interest:

- € 156 million capital gain resulting from the disposal of the European beer businesses;
- € 92 million impairment charge of long lived assets, including € 69 million relating to the Bagley brand;
- € 41 million charge relating to restructuring initiatives (mainly linked with the dairy products operations in Spain).

After tax and minority interests, the net capital gain and assets impairment charge amount to € 1 million and the restructuring costs amount to € 18 million.

In 1999, the following non-recurring items resulted in a € 2 million increase in consolidated income before tax and minority interest:

- € 39 million net capital gain resulting from the sale of businesses and similar non-monetary transactions (mainly the sale of 56% of the glass container division, the sale of the ready-to-serve and frozen dishes in France and Spain, the sale of the adult health food in France, the sale of investments in Italy and the restructuring of investments in the biscuit businesses of Germany and the Czech Republic);
- € 37 million charge relating mainly to restructuring initiatives of fresh dairy products operations in Spain and Italy and of biscuits operations in the United Kingdom and Ireland.

After tax and minority interests, the net capital gain amounted to € 29 million and the restructuring costs amounted to € 17 million.

# NOTE 3 - Investments in subsidiaries and equity method companies

In 2000, the principal investments in subsidiaries and equity method companies included:

- acquisition of the companies McKesson (Water in the United-States), Naya Waters of Canada (Water in Canada) and Robust (Water in China);
- acquisition of part of the assets of United Biscuits in the United Kingdom, Denmark, Sweden, Norway, Germany, Italy, Hungary and Malaysia;

• acquisition of the Paulista brand and of the dairy product and milk businesses of the Cooperativa Central de Laticinios in Brazil.
In 1999, the principal investments in subsidiaries and equity method companies included:
• acquisition of the Termas Villavicencio Company (Water in Argentina) and acquisition of the biscuits operations of the Wedel Company in Poland;
• additional interest in Danone Argentine (Fresh Dairy Products), Aguas Minerales (Water in Argentina), Bagley (Biscuits in Argentina) and Aymore (Biscuits in Brazil);
• acquisition of 50% of Bimo (Biscuits in Morroco), 20% of Galletas Noel (Biscuits in Colombia), 20% of Sotubi (Biscuits in Tunisia), 18% of voting rights of Bakoma (Fresh Dairy Products in Poland) and dairy products operations in Turkey through an investment of 50% in the company Danonesa.

## NOTE 4 - Unaudited pro forma financial data

The comparison of 1999 and 2000 results is affected by changes in exchange rates and in companies included in the consolidation:
• the divestures outlined in Note 2;
• initial consolidation in 2000 of McKesson (Water in the United-States), Euromarken Getranke (Water in Germany), Evian-Volvic UK (Water in the United-Kingdom), Naya Waters of Canada (Water in Canada), Robust (Water in China) and assets bought to United Biscuits in Denmark, Sweden, Norway, Germany and Italy;
• initial accounting under the equity method of Bakoma (Dairy products in Poland), Bimo (Biscuits in Morocco), Galletas Noel (Biscuits in Colombia) and Sotubi (Biscuits in Tunisia).
The 1999 unaudited pro forma figures given below are presented on the basis of the same Group structure and exchange rates as for 2000. They are therefore comparable with the 2000 figures, but not necessarily indicative of actual results.

| (€ millions) | (pro forma) 1999 | (actual) 2000 |
|---|---|---|
| Net sales | 13,352 | 14,287 |
| Operating income | 1,371 | 1,550 |
| Net income (excluding capital gains and losses) | 659 | 720 |

## NOTE 5 - Property, plant and equipment

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| Land | 311 | 304 |
| Buildings and rental property | 1,905 | 1,791 |
| Machinery and equipment | 4,976 | 4,717 |
| Consigned containers | 374 | 122 |
| Vehicles, office furniture and other | 562 | 664 |
| Capital assets in progress | 285 | 446 |
| **Total** | **8,413** | **8,044** |
| Less accumulated depreciation | (4,692) | (4,080) |
| **Net property, plant and equipment** | **3,721** | **3,964** |

## NOTE 6 - Intangible assets

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| Goodwill | 4,170 | 5,829 |
| Brand names | 1,850 | 1,720 |
| Other | 800 | 353 |
| **Total gross intangible assets** | **6,820** | **7,902** |
| Accumulated amortization: | | |
| Goodwill | (803) | (881) |
| Other intangible assets | (497) | (300) |
| Total accumulated amortization | (1,300) | (1,181) |
| **Net intangible assets** | **5,520** | **6,721** |

**Goodwill**

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| **Net book value as at January 1** | **3,394** | **3,367** |
| Additions during the year | 530 | 2,030 |
| Decreases during the year | (454) | (315) |
| Amortization | (103) | (134) |
| **Net book value as at December 31** | **3,367** | **4,948** |

There is no individual goodwill item representing more than 5% of the total, with the exception of McKesson, Galbani, Danone Argentine, Lu and Volvic which in the aggregate amount to a net of approximately € 2.7 billion as of December 31, 2000.
Additions and decreases during the year mainly result from newly consolidated companies and from divestitures (refer to Notes 2 and 4).
Current year amortization for consolidated companies of € 124 million (€ 93 million for 1999) is recorded as "Other expense and income" while current year amortization for companies accounted for under the equity method of € 10 million (€ 10 million in 1999) is recorded as "Net earnings of equity method companies".
Goodwill in the amount of € 334 million at the end of 2000 (€ 277 million at the end of 1999) relates to equity investees. Under U.S. GAAP, such goodwill would be recorded under "Equity method companies".

**Brand names**
Brand names result of the allocation of the excess of the purchase price of the companies acquired since 1989 and are valued at fair value. They include Galbani, Volvic, the Danone brand in Spain and the main brand names of the Group Biscuits operations, among others.
In 2000, changes in brand names mainly result of the exceptional impairment of Bagley and the divesture of San Miguel.

## NOTE 7 - Long-term investments in non-consolidated companies

| (€ millions) and at net book value at December 31 | 1999 | 2000 |
|---|---|---|
| Acquired previous year-end, and consolidated at the beginning of subsequent year | 158 | 206 |
| Subsidiaries (more than 50% owned) | 175 | 43 |
| Affiliates (20% to 50% owned) | 5 | 2 |
| Other investments (less than 20% owned) | 245 | 320 |
| **Net long-term investments** | **583** | **571** |

Net long-term investments in non-consolidated subsidiaries and affiliates are mainly comprised of investments in the companies Paulista (Dairy products in Brazil), Salus (Water in Uruguay), Danone Roumanie (Dairy products in Romania) and Société du Mont Dore (Water in France) which will be included in the consolidation in 2001, and investments in companies that are not consolidated due to their size (including the Japanese Yakult company).

## NOTE 8 - Equity method companies

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| Net book value as at January 1 | 434 | 289 |
| New equity method companies | 45 | 160 |
| Equity method companies disposed of during the year | (254) | (61) |
| Net earnings | 29 | 33 |
| Dividends paid | (10) | (28) |
| Other | 45 | 15 |
| **Net book value as at December 31** | **289** | **408** |

Other changes result mainly from movements in exchange rates. 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):

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| Net sales: | | |
| -European Union | 2,442 | 2,413 |
| -Rest of the world | 1,120 | 1,568 |
| Net income | 157 | 163 |
| Stockholders' equity | 1,396 | 1,417 |

## NOTE 9 - Other financial assets

In 2000, the increase in other financial assets results for € 689 million of various securities received in consideration for beer assets sold to the group Scottish & Newcastle, and particularly 24,063,213 ordinary shares which represent approximately 4% of the share capital of Scottish & Newcastle plc.

## NOTE 10 - Inventories

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| Goods purchased for resale | 116 | 72 |
| Raw materials and supplies | 263 | 284 |
| Semi-finished goods and work in process | 64 | 60 |
| Finished goods | 287 | 298 |
| Non-returnable containers | 48 | 34 |
| Less allowances | (26) | (20) |
| **Net inventories** | **752** | **728** |

## NOTE 11 - Trade accounts receivable; other accounts receivable and prepaid expenses

**Trade accounts receivable**

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| Trade accounts receivable | 1,876 | 1,794 |
| Notes receivable | 125 | 89 |
| Less allowance for doubtful receivable | (137) | (99) |
| **Net trade accounts receivable** | **1,864** | **1,784** |
| of which unmatured discounted bills account for | 11 | 7 |

Movements in the allowance for doubtful receivables are as follows:

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| **Balance as at January 1** | **101** | **137** |
| Charge (net of reversal) for the year | 28 | 22 |
| Utilization | (21) | (24) |
| Translation differences | 29 | (36) |
| **Balance as at December 31** | **137** | **99** |

The Group believes 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; the global net sales recorded with the first customer of the Group represent 11% of the total consolidated net sales.

