Annual Report 2002

DANONE

DANONE

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From the Chairman

Talking to journalists a few months ago, I told them that DANONE's aim is to be the world's fastest moving food company. By that, I meant that we want to take — and keep — the initiative, using our capacity to adapt and respond effectively to change. I believe that our performance in 2002 and the excellent results recorded illustrate our ability to achieve that goal.

Our rate of organic sales growth is among the strongest in the sector, as are rises in operating margins. It is now beyond question that we owe this to our strategy of focusing resources and to the balanced geographical presence we have built up over recent years.

DANONE's growth model is also founded on our capacity to stay close to local markets and adapt to their specific requirements. Our success in Asia, where we now generate 15% of our sales with operating margins above the Group average, illustrates the benefits of flexibility as opposed to a rigid model imposed from outside. This distinctive, perhaps unique, approach to international expansion allows us to build a business close to people and markets in all parts of the world. I am convinced that it will be a major source of strength in the years ahead.

Within this perspective, it is essential that our teams lose none of their responsiveness. Which means, firstly, the ability to identify and analyze difficulties simply and quickly. This is exactly what we did at the beginning of the year, taking action on our biscuit business in northern Europe and water in China and the US. Rapid measures adopted then are a main reason for the significant acceleration of earnings observed in the second half.

Swift reactions, flexibility, pragmatism and a willingness to strike out in new directions are all important. But a sense of corporate responsibility and concern for individuals are perhaps even more essential. As I have often said, the special strength of DANONE is that we have made our corporate culture a competitive advantage. DANONE has a truly distinctive way of managing and doing business. One that has demonstrated its value, allowing us to look to the year ahead with confidence. I would thus like to thank all those within our Group who ensure its continuity and success, and all those who put their trust in DANONE.

Franck Riboud
Chairman & Chief Executive Officer

2002 Highlights

A world leader in three fast-growing businesses centered on health and well-being

No. 1 worldwide in Fresh Dairy Products.
No. 1 worldwide for Packaged Water.
No. 2 worldwide in Biscuits and Cereal Products.

volume

2002 sales on main markets*

€ millions	Sales
France	3,508
Spain	1,359
US	1,187
China	1,131
UK & Ireland	791
Italy	594
Mexico	523
Benelux	488
Germany	425
Poland	307
India	270

* based on businesses owned at Dec. 31, 2002

Strong local presence

In businesses where close ties to consumers are crucial, DANONE has a key advantage: around 70% of our world sales are achieved through No. 1 positions on domestic markets.

Significant potential for expansion by acquisition

- *Structurally high cash flow*
- *Proven expertise, with over 40 acquisitions in the past four years.*
- *A wide range of opportunities: over 60% of worldwide volumes in each of our three businesses are still from local suppliers.*

Strong brands with continuing momentum

• Sales under the DANONE brand came to €5.4 billion or 39% of the Group total • This is one of the highest growth rates of any major food brand on world markets, with gains averaging +9.5% over the past 3 years.

• Four brands (DANONE, LU, Evian and Wahaha) account for around 60% of Group sales • Danone is the world's top brand for Fresh Dairy Products
• LU is the world's number-two brand for Biscuits and Cereal Products • The Group has 3 of the world's top 5 brands[1] for bottled water: Evian, Wahaha (China) and Volvic, and the world's number-one brand for packaged water, Aqua of Indonesia.

(1) volume

Healthy organic growth central to the DANONE model

Average of +6% over the past four years, +6% in 2002.

Worldwide scope

• 41% of sales and 74% of employees are outside Western Europe
• Emerging markets: 31% of sales and the top ranking in each of our Group's three businesses
• Asia-Pacific countries are our main emerging markets, representing sales of €2.1 billion or 15% of the Group total.

Steady rises in operating margin

• Rises in 8 consecutive years
• Group operating margin was up from 11.1% in 2001 to 11.7% in 2002.