**Other accounts receivable and prepaid expenses**

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| State and local authorities | 306 | 324 |
| Interest receivable | 31 | 37 |
| Prepaid expenses | 61 | 92 |
| Advance payments to suppliers | 67 | 66 |
| Other | 283 | 322 |
| **Other accounts receivable and prepaid expenses** | **748** | **841** |

## NOTE 12 - Increase in capital stock, capital surplus, retained earnings and earnings per share

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.

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

| | Net income (in € millions) | Weighted average number of shares outstanding | Net income per share (€) |
|---|---|---|---|
| **2000** | | | |
| Before dilution | 721 | 140,662,272 | 5.13 |
| Stock options | 0 | 711,449 | (0.03) |
| After dilution | 721 | 141,373,721 | 5.10 |
| **1999** | | | |
| Before dilution | 682 | 139,877,348 | 4.88 |
| Convertible bonds | 17 | 8,431,724 | (0.17) |
| Stock options | 0 | 680,930 | (0.02) |
| After dilution | 699 | 148,990,002 | 4.69 |

## 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 Extraordinary General Meeting of Shareholders authorized the Board of Directors to grant stock options, over a 26-month period up to a limit of 2 millions of shares for the plan of 1999. As of December 31, 2000, 1,050,460 options could still be issued as part of the 1999 plan but the former authorizations relating to the 1992, 1995 and 1997 plans could not lead to any new attribution.

The December 31, 2000 active stock subscription and purchase option plans are summarized below (data adjusted after the two-for-one stock split):

| Year of issue of plan | Range of subscription or purchase price (€) | Outstanding and exercisable options at December 31, 2000 |
|---|---|---|
| **1995** | 45.7-59.4 | 90,650 |
| **1996** | 49.6-55.1 | 300,590 |
| **1997** | 64.1-66.8 | 277,700 |
| **1998** | 78.0-116.2 | 492,150 |
| **1999** | 111.5-128.4 | 635,720 |
| **2000** | 103.1-155.8 | 722,840 |
| **Total** | | **2,519,650** |

The following table summarizes transactions during 1999 and 2000, including balances from previous plans:

| *(Number of shares)* at December 31 | 1999 | 2000 |
|---|---|---|
| **Balance as at January 1** | **2,528,170** | **2,314,540** |
| Granted | 635,720 | 722,840 |
| Exercised | (810,150) | (480,930) |
| Surrendered | (39,200) | (36,800) |
| **Balance as at December 31** | **2,314,540** | **2,519,650** |

## NOTE 14 - Convertible bonds

As at December 31, 1999 convertible bonds included the € 610 million debt issued by Groupe DANONE in October 1993. These bonds were issued at their principal amount of € 154.7 each, and bore interest at an annual rate of 3%. The bonds were convertible at any time, at the rate of one ordinary share per bond. The € 34.1 per bond redemption premium was charged to income on a straight-line basis over the eight-year life of the debt. The bonds initially maturing on January 1, 2002 and subject to the option available to the Company to redeem the bonds early if the share price passed certain thresholds were redeemed by anticipation as of January 1, 2000. During the year 2000, 99% of bonds were converted into shares.

## NOTE 15 - Long-term debt

**Classification by nature**

| *(€ millions)* at December 31 | 1999 | 2000 |
|---|---|---|
| Bonds (average interest rate: 6.1%; 1999: 6.7%) | 641 | 1,299 |
| Bank loans, other debt and employee profit-sharing debt (average interest rate: 4.3%; 1999: 3.2%) | 2,597 | 3,451 |
| Less short-term portion | (244) | (579) |
| **Long-term debt** | **2,994** | **4,171** |

**Classification by year of maturity**

| Year of maturity *(€ millions)* | 1999 at December 31 | Year of maturity | 2000 at December 31 |
|---|---|---|---|
| 2001 | 454 | 2002 | 1,129 |
| 2002 | 265 | 2003 | 927 |
| 2003 | 134 | 2004 | 323 |
| 2004 | 394 | 2005 | 125 |
| 2005-2009 | 232 | 2006-2010 | 148 |
| After 2009 | 1,511 | After 2010 | 1,512 |
| No fixed maturity | 4 | No fixed maturity | 7 |
| **Total** | **2,994** | **Total** | **4,171** |

**Classification by currency**

| at December 31 | 1999 | 2000 |
|---|---|---|
| French francs | 2,959 | 4,121 |
| Indian rupee | 11 | 23 |
| US Dollar | 2 | 12 |
| Chinese renminbi | 8 | 6 |
| Singapore dollar | 3 | 4 |
| Italian lira | 3 | 1 |
| Sterling pound | 1 | 1 |
| Spanish peseta | 1 | 1 |
| Belgian franc | 3 | - |
| Other | 3 | 2 |
| **Total** | **2,994** | **4,171** |

At December 31, 2000, the Group held commitments from banks and other financial institutions for approximately € 2,725 million (€ 2,463 million at December 31, 1999) 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 € 1,505 million at December 31, 2000 (€ 1,492 million at December 31, 1999). 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 1999 and 2000 in conformity with FAS 87, based on the following key actuarial assumptions:
- Personnel turnover and mortality;
- Retirement age of between 60 and 65, depending upon each employee's category;
- Discount: 5.4% (5.2% in 1999);
- Salary growth rate of between 2% and 3% (1.5% and 2.75% in 1999) depending on the age and category of each employee;
- Rate of return on plan assets: 8% (14% in 1999).

**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, as follows:
- Personnel turnover and mortality;
- Retirement age of between 60 and 65, depending upon each employee's category;
- Discount: between 2% and 7.8% (2.0% and 12% in 1999);
- Salary growth rate of between 1% and 5.9% (2% and 8% in 1999) depending on the age and category of each employee;
- Rate of return on plan assets: between 5.5% and 8% (4% and 9% in 1999).

The following table reconciles the funded status of the companies' plans with the provision recorded in the consolidated balance sheet at December 31, 2000 and 1999:

| (€ millions) at December 31 | 1999 | | 2000 | |
|---|---|---|---|---|
| | France | Other countries | France | Other countries |
| Accumulated benefit obligation | 231 | 437 | 226 | 454 |
| Projected benefit obligation | 261 | 470 | 255 | 472 |
| Fair value of plan assets | 69 | 298 | 79 | 313 |
| Projected benefit obligation in excess of plan assets | 192 | 172 | 176 | 159 |
| Actuarial differences and modifications of plans | 25 | 14 | 10 | 6 |
| **Accrued pension cost recognized in the financial statements** | **167** | **158** | **166** | **153** |

Some companies also provide healthcare benefits to retired employees. Accrued post-retirement healthcare benefits are included under the projected benefit obligation, as the related amount is not significant (€ 11 million and € 12 million as of December 31, 2000 and 1999, respectively).