Groupe DANONE worldwide

Western Europe

Sales: €7.9 billion, 59% of consolidated total • No.1 in Fresh Dairy Products • No.1 in Biscuits and Cereal Products • No.2 in Packaged Water • 23,856 employees • Main brands: EVIAN, DANONE, VOLVIC, LU, JACOB'S, BLÉDINA, CHATEAUD'EAU

North America

Sales: €1.5 billion, 11% of consolidated total
• Tied for No.1 spot in Fresh Dairy Products
• No.2 in Packaged Water
• 4,729 employees • Main brands: EVIAN, DANNON, SPARKLETTS, STONYFIELD FARM

Latin America

Sales: €1 billion, 7% of consolidated total • No.1 in Fresh Dairy Products • No.2 in Biscuits and Cereal Products • No.1 in Packaged Water • 11,718 employees • Main brands: LU, BAGLEY, BONAFONT, VILLAVICENCIO, DANONE, LA SERENISIMA

Eastern Europe

Sales: €0.9 billion, 7% of consolidated total • No.1 in Fresh Dairy Products • No.1 in Biscuits and Cereal Products • 9,497 employees • Main brands: DANONE, LU, OPAVIA, ZYWIEC ZDROJ

Asia-Pacific

Sales: €2.1 billion, 15% of consolidated total • No.1 in Packaged Water • No.1 in Biscuits and Cereal Products • 41,961 employees • Main brands: WAHAHA, ROBUST, AQUA, DANONE, BRITANNIA, GRIFFIN'S, AMOY, FRUCOR

Africa & Middle East

No.1 in Fresh Dairy Products in South Africa • DANONE equity affiliates hold strong positions in Saudi Arabia, Morocco, Tunisia, Algeria, Turkey and Israel • Main brands: DANONE, BIMO, SOTUBI, DJURDJURA, AL SAFI

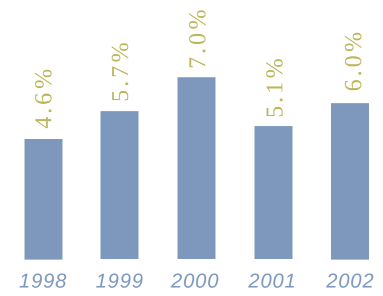
Groupe DANONE
Key figures

Financial highlights *(€ millions)*

	2001	2002	Change
Net sales	14,470	13,555	+6.0%[1]
Operating income	1,609	1,590	
Operating margin	11.1%	11.7%	+61 bp
Net income (excl. exceptional items)	780	828	+6.2%
Exceptional one-time items	-648	455	
Net income (excluding minorities)	132	1 283	
Cash flow from operations	1,611	1 578	
Capital expenditure	737	603	
Free cash flow[2]	818	1 017	
Investment in subsidiaries and affiliates	1,071	495	
Net earnings per share (diluted) (excluding exceptional one-time items)	€5.51	€6.11	+10.9%
Net dividend per share (€)	€2.06	€2.30*	+11.7%
Return on capital invested	9.3%	11.8%	
Net financial borrowing	4,827	2,269	
Stockholders' equity[3]	6,727	5,816	
Debt/equity ratio	72%	39%	
No. of shares at Dec. 31 ('000)	141,033	137,335	
Share price at Dec. 31 (€)	€137	€128.2	
Market capitalization at Dec. 31	19,322	17,606	

*submitted to the Annual General Meeting of Shareholders (April 11, 2003) for approval
(1) at constant structure and exchange rates
(2) excludes impact of securitization (€685 million in 2001, €706 million in 2002)
(3) includes minority interests

Like-for-like sales growth
(at constant structure and exchange rates)



Presence worldwide
(at December 31, 2002)

120 countries 194 plants

Employees
(at December 31, 2002)

92 209 people

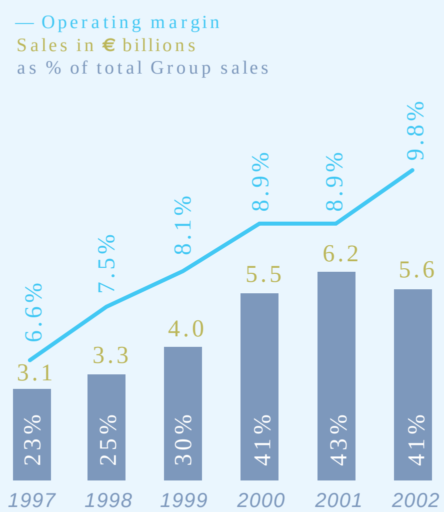
France: 12,236
Rest of Western Europe: 11,621
Rest of World: 68,352