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

| (€ millions) | Projected benefit obligation | Fair value of plan assets | Unrecognized gains or losses | Net accrued pension |
|---|---|---|---|---|
| Balance as at January 1, 1999 | 909 | 525 | 20 | 364 |
| **Net periodic pension cost:** | | | | |
| • Service cost | 36 | | | 36 |
| • Interest cost | 32 | | | 32 |
| • Return on plan assets | | 21 | | (21) |
| • Amortization of actuarial gains and losses | | | (3) | 3 |
| Pension benefits payments to employees | (49) | (22) | | (27) |
| Contributions made to plan assets | | 15 | | (15) |
| Unrecognized gains or losses | 17 | 8 | 9 | - |
| Effect of exchange rate changes | 24 | 24 | 1 | (1) |
| Other | (238) | (204) | 12 | (46) |
| **Balance as at December 31, 1999** | **731** | **367** | **39** | **325** |

| (€ millions) | Projected benefit obligation | Fair value of plan assets | Unrecognized gains or losses | Net accrued pension |
|---|---|---|---|---|
| Balance as at January 1, 2000 | 731 | 367 | 39 | 325 |
| **Net periodic pension cost:** | | | | |
| • Service cost | 30 | | | 30 |
| • Interest cost | 33 | | | 33 |
| • Return on plan assets | | 23 | | (23) |
| • Amortization of actuarial gains and losses | | | (6) | 6 |
| Pension benefits payments to employees | (49) | (27) | | (22) |
| Contributions made to plan assets | | 16 | | (16) |
| Unrecognized gains or losses | 17 | | 17 | - |
| Effect of exchange rate changes | 1 | 1 | | |
| Other | (36) | 12 | (34) | (14) |
| **Balance as at December 31, 2000** | **727** | **392** | **16** | **319** |

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 and the impact of the sale of the Beer businesses in 2000 and the Glass Containers operations in 1999.
The components of the net periodic pension cost for 2000 and 1999 are as follows:

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| Service cost | 36 | 30 |
| Interest cost | 32 | 33 |
| Return on plan assets | (21) | (23) |
| Net amortization and deferral | 3 | 6 |
| **Net periodic pension cost** | **50** | **46** |

## NOTE 17 - Provisions and long-term liabilities

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| Restructuring | 18 | 30 |
| Long-term accrued liabilities | 292 | 223 |
| Long-term net deferred tax (asset) / liability | 31 | 121 |
| Capital investment grants | 15 | 13 |
| **Provisions and long-term liabilities** | **356** | **387** |

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

| (€ millions) | Employees: redundancy & other benefits | Write-down of plants & factories | Ancillary costs | Total |
|---|---|---|---|---|
| Balance as at December 31, 1998 | 23 | 4 | 4 | 31 |
| Charge | 2 | 4 | 1 | 7 |
| Utilization | (22) | - | (6) | (28) |
| Amounts recorded in connection with purchase accounting for acquired businesses | 2 | - | 6 | 8 |
| Balance as at December 31, 1999 | 5 | 8 | 5 | 18 |
| Charge | 1 | - | - | 1 |
| Utilization | (22) | (8) | (3) | (33) |
| Amounts recorded in connection with purchase accounting for acquired businesses | 23 | 17 | 4 | 44 |
| **Balance as at December 31, 2000** | **7** | **17** | **6** | **30** |

**Long-term accrued liabilities**
Long-term accrued liabilities mainly include:
• the € 57 million claims reserves established by Danone Ré, the Group's reinsurance company;
• 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**

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| Trade accounts payable | 1,531 | 1,524 |
| Notes payable | 267 | 195 |
| **Trade accounts and notes payable** | **1,798** | **1,719** |

**Accrued expenses and other current liabilities**

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| Personnel and social charges | 317 | 331 |
| Year-end rebates payable to customers | 312 | 312 |
| State and local authorities | 160 | 251 |
| Consigned containers | 135 | 54 |
| Accrued interest payable | 25 | 27 |
| Income tax payable | 144 | 214 |
| Other | 506 | 416 |
| **Accrued expenses and other current liabilities** | **1,599** | **1,605** |

## NOTE 19 – Personnel and remuneration

Group personnel costs (including payroll taxes and related charges) for 2000 amounted to € 2,067 million (1999: € 2,053 million), of which € 8.4 million (1999: € 7.4 million) represented remuneration paid to the Executive Committee of the Group.
Group personnel at December 31, 2000 and 1999 were comprised of the following:

| Year ended December 31 | 1999 | 2000 |
|---|---|---|
| France | 15,790 | 11,759 |
| Rest of western Europe | 17,974 | 16,264 |
| International | 42,201 | 58,634 |
| **Total** | **75,965** | **86,657** |

On a comparable basis, Group personnel would have been 86,657 as at December 31, 2000 and 88,140 as at December 31, 1999.

## NOTE 20 – Depreciation and amortization

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| Property, plant and equipment | 561 | 561 |
| Goodwill | 93 | 124 |
| Intangible assets | 104 | 72 |
| **Total** | **758** | **757** |

The depreciation and amortization charges for property, plant and 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 consolidated companies.

## NOTE 21 – Other expense and income

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| Employee profit-sharing | 125 | 122 |
| Goodwill amortization | 93 | 124 |
| Other | 22 | (10) |
| **Other expense net** | **240** | **236** |

## NOTE 22 – Interest expense, net

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| Interest expense | 200 | 284 |
| Interest income | (76) | (55) |
| Exchange gain or loss | 7 | (36) |
| **Interest expense net** | **131** | **193** |

Interest paid amounted to € 225 million and € 120 million for the years ended December 31, 2000 and 1999 respectively.

## NOTE 23 – Income taxes

**Income tax expense**
Income before taxes and income tax expense consist of:

| (€ millions) Year ended December 31 | 1999 | 2000 |
|---|---|---|
| **Income before provision for income taxes:** | | |
| • French companies | 507 | 673 |
| • Foreign companies | 755 | 707 |
| **Income before provision for income taxes** | **1,262** | **1,380** |
| **Income tax expense (income):** | | |
| **• Current income taxes:** | | |
| – French companies | 252 | 240 |
| – Foreign companies | 289 | 321 |
| | **541** | **561** |
| **• Deferred income taxes:** | | |
| – French companies | (41) | (13) |
| – Foreign companies | (1) | 14 |
| | **(42)** | **1** |
| **Provision for income taxes** | **499** | **562** |

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 € 388 million and € 346 million in 2000 and 1999, respectively.
The net capital gains and losses and exceptional depreciation of assets generated a € 68 million tax charge and € 2 million tax savings in 2000 and 1999, respectively.

**Analysis of the effective income tax rate**
The effective tax rate is 40.75% in 2000, compared with 39.54% in 1999. Such rates can be analyzed as follows:

| (Amounts in percentage of income before taxes) | | |
|---|---|---|
| Year ended December 31 | 1999 | 2000 |
| Statutory tax rate in France | 39.99 | 37.76 |
| Effect of foreign tax rate differential | (2.50) | (1.88) |
| Effect of amortization of goodwill | 2.66 | 2.89 |
| Effect of other differences | (0.61) | 1.98 |
| **Effective income tax rate** | **39.54** | **40.75** |

**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:

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| **Deferred tax assets on temporary differences:** | | |
| • Retirement benefits | 59 | 62 |
| • Restructuring provisions | 8 | 17 |
| • Other temporary differences | 4 | - |
| **Deferred tax assets on tax loss carry forwards:** | | |
| • Gross | 111 | 136 |
| • Less valuation allowance for carry forwards | (59) | (108) |
| **Long-term deferred tax assets** | **123** | **107** |
| **Deferred tax liabilities on temporary differences:** | | |
| • Depreciation of property, plant & equipment | (146) | (98) |
| • Capitalized interests | (8) | (5) |
| • Other differences | - | (125) |
| **Long-term deferred tax liabilities** | **(154)** | **(228)** |
| **Net long-term deferred tax asset / (liability)** | **(31)** | **(121)** |

Net short-term deferred tax assets amounting to € 43 million as of December 31, 2000 (€ 51 million as of December 31, 1999) are almost exclusively related to temporary differences between statutory and taxable income of subsidiaries.

**Tax loss carry forwards**
Tax losses carried forward and not yet utilized amount to € 166 million as of December 31, 2000, and mainly expire after 2003. Furthermore, long term capital losses, which are carried forward as at December 31, 2000, amount to € 177 million and their potential tax benefits have not been recognized.

## 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 the 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 as follows:

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| **Interest rate swaps, with a remaining term at December 31:** | | |
| • below one year | 1,006 | 1,246 |
| • between one and five years | 1,362 | 1,766 |
| • above five years | 292 | 129 |
| **Interest rate caps and floors, with a remaining term at December 31:** | | |
| • below one year | (589) | (102) |
| • between one and five years | (1,618) | (2,189) |
| • above five years | (76) | (61) |

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

Taking into account these hedging instruments, the consolidated net debt at December 31, 2000 is exposed to a change in rate for € 4 billion and, in case of a rate increase up to approximately 100 basis points, the Group would be exposed only on 47% of the net debt at December 31, 2000 (64% at December 31, 1999).
As a result of these hedging instruments, the effective weighted average interest rate of the Group's consolidated net debt in 2000 is 5.52% (1999: 4.33%), compared to a 5.71% (1999: 5.09%) weighted average rate before any hedging operations.

**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:

| (€ millions) at December 31 | 1999 | 2000 |
|---|---|---|
| **Forward (purchases) / sales:** | | |
| • US dollar | 377 | 395 |
| • Pound sterling | 137 | 422 |
| • Euro | (642) | (1,091) |
| • Mexican peso | – | 79 |
| • Yen | 114 | 72 |
| • Swiss franc | 57 | 37 |
| • Other | 3 | 81 |
| **Total forward** | 46 | (5) |
| including: | | |
| -Forwards purchased | (986) | (1,682) |
| -Forwards sold | 1,032 | 1,676 |
| Currency options purchased | (1) | – |
| **Total currency hedging instruments** | **45** | **(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 euros of approximately 45% of net sales (33% in 1999) and 35% of operating income (27% in 1999).

**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, 1999 and 2000) | 1999 | 2000 |
|---|---|---|
| **Counterparty's rating (according to Standard & Poor's)** | | |
| • AAA | 11% | 50% |
| • AA | 54% | 21% |
| • A | 34% | 29% |
| • BBB | 1% | – |

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

There are no financial instruments negotiated with counterparties located in a geographical area with a political or financial risk (i.e., 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, 1999 and 2000:

| (€ millions) | 1999 | | 2000 | |
|---|---|---|---|---|
| at December 31 | Net book value | Market value | Net book value | Market value |
| **Balance sheet and off balance sheet items** | | | | |
| **Assets and (Liabilities)** | | | | |
| Excluding net debt items | | | | |
| Long-term loans | 266 | 266 | 286 | 286 |
| Long-term investments | 583 | 639 | 571 | 665 |
| Equity method companies | 289 | 289 | 408 | 408 |
| Other financial assets | 198 | 198 | 981 | 1,015 |
| Trade debtors | 2,612 | 2,612 | 2,625 | 2,625 |
| Short-term loans | 123 | 123 | 166 | 166 |
| Trade creditors | (3,397) | (3,397) | (3,324) | (3,324) |
| Off-balance sheet currency instruments | – | (39) | – | (3) |
| **Balance sheet and off balance sheet items** | | | | |
| **Assets and (Liabilities)** | | | | |
| Net debt items | | | | |
| Convertible bonds (including the redemption premium accrued before tax) | (562) | (562) | – | – |
| Long-term debt | (2,994) | (3,013) | (4,171) | (4,200) |
| Short-term debt and bank overdrafts | (563) | (563) | (1,013) | (1,013) |
| Marketable securities | 487 | 487 | 235 | 235 |
| Cash and cash equivalents | 464 | 464 | 548 | 548 |
| Off-balance sheet interest rate instruments | – | 65 | – | 8 |

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 the stock exchange value for listed companies and, for non-listed investments, the net book value, which approximates market value.

The value of the convertible bonds has been determined on the basis of redemption value. The value of substantial long-term debt is computed item by item, using the last values 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, in particular to acquire the entire capital stock of Galbani before June 30, 2001. The investments related to these commitments amount to approximately € 295 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.

**Non-cancellable leases**
As of December 31, 2000, the Group had non-cancellable lease commitments amounting to € 81 million with respect to the years 2001 through 2004, and € 49 million with respect to subsequent years.
Commitments received with respect to non-cancellable 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.

| **2000** (€ millions)<br>Year ended December 31 | **Dairy products** | **Beverages** | **Biscuits** | **Other food Businesses** | **Containers** | **Total Divisions** |
|---|---|---|---|---|---|---|
| Gross sales | 7,045 | 4,584 | 3,506 | 404 | – | 15,539 |
| Sales within the division | (515) | (443) | (251) | (26) | – | (1,235) |
| Net divisional sales | 6,530 | 4,141 | 3,255 | 378 | – | 14,304 |
| Sales within the Group | (16) | – | (1) | – | – | (17) |
| Net sales outside the Group | 6,514 | 4,141 | 3,254 | 378 | – | 14,287 |
| Operating income | 712 | 513 | 282 | 49 | – | 1,556 |
| Net earnings of equity method companies | (1) | 16 | 10 | – | 9 | 34 |
| Capital expenditures | 308 | 395 | 83 | 8 | – | 794 |
| Depreciation and amortization expense | 259 | 302 | 172 | 12 | – | 745 |
| Cash flow from operations | 667 | 537 | 315 | 32 | – | 1,551 |
| **Total assets** | **5,587** | **5,423** | **4,414** | **426** | **59** | **15,909** |

| | **Total Divisions** | **Unallocated items** | **Total Group** |
|---|---|---|---|
| Operating income | 1,556 | (6) | 1,550 |
| Net earnings of equity method companies | 34 | (1) | 33 |
| Capital expenditures | 794 | 4 | 798 |
| Depreciation and amortization expense | 745 | 12 | 757 |
| Cash flow from operations | 1,551 | 7 | 1,558 |
| **Total assets** | **15,909** | **1,324** | **17,233** |

| **1999** (€ millions) Year ended December 31 | **Dairy products** | **Beverages** | **Biscuits** | **Other food businesses** | **Containers** | **Total Divisions** |
|---|---|---|---|---|---|---|
| Gross sales | 6,409 | 3,963 | 3,091 | 549 | 552 | 14,564 |
| Sales within the division | (428) | (398) | (269) | (22) | (51) | (1,168) |
| Net divisional sales | 5,981 | 3,565 | 2,822 | 527 | 501 | 13,396 |
| Sales within the Group | (16) | - | (3) | - | (84) | (103) |
| Net sales outside the Group | 5,965 | 3,565 | 2,819 | 527 | 417 | 13,293 |
| Operating income | 655 | 440 | 222 | 39 | 51 | 1,407 |
| Net earnings of equity method companies | 2 | 13 | 3 | 4 | 8 | 30 |
| Capital expenditures | 312 | 247 | 88 | 13 | 40 | 700 |
| Depreciation and amortization expense | 233 | 302 | 154 | 19 | 32 | 740 |
| Cash flow from operations | 615 | 533 | 263 | 37 | 60 | 1,508 |
| **Total assets** | **5,055** | **3,901** | **3,935** | **438** | **50** | **13,379** |

| € millions | **Total Divisions** | **Unallocated items** | **Total Group** |
|---|---|---|---|
| Operating income | 1,407 | (16) | 1,391 |
| Net earnings of equity method companies | 30 | (1) | 29 |
| Capital expenditures | 700 | 3 | 703 |
| Depreciation and amortization expense | 740 | 18 | 758 |
| Cash flow from operations | 1,508 | (85) | 1,423 |
| **Total assets** | **13,379** | **1,636** | **15,015** |

## NOTE 27 - Activities of divisions by geographical area

| (€ millions) Year ended December 31 | **2000** France | **2000** Rest of European Union | **2000** Rest of World | **2000** Total | **1999** France | **1999** Rest of European Union | **1999** Rest of World | **1999** Total |
|---|---|---|---|---|---|---|---|---|
| Total sales by geographical area of origin | 4,340 | 5,593 | 5,606 | 15,539 | 5,124 | 5,410 | 4,030 | 14,564 |
| Intra-Group sales within geographical areas | (42) | (320) | (94) | (456) | (161) | (326) | (70) | (557) |
| Net sales by geographical area of origin | 4,298 | 5,273 | 5,512 | 15,083 | 4,963 | 5,084 | 3,960 | 14,007 |
| Intra-Group sales between geographical areas | (566) | (213) | (17) | (796) | (497) | (208) | (9) | (714) |
| Net sales outside the Group | 3,732 | 5,060 | 5,495 | 14,287 | 4,466 | 4,876 | 3,951 | 13,293 |
| Operating income | 526 | 541 | 489 | 1,556 | 587 | 501 | 319 | 1,407 |
| Net earnings of equity method companies | 9 | 24 | 1 | 34 | 6 | 28 | (4) | 30 |
| Capital expenditures | 163 | 199 | 432 | 794 | 198 | 234 | 268 | 700 |
| Cash flow from operations | 515 | 515 | 521 | 1,551 | 654 | 505 | 349 | 1,508 |
| **Total assets** | 4,247 | 5,277 | 6,385 | 15,909 | 3,982 | 5,472 | 3,925 | 13,379 |

Exports by French companies of Groupe DANONE amounted to € 570 million and € 546 million in 2000 and 1999, respectively.