Sales and operating margin *(over 5 years)*

€ millions	1998	1999	2000	2001	2002
Sales	12,935	13,293	14,287	14,470	13,555
Change:					
• published	(4.1%)	+2.8%	+7.5%	+1.3%	(6.3%)
• like-for-like[1]	+4.6%	+5.7%	+7.0%	+5.1%	+6.0%
Operating margin	10%	10.5%	10.8%	11.1%	11.7%

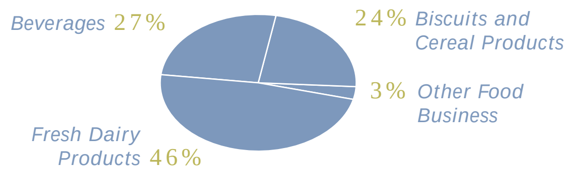
(1) at constant structure and exchange rates

International activities
(outside Western Europe)



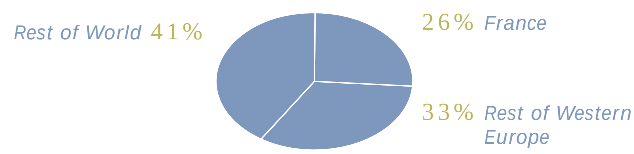
Sales by business line (€ millions)

	2001	2002
Fresh Dairy Products	6,945	6,295
Beverages	3,796	3,691
Biscuits and Cereal Products	3,371	3,232
Other Food Business	375	356
Intra-Group sales	-17	-19
Group total	14,470	13,555

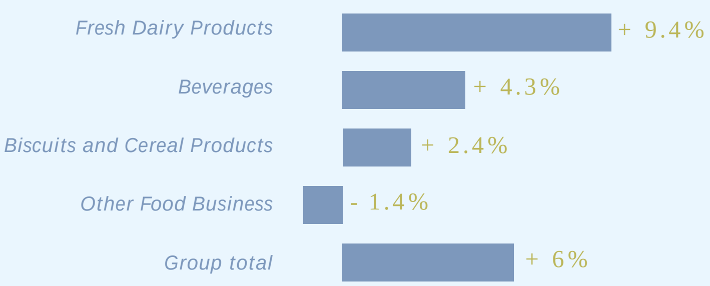


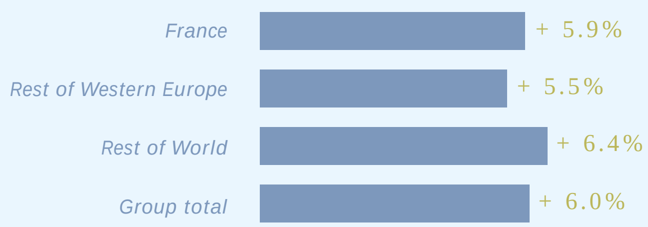
Sales by region (€ millions)

	2001	2002
France	4,022	4,202
Rest of Western Europe	5,137	4,610
Rest of World	6,192	5,635
Intra-Group sales	-881	-892
Group total	14,470	13,555



2002 like-for-like sales growth [(1)]

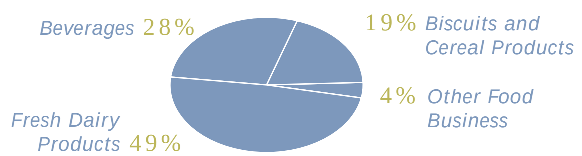




(1) at constant structure and exchange rates

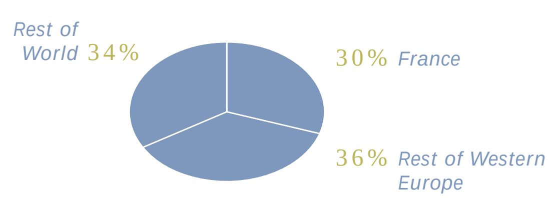
Operating margin and income by business line (€ millions)

	Operating margin		Operating income	
	2001	2002	2001	2002
Fresh Dairy Products	11.4%	12.7%	790	802
Beverages	11.4%	12.6%	432	464
Biscuits and Cereal Products	9.4%	9.8%	316	317
Other Food Business	16%	17.1%	60	61
Unallocated items	-	-	11	-54
Group total	11.1%	11.7%	1,609	1,590