## NOTE 28 - Companies consolidated at December 31, 2000

**Companies consolidated for the first time in 2000**

- BAKOMA
- BIMO
- ROBUST
- GALLETAS NOËL
- KRO BEER BRANDS
- SOTUBI
- EUROMARKEN GETRANKE
- BLANRIM
- EVIAN VOLVIC UK & IRELAND
- DANONE HOLDING USA
- NAYA WATERS OF CANADA
- DANONE SERVICES SPA
- McKESSON
- FAS
- LU NORDICS
- LODAHLIM BV
- FONZIE ALLEMAGNE
- LODAHLIM FRANCE
- LU GYORI
- CALVON
- KEEBLER (Malaysia)

**Merged companies at December 31, 2000**

- LAITERIE DE VILLECOMTAL merged with DANONE FRANCE
- AGUAS MINERALES and VILLAVICENCIO merged together to become AGUAS DE ARGENTINA
- AYMORE merged with DANONE BRESIL
- GBE CANADA merged with AQUATERRA
- COFINDA merged with CIE GERVAIS DANONE after divestiture of its real estate business

**Changes in the consolidation method**

- SAN MIGUEL, which was fully consolidated in 2000, is accounted for under the equity method from December 31, 2000.

**Companies no longer consolidated at December 31, 2000 (Companies sold or wound up)**

- MINUTE MAID DANONE
- ELIDIS
- GUANGZHOU DANONE
- SOFID
- SHANGHAI DANONE DAIRY
- ALKEN MAES
- BRASSERIES KRONENBOURG
- PERONI

## List of companies fully consolidated at December 31, 2000

| Companies | Country | Percentages Group's control | Percentages Interest |
|---|---|---|---|
| Groupe DANONE | France | Parent-company | |
| **Dairy products** | | | |
| BLEDINA | France | 100.00 | 100.00 |
| DANONE | France | 100.00 | 100.00 |
| GALBANI | France | 100.00 | 100.00 |
| LABORATOIRE GALLIA | France | 100.00 | 100.00 |
| DANONE | Germany | 100.00 | 99.92 |
| DANONE | Austria | 100.00 | 99.92 |
| DANONE | Belgium | 100.00 | 100.00 |
| GALBANI | Belgium | 100.00 | 95.00 |
| STENVAL | Belgium | 97.08 | 97.08 |
| DANONE | Denmark | 100.00 | 100.00 |
| DANONE | Spain | 55.74 | 55.74 |
| DANONE CANARIES | Spain | 78.69 | 43.87 |
| DANONE | Finland | 100.00 | 100.00 |
| DANONE | Ireland | 100.00 | 100.00 |
| DANONE | Italy | 100.00 | 99.86 |
| GALBANI | Italy | 95.00 | 95.00 |
| DANONE | Netherlands | 100.00 | 100.00 |
| DANONE | Portugal | 97.61 | 53.82 |
| DANONE | United Kingdom | 100.00 | 100.00 |
| GALBANI | United Kingdom | 100.00 | 95.00 |
| GALBANI | Switzerland | 100.00 | 95.00 |
| DANONE SERDIKA | Bulgaria | 69.64 | 69.64 |
| DANONE | Hungary | 100.00 | 100.00 |
| DANONE | Poland | 100.00 | 100.00 |
| DANONE | Czech Republic | 97.81 | 97.81 |
| DANONE VOLGA | Russia | 88.28 | 88.28 |
| MOS DANONE | Russia | 51.00 | 51.00 |
| DANONE INDUSTRIA - ZAO | Russia | 99.99 | 99.99 |
| DANONE | Slovaquia | 100.00 | 100.00 |
| DANONE | Argentina | 99.50 | 99.50 |
| DANONE | Brazil | 100.00 | 100.00 |
| DANONE CANADA DELISLE | Canada | 100.00 | 100.00 |
| DANNON COMPANY | United States | 100.00 | 93.79 |
| DANONE DE MEXICO | Mexico | 100.00 | 100.00 |
| DANONE CLOVER | South Africa | 55.00 | 66.77 |

| Companies | Country | Percentages Group's control | Interest |
|---|---|---|---|
| **Beverages** | | | |
| SA DES EAUX MINERALES D'EVIAN | France | 100.00 | 100.00 |
| SEAT (Sté d'Exploitation | France | 100.00 | 100.00 |
| d'Activités Touristiques) | | | |
| VOLVIC | France | 100.00 | 100.00 |
| KRO BEER BRANDS | France | 100.00 | 100.00 |
| EUROMARKEN GETRANKE | Germany | 100.00 | 100.00 |
| AGUAS DE LANJARON | Spain | 95.00 | 78.52 |
| FONT VELLA | Spain | 94.26 | 77.79 |
| ITALAQUAE | Italy | 100.00 | 91.84 |
| EVIAN VOLVIC UK & IRELAND | United Kingdom | 100.00 | 100.00 |
| AGUAS DE ARGENTINA | Argentina | 100.00 | 100.00 |
| VILLA ALPINA | Argentina | 85.00 | 85.00 |
| AQUATERRA | Canada | 100.00 | 100.00 |
| NAYA WATERS OF CANADA | Canada | 100.00 | 100.00 |
| DANNON WATER | United States | 100.00 | 93.79 |
| McKESSON | United States | 100.00 | 93.79 |
| 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 |
| ROBUST | China | 92.00 | 79.79 |
| **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 |
| FONZIE ALLEMAGNE | Germany | 100.00 | 99.92 |
| LU BELGIE | Belgium | 100.00 | 100.00 |
| LU NORDICS | Denmark | 100.00 | 100.00 |
| LU 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 |
| LU NEDERLAND | Netherlands | 100.00 | 100.00 |
| LU GYORI | Hungary | 100.00 | 100.00 |
| JACOB'S BAKERY | United Kingdom | 100.00 | 100.00 |
| LU POLSKA | Poland | 75.00 | 75.00 |

| Companies | Country | Percentages Group's control | Interest |
|---|---|---|---|
| BOLSHEVIK | Russia | 73.43 | 73.43 |
| OPAVIA – LU | Czech Republic | 99.54 | 99.54 |
| BAGLEY | Argentina | 91.28 | 91.28 |
| JIANGMEN DANONE BISCUITS | China | 100.00 | 90.34 |
| 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 |
| KEEBLER | Malaysia | 100.00 | 90.34 |
| GRIFFIN'S FOODS | New-Zealand | 100.00 | 90.34 |
| CONTINENTAL BISCUITS PAKISTAN | Pakistan | 49.49 | 44.71 |
| **Other food businesses** | | | |
| HP FOODS | United Kingdom | 100.00 | 100.00 |
| LEA & PERRINS | United States | 100.00 | 100.00 |
| AMOY | China | 100.00 | 90.34 |
| SHANGHAI AMOY FOODS | China | 67.00 | 60.53 |
| BEST CORPORATION | New Zealand | 100.00 | 90.34 |
| **Export** | | | |
| DIB PARIS | France | 100.00 | 100.00 |
| DIB ANTILLES GUYANE | France | 100.00 | 100.00 |
| DIB OCEAN INDIEN | France | 100.00 | 100.00 |
| DIB PORTUGAL | Portugal | 100.00 | 100.00 |
| DIB SUEDE | Sweden | 100.00 | 100.00 |
| DIB AUSTRALIE | Australia | 100.00 | 100.00 |
| DIB CANADA | Canada | 100.00 | 100.00 |
| GBE USA | United States | 100.00 | 100.00 |
| DIB MEXICO | Mexico | 100.00 | 100.00 |
| DIB HONG KONG CHINA | China | 100.00 | 100.00 |
| DIB JAPON | Japan | 100.00 | 100.00 |
| DIB ASIA | Singapore | 100.00 | 100.00 |
| **Holding companies** | | | |
| Cie GERVAIS DANONE | France | 100.00 | 100.00 |
| GENERALE BISCUIT | France | 100.00 | 100.00 |
| BLANRIM | 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 |

| Companies | Country | Percentages Group's control | Interest |
|---|---|---|---|
| LODAHLIM FRANCE | France | 100.00 | 92.90 |
| DANONE HOLDING | Germany | 99.92 | 99.92 |
| DANONE VERMOGENS VERWALTUNG | Germany | 100.00 | 99.92 |
| DANONE FINANCE BENELUX | Belgium | 100.00 | 93.79 |
| COFIVE | Belgium | 100.00 | 99.96 |
| MECANIVER | Belgium | 89.00 | 89.00 |
| DANONE FOODS | United States | 100.00 | 92.90 |
| DANONE HOLDINGS USA | United States | 100.00 | 93.79 |
| DANONE SERVICES | Italy | 95.00 | 95.00 |
| FINANZIARIA IMPERIESE | Italy | 100.00 | 95.09 |
| SCIA | Italy | 92.97 | 92.14 |
| SIFIT | Italy | 100.00 | 99.10 |
| SOGEPA DANONE | Italy | 99.73 | 99.72 |
| DANONE RE | Luxemburg | 100.00 | 100.00 |
| DANONE FINANCE NETHERLANDS | Netherlands | 100.00 | 100.00 |
| SELBA | Netherlands | 100.00 | 100.00 |
| LODAHLIM BV | Netherlands | 100.00 | 89.00 |
| 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 |
| SHANGHAI DANONE CONSULTING | China | 100.00 | 90.34 |
| BANNATYNE / DOWBIGGIN / NACUPA / SPARGO / VALLETORT | Singapore | 40.00 | 18.07 |
| BHPL | Singapore | 100.00 | 100.00 |
| DANONE ASIA / KUAN / BRITANNIA BRANDS KUAN / PEERLESS | Singapore | 90.34 | 90.34 |
| CALVON | Singapore | 96.00 | 86.73 |

## Companies accounted for under the equity method

| Companies | Country | Percentages Group's control | Interest |
|---|---|---|---|
| **Dairy products** | | | |
| CLOVER | South Africa | 22.75 | 26.15 |
| DELTA DAIRY | Greece | 30.04 | 30.04 |
| STRAUSS DAIRY | Israel | 20.00 | 20.00 |
| CALPIS AJINOMOTO DANONE | Japan | 50.00 | 50.00 |
| CENTRALE LAITIERE DU MAROC PINGOUIN | Morocco | 20.00 | 20.00 |
| BAKOMA | Poland | 18.15 | 52.43 |
| STIAL / SOCOGES | Tunisia | 50.00 | 50.00 |
| DANONESA TIKVESLI | Turkey | 50.00 | 50.00 |
| **Beverages** | | | |
| MAHOU | Spain | 33.34 | 33.34 |
| SAN MIGUEL | Spain | 33.34 | 33.34 |
| AQUA | Indonesia | 40.00 | 36.14 |
| DANONESA DANONE SABANCI | Turkey | 50.00 | 50.00 |
| **Biscuits** | | | |
| GRIESSON DE BEUKELAER | Germany | 39.97 | 39.97 |
| GALLETAS NOËL | Colombia | 20.00 | 20.00 |
| BIMO | Morocco | 50.00 | 50.00 |
| SOTUBI | Tunisia | 20.00 | 20.00 |
| **Containers** | | | |
| BSN GLASSPACK | France | 44.00 | 44.00 |

## Parent company information

# Parent company financial statements and summary of resolutions

### Summarized statements of income

Net income for the 2000 financial year amounted to EUR 616 million (FRF 4,042 million). This principally represents net financial income of EUR 669 million, in turn principally made up of dividends received from consolidated subsidiaries.

| € millions, FRF millions | 1999 | 2000 | 2000 |
|---|---|---|---|
| Operating loss | (141) | (163) | (1,069) |
| Financial income | 310 | 669 | 4,391 |
| consisting of: | | | |
| Payments from subsidiaries | 341 | 699 | 4,586 |
| Other financial income (expense) | (31) | (30) | (195) |
| Non-recurring items | 166 | (24) | (158) |
| Income tax | 98 | 134 | 878 |
| Net income for the year | 433 | 616 | 4,042 |

### Summarized balance sheets

After allocation of income, balance sheets at December 31, 1999 and 2000 are as follows:

| € millions, FRF millions | 1999 | 2000 | 2000 |
|---|---|---|---|
| **ASSETS** | | | |
| Tangible and intangible fixed assets | 12 | 14 | 95 |
| Investments | 6,166 | 6,163 | 40,424 |
| Other accounts receivable and prepaid expense | 146 | 245 | 1,607 |
| Cash and marketable securities | 366 | 100 | 654 |
| **Total assets** | **6,690** | **6,522** | **42,780** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| Stockholders' equity | 4,207 | 4,320 | 28,336 |
| Provisions for contingencies and future costs | 19 | 34 | 225 |
| Financial debt | 1,143 | 1,314 | 8,621 |
| Other debt and deferred charges | 1,321 | 854 | 5,598 |
| **Total liabilities and stockholders' equity** | **6,690** | **6,522** | **42,780** |

### Investments

At December 31, 1999 and 2000 these consisted of:

| € millions, FRF millions | 1999 | 2000 | 2000 |
|---|---|---|---|
| Investments in subsidiaries and affiliates | 4,646 | 5,018 | 32,918 |
| Other financial investments | 1,520 | 1,145 | 7,506 |
| **Total investments** | **6,166** | **6,163** | **40,424** |

Investments in subsidiaries and other securities are valued at acquisition cost excluding incidental expense, except in the case of investments prior to December 31, 1976, which have been revalued. The impact of this revaluation on financial statements at December 31, 2000 amounts to EUR 23 million. If the year-end valuation is lower than the acquisition cost, a provision is set aside for loss of value in the same amount as the difference between the two valuations.
Year-end valuation takes into account not only the portion of equity represented by the investment, but also the financial and business potential of the company concerned.
Other financial investments include 6,664,842 of the Company's own shares, compared with 5,851,201 at December 31, 1999). These shares are valued at acquisition cost. In the case of shares which are not to be canceled, a provision may be set aside in the event that year-end valuation is lower than account cost.

### Changes in stockholders' equity

| € millions | Capital stock | Other paid-in capital | Other | Total |
|---|---|---|---|---|
| Conversion into euros | 35 | (35) | | 0 |
| Capital increase relating to employee savings plan | 0 | 31 | | 31 |
| Capital reduction through cancellation of shares | (6) | (788) | | (794) |
| Conversion of bonds, exercise of warrants and options for the subscription of Groupe DANONE shares | 7 | 515 | | 522 |
| Retained earnings for 2000 | | | 329 | 329 |
| Other | | | 25 | 25 |
| **Total change in the financial year** | **36** | **(277)** | **354** | **113** |

At December 31, 2000, capital stock was represented by 149,086,208 shares with a nominal value of EUR 1 each.

## Financial debt

At December 31, 2000, financial debt consisted of the following:

| In millions | EUR | FRF |
|---|---|---|
| Convertible bonds | – | – |
| Other bonds issued | 1 260 | 8 262 |
| Loans and other amounts due to banks | 23 | 153 |
| Miscellaneous borrowings and financial debt | 31 | 206 |
| **Total financial debt** | **1 314** | **8 621** |

## Allocation of income and dividend

## Amount of dividend

After distribution of a net dividend of EUR 1.90 per share, to which may be attached a tax credit of up to EUR 0.95, allocation of income for the year (pursuant to the Third Resolution submitted to the Ordinary General Meeting of Shareholders) is as follows:

| EUR | |
|---|---|
| **Earnings to be allocated** | |
| Income for the year | 616 224 466 |
| Retained earnings | 714 102 327 |
| **Total** | **1 330 326 793** |
| **Allocations** | |
| Legal reserve | 3 606 723 |
| Dividend | 283 263 795 |
| Retained earnings | 1 043 456 275 |
| **Total** | **1 330 326 793** |

# Summary of resolutions submitted to the Combined Ordinary and Extraordinary General Meeting of Shareholders on May 29, 2001

## Resolutions for the Ordinary General Meeting

**First resolution**

Approval of the transactions described in the Statutory Auditors' report pursuant to article L 225-40 of the new Code of Commerce.

**Second resolution**

Approval of the financial statements of Groupe Danone for the 2000 financial year.

**Third resolution**

Allocation of income and dividend distribution.
Net income for the year amounts to EUR 616,224,466.32.
A total of EUR 283,263,795.20 from the distributable amount is allocated to dividends. The net dividend per share is set at EUR 1.90, to which may be attached a tax credit of at most EUR 0.95.
Shares will be ex-dividend from June 6, 2001, and dividends will be payable in cash from the same date.

**Fourth and fifth resolutions**

Renewal of the appointments to the Board of Directors of Dominique Auburtin (4th resolution) and Franck Riboud (5th resolution) for a further period of three years.

**Sixth resolution**

Authorization to buy the Company's own shares.
The number of shares acquired may not exceed 9,000,000 and the price paid may not exceed EUR 200 per share. Shares may not be sold at a price of less than EUR 120 each.