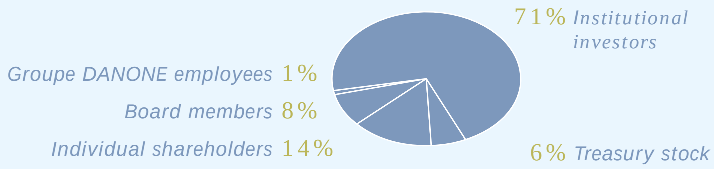
Operating margin and income by region (€ millions)

	2001	2002	2001	2002
France	11.5%	11.8%	462	494
Rest of Western Europe	11.4%	13%	584	599
Rest of World	8.9%	9.8%	552	551
Unallocated items	-	-	11	-54
Group total	11.1%	11.7%	1,609	1,590

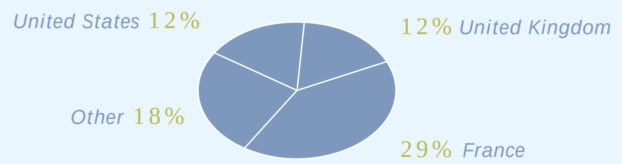


Groupe DANONE
Key figures

Share ownership *(at December 31, 2002)*



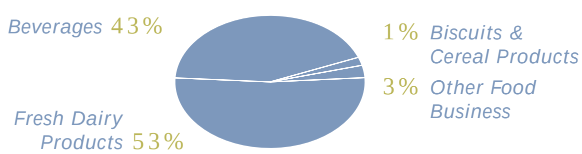
Institutional investors by country



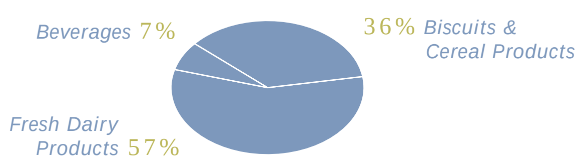
Number of shares listed *(on December 31, 2002)*: **137 million**

Sales by region and business line

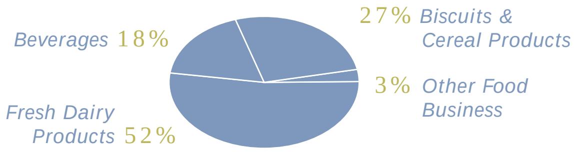
North America
(€1.5 billion)



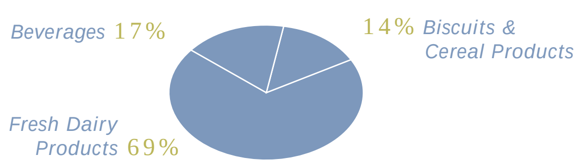
Eastern Europe
(€0.9 billion)



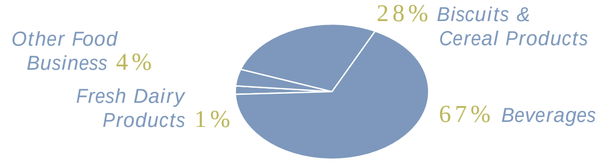
Western Europe
(€7.9 billion)



Latin America
(€1 billion)



Asia-Pacific
(€2.1 billion)