**Seventh resolution**

Authorization to issue ordinary bonds or subordinated securities over the coming five years for a total of at most EUR 2 billion.

## Resolutions for the Extraordinary General Meeting

**Eighth resolution**

General delegation to the Board of Directors to issue securities entitling the holder, immediately or in time, to a share in the capital, with a preemptive subscription right.

**Ninth resolution**

Authorization granted to the Board of Directors to apply the delegation under the previous resolution with a waiver of preemptive subscription rights, but with the option of granting a preference period.

**Tenth resolution**

Authorization granted to the Board of Directors to make use of the general delegation of authority conferred on it to issue securities in the event of a public offer for the purchase or exchange of Company shares.

**Eleventh resolution**

Authorization granted to the Board of Directors to increase capital in favor of employees of Groupe Danone or of companies within the group, with preemptive subscription rights waived.

**Twelfth resolution**

Authorization grated to the Board of Directors to grant employees and officers of Groupe Danone and its subsidiaries options for the purchase of shares.

**Thirteenth resolution**

Authorization to cancel shares and reduce share capital pursuant to the buyback of up to 10% of the Company's own shares.

**Fourteenth and fifteenth resolutions**

Amendment of Company by-laws to allow the use of new technical vehicles for Board meetings, voting by correspondence and the transmission of proxies for General Meetings.

**Sixteenth resolution**

Powers granted to the Board of Directors to effect formalities.

# Board of Directors and Committees

at March 15, 2001

## Board of Directors

**Franck Riboud** Chairman and Chief Executive Officer
**Michel David-Weill** Vice Chairman
**Jacques Vincent** Vice Chairman and Chief Operating Officer
Directors
**Umberto Agnelli**
**Dominique Auburtin**
**Yves Boël**
**Yves Cannac**
**Luca Fossati**
**Jean Gandois**
**Jean-Claude Haas**
**Christian Laubie**
**Philippe Lenain**
**Jacques Nahmias**
**Edouard de Royère**
**Jérôme Seydoux**
Honorary Directors
**Antoine Riboud** Honorary Chairman
**Daniel Carasso**
**Renaud Gillet**
**Pierre Lambertin**

## Annual compensation of members of the Board of Directors and Committees

**Board of Directors: annual fee of FRF 100,000 each***
**Strategy and Appointments Advisory Committee: Chairman FRF 50,000 a year, other members FRF 25,000**
**Audit Committee: Chairman FRF 50,000 a year, other members FRF 25,000 a year**
**Compensation Committee: Chairman FRF 20,000 a year, members FRF 10,000 a year**

* fees waived in the case of Danone Group executives

## Compensation Committee

**Michel David-Weill** Chairman
**Yves Boël**
**Jean Gandois**

## Strategy and Appointments Advisory Committee

**Antoine Riboud** Chairman
**Umberto Agnelli**
**Yves Boël**
**Daniel Carasso**
**Michel David-Weill**
**Luca Fossati**
**Jean Gandois**
**Christian Laubie**
**Franck Riboud**
**Edouard de Royère**
**Jérôme Seydoux**
**Jacques Vincent**

## Audit Committee

**Jean-Claude Haas** Chairman
**Yves Cannac**
**Jean Gandois**
**Christian Laubie***

*appointed in 2001

### Franck Riboud

Born 1955. No. of shares held: 50,000.
**Chairman and CEO,** Groupe Danone, France
**Director** Scottish & Newcastle plc, Renault

### Michel David-Weill

Born 1932. No. of shares held: 40,468.
**General Partner** Lazard Frères & Cie; **Chairman** Lazard Partners Ltd Partnership, Lazard Frères & Co, LLC; **Chairman** Eurafrance
**Member of the Supervisory Board** Publicis; **Director** ITT Industries Inc., US, IFIL SpA

### Jacques Vincent

Born 1946. No. of shares held: 25,000.
**Vice Chairman and CEO, Chairman** Danone France, Danone Vitapole;
**Director** Egidio Galbani SpA

### Umberto Agnelli

Born 1934. No. of shares held: 1,000.
**Chairman** IFIL S.p.A.
**Vice Chairman, Managing Director** IFIL SpA
**Vice Chairman** Giovanni Agnelli EC Sapaz
**Member of the Supervisory Board and Strategy Committee** Worms & Cie

## Executive Committee

**Franck Riboud** Chairman and Chief Executive Officer
**Jacques Vincent** Vice Chairman and Chief Operating Officer
**Jean-René Buisson** Executive Vice-President, Human Relations
**Emmanuel Faber** Executive Vice-President, Finance
**Jan Bennink** Executive Vice-President, dairy products Worldwide
**Georges Casala** Executive Vice-President, International Strategy
**Jean-Louis Gourbin** Executive Vice-President, biscuits Worldwide
**Simon Israel** Executive Vice-President, Asia-Pacific
**Pedro Medina** Executive Vice-President, water Worldwide

**The Executive Committee has 9 members. 3 are non-French, 5 have been with Danone for less than 10 years, and 4 are under 45. The average age of Executive Committee members is 47. The 9 members in office at December 31, 2000 received compensation* totaling € 8.2 million in 2000**

* fixed and variable components received from all DANONE Group companies

## Statutory Auditors

Auditors
**Befec-Price Waterhouse**
Member of PriceWaterhouseCoopers
**Mazars&Guérard**
Alternate Auditors
**Marc Chauveau**
**Denis Grison**

### Dominique Auburtin

Born 1951. No. of shares held: 1,000.
**Chairman of the Executive Board** Worms & Cie
**Chairman of the Supervisory Board** Saint-Louis Sucre SA
**Director** CAR SA Cabinet de courtage, d'assurances et de réassurances, Les Petites Affiches, Permal Group

### Yves Boël

Born 1927. No. of shares held: 1,020.
**Chairman** SA Sofina
**Chairman, Managing Director** SA Union Financière Boël
**Vice Chairman** SA Tractebel
**Director** Eurafrance

### Yves Cannac Independent*

Born 1935. No. of shares held: 1,000.
**Adviser & Director** Cegos SA
**Chairman of Strategy Committee & Director** Caisse des Dépôts - Développement [C3D]
**Director** Société Générale, AGF

### Luca Fossati

Born 1957. No. of shares held: 1,050.
**Chairman** AMERFINDIM Holding SA, FINDIM Investments SA (Suisse), Star Stabilimento Alimentare SpA
**Director** IFIL SpA

### Jean Gandois Independent*

Born 1930. No. of shares held: 2,328.
**Chairman of the Supervisory Board** Suez Lyonnaise des Eaux
**Member of the Supervisory Board** Siemens AG, Akzo Nobel
**Director** Institut Curie

### Jean-Claude Haas

Born 1926. No. of shares held: 8,190.
**General Partner** Lazard Frères SAS; **Director** Eurafrance
**Managing Director** Lazard Brothers & Co Ltd

### Christian Laubie

Born 1938. No. of shares held: 64,392.
**Chairman** Alfabanque

### Philippe Lenain

Born 1936. No. of shares held: 1,000.
**Director** Eco-Emballages, Nord Est

### Jacques Nahmias Independent*

Born 1947. No. of shares held: 1,134.
**Chairman and CEO** Propétrol SA; **Chief Operating Officer and Director** Pétrofrance SA; **Director** DANONE SA

### Edouard de Royère Independent*

Born 1932. No. of shares held: 1,000.
**Honorary Chairman and Director** L'Air Liquide SA
**Chairman** ANSA; **Director** L'Oréal, Sodexho, Solvay

### Jérôme Seydoux Independent*

Born 1934. No. of shares held: 1,016.
**Chairman** Pathé, France
**Chief Operating Officer and Director** Chargeurs
**Member of the Supervisory Board** Accor

*As defined in the Viénot report on corporate governance in France

# Main DANONE Group companies

Sales figures below do not take into account intra-Group flows.