Ten-year financial data 1993-2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Summary of operations										
Consolidated sales	10,668	11,711	12,112	12,797	13,448	12,935	13,293	14,287	14,470	13,555
Like-for-like sales growth	+1.9%	+3.8%	+4.6%	+2.6%	+2.3%	+4.6%	+5.7%	+7.0%	+5.1%	+6%
Operating income	968	1,025	1,070	1,140	1,224	1,293	1,391	1,550	1,609	1,590
As % of sales	9.1%	8.8%	8.8%	8.9%	9.1%	10.0%	10.5%	10.8%	11.1%	11.7%
Net income	522	538	325	516	559	598	682	721	132	1,283
Cash flow and capital expenditure										
Operating cash flow	1,020	1,090	1,132	1,212	1,229	1,327	1,423	1,558	1,611	1,578
Capital expenditure	467	545	625	684	797	711	703	798	737	603
Investments in subsidiaries and equity method companies	1,232	893	608	1,140	470	485	934	2,849	1,071	495
Free Cash Flow (1)	785	602	464	528	537	647	622	624	1,503*	1,038*
Financial position										
Stockholders' equity (incl. minority interests)	5,494	6,121	6,329	6,895	7,268	7,297	6,867	8,019	6,727	5,816
Net debt	2,432	2,412	2,514	3,289	2,752	2,873	3,119	4,401	4,827	2,269
Debt/equity ratio	44%	39%	40%	48%	38%	39%	45%	55%	72%	39%
Stockmarket data										
Share price at Dec. 31 (€)	73	58	61	55	83	122	117	160	137	128
Number of shares at Dec. 31 ('000)	135,780	139,370	142,592	145,278	146,144	147,850	148,272	149,086	141,033	137,335
Market capitalization at Dec. 31 (€ millions)	9,670	7,946	8,749	8,005	11,964	17,971	17,347	23,943	19,322	17,606
Per share data (€)										
EPS (fully diluted)	3.9	3.9	2.4	3.6	3.8	4.1	4.7	5.1	0.97	9.43
EPS before amortization of goodwill	4.3	4.3	2.8	4.1	4.5	4.8	5.4	6.1	2.11	10.34
Dividend per share (including French tax credit) (3)	1.8	1.9	1.9	2.0	2.1	2.3	2.6	2.9	3.09	3.45 (2)
Workforce										
Total employees	56,419	68,181	73,823	81,579	80,631	78,945	75,965	86,657	100,560	92,209
Western Europe	52,775	54,061	52,386	50,770	44,863	42,170	33,764	28,023	28,302	23,857
Outside Western Europe	3,644	14,120	21,437	30,809	35,768	36,775	42,201	58,634	72,258	68,352

* incl. impact of securitization (€685 million in 2001, €706 million in 2002)
(1) cash flow from operations less capital expenditure and change in working capital requirement (prior year figures have been adjusted to this definition)
(2) subject to the approval of the Annual General Meeting on April 11, 2003
(3) assumes 50%, actual rate depends on law applicable to beneficiary

Board of Directors and Committees

Franck Riboud
Born 1955. No. of shares held: 16,000 • Chairman and CEO, Groupe DANONE • Member of Supervisory Board Accor, Eurazeo • Director Scottish & Newcastle plc, Renault, L'Oréal, Quiksilver.

Jacques Vincent
Born 1946. No. of shares held: 1,000 • Vice Chairman and Chief Operating Officer, Groupe DANONE • Chairman Danone Vitapole • Director Danone SA.

Directors

Umberto Agnelli
independent*
Born 1934
• No. of shares held: 1,000
• Chairman, Managing Director IFIL SpA
• Vice Chairman Giovanni Agnelli e.c Sapaz • Member of the Supervisory Board and Strategy Committee Worms & Cie.

Bruno Bonnell
independent*
Born 1958
• No. of shares held: 1,000
• Chairman Infogrames
• Member of Supervisory Board Pathé, Eurazeo.

Yves Cannac (1)
independent*
Born 1935
• No. of shares held: 1,112
• Chairman of Strategy Committee & Director Caisse des Dépôts - Développement [C3D]
• Director Cegos, Société Générale, AGF.

Michel David-Weill
Born 1932
• No. of shares held: 40,468
• Vice Chairman, General Partner Maison Lazard SAS
• Chairman Lazard LLC
• Member of Supervisory Board Publicis, Eurazeo.

Emmanuel Faber
Born 1964
• No. of shares held: 1,000
• Member of Supervisory Board Legris Industries
• Director BSN Glasspack, Ryanair.

Jean Gandois
independent*
Born 1930
• No. of shares held : 2,328
• Vice Chairman of Supervisory Board Suez
• Member of Supervisory Board Eurazeo • Director Institut Curie.

Christian Laubie
Born 1938
• No. of shares held: 57,192
• Chairman Alfabanque
• Director BSN Glasspack.

Philippe Lenain (1)
Born 1936
• No. of shares held: 3,900
• Director Eco-Emballages, Nord Est.

Jacques Nahmias
independent*
Born 1947
• No. of shares held: 1,384
• Chairman and CEO Pétrofrance chimie SA • Chief Operating Officer and Director Pétrofrance SA
• Director Danone SA.

Edouard de Royère (1)
independent*
Born 1932
• No. of shares held: 1,000
• Honorary Chairman and member of Supervisory Board L'Air Liquide SA
• Chairman ANSA
• Director L'Oréal, Sodexho.

Jérôme Seydoux
independent*
Born 1934
• No. of shares held: 1,016
• Chairman Pathé SAS, Pathé Distribution SAS
• Member of Supervisory Board Accor.

The 13-member board counted 7 independent* directors (54%) at December 31, 2002

New appointments

Three new appointments will be submitted to the General Meeting of Shareholders on April 11, 2003 for its approval:
• Richard Goblet d'Alviella, independent*, 54, Managing Director Sofina SA.
• Hakan Mogren, independent*, 58, Chairman Reckitt Benckiser, Executive Deputy Chairman AstraZeneca plc.
• Benoît Potier, independent*, 45, Chairman of Management Board L'Air Liquide.
At April 11, 2003, 8 members of the 13-member Board will be independent directors (62%).

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

(1) leaves the Board on April 11, 2003

Honorary directors

Daniel Carasso
Honorary Chairman

Yves Boël

Jean-Claude Haas

Executive Committee *(at December 31, 2002)*

Franck Riboud
Chairman and Chief Executive Officer

Jacques Vincent
Vice Chairman and Chief Operating Officer

Jean-René Buisson
General Secretary

Emmanuel Faber
Executive Vice President,
Finance, Strategy and Information Systems

Georges Casala
Executive Vice President,
International Strategy

Jean-Louis Gourbin
Executive Vice President,
Biscuits and Cereal Products

Simon Israel
Executive Vice President,
Asia-Pacific

Pierre Cohade(1)
Executive Vice President,
Beverages

Bernard Hours
Executive Vice President,
Fresh Dairy Products

Franck Mougin
Executive Vice President,
Human Resources

The average age of Executive Committee members is 50.
The 9 members in office at December 31, 2002 received compensation(2) totaling €9 million in 2002.

(1) appointment effective from February 1, 2003 (2) fixed and variable components received from all Groupe DANONE companies

Audit Committee

*Jean Gandois**
Chairman

*Yves Cannac**(1)

*Richard Goblet d'Alviella**(2)

Christian Laubie

Appointments Advisory Committee

Michel David-Weill
Chairman

*Yves Cannac**(1)

*Benoît Potier**(2)

*Edouard de Royère**(1)

*Jérôme Seydoux**

Compensation Committee

Michel David-Weill
Chairman

*Jean Gandois**

*Jérôme Seydoux**

Statutory Auditors

AUDITORS •

PricewaterhouseCoopers Audit

Mazars & Guérard

ALTERNATE AUDITORS •

Marc Chauveau

Denis Grison

** independent as defined by the Viénot Report on corporate governance in France (1) leaves the Board on April 11, 2003 (2) joins the Board on April 11, 2003*

Annual compensation of members of the Board of Directors and Committees

Board of Directors
annual fee of €16,000 each(3).

Appointments Advisory Committee
Chairman €8,000 a year
• members €4,000 each a year

Audit Committee
Chairman €8,000 a year
• members €4,000 each a year.

Compensation Committee
Chairman €4,000 a year
• members €2,000 each a year.

(3) fees waived in the case of Groupe DANONE executives

Corporate governance strengthened

In keeping with the recommendations of the Bouton Report, the Board of Directors reviewed its procedures and introduced the following changes with immediate effect:
• Directors' fees now include a 50% variable component, and additional fees allocated to members of the committees are directly and fully linked to members' attendance of committee meetings.
• Board regulations have been strengthened and now include a list of issues on which the Board must be consulted.

2002 highlights

Sharpening focus on three core businesses

APRIL • Sale of Galbani's business in Italy for €1,015 million.

SEPTEMBER • Sale of European brewing business to Scottish & Newcastle finalized for a total of approximately €2,300 million.

Continued pace in acquisitions

FEBRUARY • Successful public offer for Frucor (beverages) in New Zealand • Contract allowing DANONE to raise its interest in Zywiec Zdroj, Poland's leading producer of bottled water, to 88%.

APRIL • Master agreement with The Coca-Cola Company covering marketing, sale and distribution of Evian water in North America.

JUNE • Partnership agreement with The Coca-Cola Company for the production, marketing and distribution of Groupe DANONE domestic spring waters in the United States.

AUGUST • Acquisition of Shape, no. 2 in the UK for low-fat Fresh Dairy Products, doubling Groupe DANONE sales to make it no. 3 in the UK for Fresh Dairy Products.