| € millions | | 2000 sales | Group stake (%) |
|---|---|---|---|
| **Dairy products** | | | |
| DANONE | France | 1,080 | 100.0 |
| GALBANI | Italy | 1,054 | 95.0 |
| DANONE SA | Spain | 820 | 55.7 |
| DANNON COMPANY | United States | 579 | 100.0 |
| BLEDINA | France | 403 | 100.0 |
| DANONE DE MEXICO | Mexico | 339 | 100.0 |
| DANONE | Germany | 305 | 100.0 |
| DANONE | Argentina | 288 | 99.5 |
| DANONE | Italy | 191 | 100.0 |
| DANONE | Brazil | 179 | 100.0 |
| DANONE | Poland | 169 | 100.0 |
| DANONE | Belgium | 150 | 100.0 |
| DANONE | Portugal | 97 | 97.6 |
| DANONE CLOVER | South Africa | 93 | 55.0 |
| DANONE CANADA DELISLE | Canada | 91 | 100.0 |
| DANONE | Czech Republic | 81 | 97.8 |
| DANONE | Hungary | 72 | 100.0 |

| € millions | | 2000 sales | Group stake (%) |
|---|---|---|---|
| **Beverages** | | | |
| S.A. DES EAUX MINERALES D'EVIAN | France | 464 | 100.0 |
| MCKESSON WATER PRODUCTS | United States | 362 | 100.0 |
| SOCIÉTÉ DES EAUX DE VOLVIC | France | 314 | 100.0 |
| GREAT BRANDS OF EUROPE USA | US exports | 216 | 100.0 |
| ITALAQUE | Italy | 189 | 100.0 |
| DANNON WATER | United States | 176 | 100.0 |
| FONT VELLA | Spain | 167 | 94.3 |
| AGUAS ARGENTINA | Argentina | 124 | 100.0 |
| BONAFONT | Mexico | 68 | 100.0 |
| AQUATERRA | Canada | 46 | 100.0 |
| AGUAS DE LANJARON | Spain | 27 | 95.0 |

McKesson consolidated for 10 months in 2000

| € millions | | 2000 sales | Group stake (%) |
|---|---|---|---|
| **Biscuits** | | | |
| LU/HEUDEBERT | France | 1,137 | 100.0 |
| JACOB'S BAKERY | United Kingdom | 264 | 100.0 |
| BAGLEY | Argentina | 219 | 91.3 |
| SAIWA | Italy | 186 | 100.0 |
| DANONE | Brazil | 159 | 100.0 |
| OPAVIA | Czech Republic | 139 | 99.6 |
| LU BELGIE | Belgium | 140 | 100.0 |
| LU NEDERLAND | Netherlands | 76 | 100.0 |
| LU ESPANA | Spain | 75 | 100.0 |
| IRISH BISCUITS | Ireland | 70 | 100.0 |
| PAPADOPOULOS | Greece | 70 | 60.0 |
| LU POLSKA | Poland | 60 | 75.0 |
| BOLSHEVIK | Russia | 44 | 73.4 |

| € millions | | 2000 sales | Group stake (%) |
|---|---|---|---|
| **Asia-Pacific** | | | |
| WAHAHA | China | 631 | 51.0 |
| BRITANNIA INDUSTRIES | India | 284 | 38.7 |
| ROBUST | China | 188 | 92.0 |
| GRIFFIN'S FOOD | New Zealand | 102 | 100.0 |
| AMOY | China | 77 | 100.0 |
| SHANGAI AMOY FOODS | China | 18 | 67.0 |
| JIANGMEN DANONE BISCUITS | China | 12 | 100.0 |
| SHANGAI DANONE BISCUITS FOODS | China | 52 | 60.0 |
| DONGXIHU BREWERY | China | 52 | 60.0 |
| BRITANNIA BRAND MALAYSIA | Malaysia | 43 | 100.0 |
| HAOMEN BREWERY | China | 28 | 70.0 |
| CONTINENTAL BISCUITS | Pakistan | 26 | 49.5 |
| SHENZHEN HEALTH DRINKS | China | 19 | 60.0 |

ROBUST: consolidated for 9 months in 2000

| € millions | | 2000 sales | Group stake (%) |
|---|---|---|---|
| **Other food business** | | | |
| HP FOODS LTD | United Kingdom | 225 | 100.0 |
| LEA & PERRINS INC. | United States | 54 | 100.0 |

# Ten-year financial data (1991-2000)

| € millions | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Summary of operations** | | | | | | | | | | |
| Consolidated sales | 10,072 | 10,779 | 10,688 | 11,711 | 12,112 | 12,797 | 13,488 | 12,935 | 13,293 | **14,287** |
| Organic sales growth | +4.7% | +2.8% | +1.9% | +3.8% | +4.6% | +2.6% | +2.3% | +4.6% | +5.7% | **+7.0%** |
| Operating income | 1,022 | 1,085 | 968 | 1,025 | 1,070 | 1,140 | 1,224 | 1,293 | 1,391 | **1,550** |
| As % of sales | 10.1% | 10.0% | 9.1% | 8.8% | 8.8% | 8.9% | 9.1% | 10.0% | 10.5% | **10.8%** |
| Net income | 525 | 555 | 522 | 538 | 325 | 516 | 559 | 598 | 682 | **721** |
| **Cash flow and capital expenditure** | | | | | | | | | | |
| Operating cash flow | 1,055 | 1,128 | 1,020 | 1,090 | 1,132 | 1,212 | 1,229 | 1,327 | 1,423 | **1,558** |
| Capital expenditure | 512 | 548 | 467 | 545 | 625 | 684 | 797 | 711 | 703 | **798** |
| Free cash flow | 543 | 580 | 553 | 545 | 506 | 528 | 433 | 616 | 720 | **760** |
| **Financial position** | | | | | | | | | | |
| Shareholders' equity (incl. minority interests) | 4,874 | 5,022 | 5,494 | 6,121 | 6,329 | 6,895 | 7,268 | 7,297 | 6,867 | **8,019** |
| Net debt | 1,800 | 2,077 | 2,432 | 2,412 | 2,514 | 3,289 | 2,752 | 2,873 | 3,119 | **4,401** |
| Debt/equity ratio | 37% | 41% | 44% | 39% | 40% | 48% | 38% | 39% | 45% | **55%** |
| **Stockmarket data**[1] (at Dec. 31) | | | | | | | | | | |
| Share price (EUR) | 70 | 72 | 73 | 58 | 61 | 55 | 83 | 122 | 117 | **160** |
| Number of shares (Dec. 31) | 114,022 | 127,576 | 135,780 | 139,370 | 142,592 | 145,278 | 146,144 | 147,850 | 148,272 | **149,086** |
| Market capitalization | 8,976 | 9,247 | 9,670 | 7,946 | 8,749 | 8,005 | 11,964 | 17,971 | 17,347 | **23,943** |
| **Per share data** (EUR) | | | | | | | | | | |
| EPS (fully diluted) | 4.1 | 4.3 | 3.9 | 3.9 | 2.4 | 3.6 | 3.8 | 4.1 | 4.7 | **5.10** |
| EPS before amortization of goodwill | 4.4 | 4.6 | 4.3 | 4.3 | 2.8 | 4.1 | 4.5 | 4.8 | 5.4 | **5.09** |
| Dividend per share | | | | | | | | | | |
| (including French tax credit[2]) | 1.5 | 1.7 | 1.8 | 1.9 | 1.9 | 2.0 | 2.1 | 2.3 | 2.6 | **2.85** |
| **Workforce** | | | | | | | | | | |
| Total employees | 59,158 | 58,063 | 56,419 | 68,181 | 73,823 | 81,579 | 80,631 | 78,945 | 75,965 | **86,657** |
| Western Europe | 55,090 | 54,696 | 52,775 | 54,061 | 52,386 | 50,770 | 44,863 | 42,170 | 33,764 | **28,023** |
| Outside Western Europe | 4,068 | 3,367 | 3,644 | 14,120 | 21,437 | 30,809 | 35,768 | 36,775 | 42,201 | **58,634** |

1 Figures corrected for the two-for-one split in June 2000
2 Assumes 50%; actual rate depends on law applicable to beneficiary

# Key dates in 2001

Combined Ordinary & Extraordinary Meetings of Shareholders: **May 29, 2001**

Share goes ex-dividend and dividend is payable from **June 6, 2001**

Half-year results: **July 25, 2001** (preliminary figures)

3rd-quarter sales: **October 10, 2001**

**www.danone.com**

**DANONE Group**
7 rue de Téhéran – 75008 Paris – France
Tel: +33 (0)1 44 35 20 20

**DANONE Group Corporate Communications**
Tel: +33 (0)1 44 35 20 71 / 20 75

**Financial information:**
**www.finance.danonegroup.com**

**Investor Relations**
Tel: +33 (0)1 44 35 20 76

HARRISON WOLF 422 558 197 RCS NANTERRE