SEPTEMBER • Partnership agreement with Kirin, a leading Japanese beverage producer, and Mitsubishi for the import, marketing and sale of Volvic mineral water in Japan, plus the production, marketing and sale of Alkali Ion, a local water brand developed by Kirin Beverage Corp.

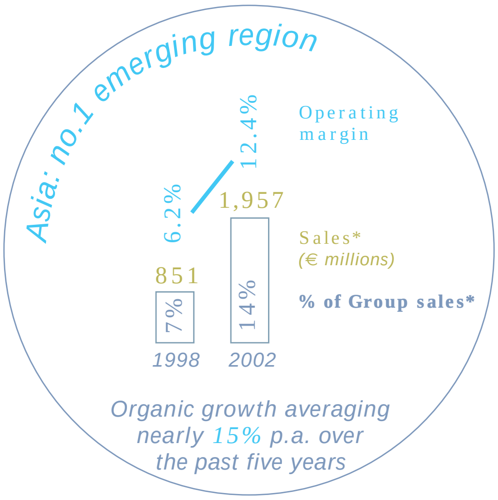
2002 performance in line with targets

• Organic sales growth 6% • Operating margin up from 11.1% to 11.7% • Net earnings per share up 10.9%(1)

(1) excluding exceptional one-time items

OCTOBER • Acquisition of Patrimoine des Eaux du Quebec, the number 3 player in the Canadian HOD market and leader in the Quebec City region. The Group strengthens its leadership position in home & office delivery ("HOD") in Canada.
• A definitive agreement signed for acquisition of Chateaud'eau International, French leader in HOD and major playor on the European market.
By entering the European HOD market, Groupe DANONE consolidates its worldwide leadership on this market, thanks to its leading positions in the Americas (Canada, United States, Mexico, Argentina), and in Asia (no.1 in Indonesia and China).

NOVEMBER • A definitive agreement signed for acquisition of Sparkling Spring Water Holdings, reinforcing Group business in Home and Office Delivery on the North American and European 5-gallon water markets.

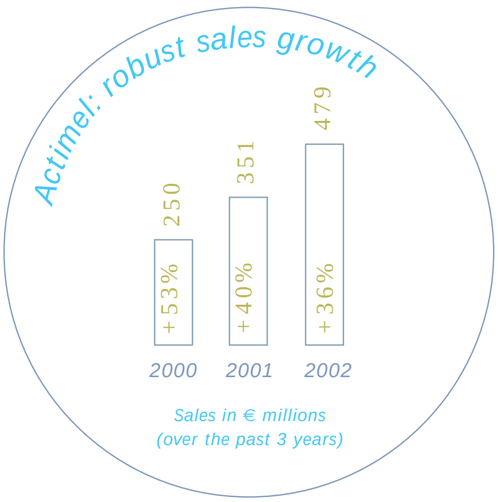


** excl. Evian Volvic exports to Japan*

Success through innovation

Product innovation remained a major source of momentum.

- *Taillefine/Vitalinea low-fat lines continued to gain ground, with sales rising over 15% to nearly €1 billion*
- *flavored water has proven a winner with consumers*
- *strong growth for Tiger/Biskuat brand biscuits in Asia*
- *Actimel is now sold in over 20 countries and shows continued growth potential.*



Shares and market performance

APRIL • General Meeting of shareholders approves new share buyback program.

OCTOBER • Cancellation of 2.8 million treasury shares.

DECEMBER • Cancellation of 1.4 million treasury shares • DANONE shares closed the year at €128.2 for a 12-month decline of 6.5%, comparing very favorably with falls of 33.7% for the CAC 40 and 37.3% for the EuroSTOXX 50 over the same period.

Appointments

Bernard Hours was appointed Executive Vice President, Fresh Dairy Products, and Franck Mougin Executive Vice President, Human Resources, with both men joining the Executive Committee.

In early 2003, Pierre Cohade, appointed Executive Vice President, Beverages, also joined the Executive Committee.

Honing efficiency

- *After successful piloting, deployment of THEMIS began in 2002; the program uses SAP software to enhance performance Group-wide.*
- *Danone Vitapole, our new center for worldwide research, is now operational, bringing together R&D teams from all three business lines.*
- *CPGmarket.com, the online business-to-business market place, continued its success, with Groupe DANONE buyers negotiating contracts worth over €1.5 billion. Deployment continues in western Europe and other parts of the world.*
- *Aiming for higher productivity and greater overall industrial efficiency, DANONE is entrusting responsibility for power supply and treatment of industrial water on its sites to Suez, a company with a worldwide reputation for expertise in these sectors.*

Jacques Vincent
57, Vice Chairman and Chief Operating Officer.

Groupe DANONE: the fastest-moving food company

Fresh Dairy Products, Beverages, and Biscuits & Cereal Products — profitable growth on three fronts

The sale of Galbani's business at the beginning of 2002 marked a further step forward in a strategy pursued over the past five years, aiming for a focused business structure. Today, nearly all Group sales are in our three core businesses – Fresh Dairy Products, Beverages, and Biscuits & Cereal Products – where growth rates are among the highest in the food industry. Momentum reflects a close match with trends in consumer tastes: products associated with health and well-being, easy to eat and drink at any time and in any place. By the same token, DANONE is well placed on high-growth emerging markets. A focus on three exceptionally dynamic sectors thus gives our Group a decisive strategic advantage, enabling us to continue to outpace rivals.

Balanced geographical presence

Today nearly 31% of our sales are on emerging markets. This brings us close to our target, which is to do 40% of business on emerging markets and 60% in developed countries – a balanced presence that means our Group benefits from both the high potential of developing economies and the steady demand of more mature markets.

In recent years, DANONE has built up strong positions on emerging markets to take the number-one place in each of our three core businesses.

This successful international expansion rewards a strategy focusing on a limited number of countries, selected for their growth potential, where we have the size to achieve significant economies of scale.

A powerful international presence

• *41%* of sales outside western Europe • *31%* of sales in emerging markets • *15%* of sales in Asia, a main focus for growth strategy.

Products within the reach of most consumers, high-profile brands, and effective, wide-ranging distribution for sales close to consumers are the essential components of our model for profitable growth on emerging markets, which we sum up as affordability, awareness and availability.

In western Europe, too, DANONE can look forward to continued, steady growth, building on strengths that include well-established positions in each of our core businesses, unrivalled familiarity with local consumers, and a recognized capacity for effective innovation.

World leadership built on local strength

In each of our business lines we are a world leader, which gives us a clear competitive advantage in terms of marketing expertise, industrial efficiency, breadth of product ranges and targeted R&D. And in each case, world leadership is built on strong number-one positions on local markets, enabling us to forge both close ties to consumers and balanced, long-term relationships with major retailers.

Brand strength concentrating resources

With nearly 60% of sales under only four brands (DANONE, Evian, LU and Wahaha), DANONE is able to optimize advertising outlays. This is a key advantage in our strategy of profitable growth centered on innovation and close ties to consumers — and one that is being consolidated with the extension and promotion of tag brands such as Taillefine /Vitalinea for low-fat products and Prince for children's snacks.

The DANONE brand in 2002

€5.4 *billion sales*

39% *of Group sales*

9.5% *annual growth over the past three years*

A steady flow of innovation for consumer satisfaction

At DANONE, successful new-product development begins with awareness of our customers' needs. It is built on universally recognized marketing expertise, effective R&D, strong brands, and unrivalled experience in nutrition and active health.

To capitalize on our worldwide presence and leading positions in local markets, Groupe DANONE has introduced international cross-company structures to promote promising products and concepts in new geographical areas. The aim is to accelerate growth while keeping costs as low as possible. Thus in early 2002, R&D teams from around the world were brought to a single center coordinating work in all areas.

Customer relationship management is another focus. In 2002, Groupe DANONE gave existing programs, Danoé, Bingo and Danoneconseils.com, a new dimension, enhancing their profitability and laying the groundwork for extension to new countries.

To keep pace with changing lifestyles, we also stepped up operations in new distribution channels. One example is Home and Office Delivery of water in Europe; another is away-from-home consumption.

Focusing on sustainable development

Danone Way is a unique program built on the dual philosophy that has underpinned Groupe DANONE from the start, making business success inseparable from respect for people and the environment. Deployment of Danone Way throughout the Group is a means of reconciling globalization with the needs of local communities, while reasserting our own corporate culture and values (see page 19).

Excellence drives success

In recent years we have demonstrated time and again our ability to adjust quickly and successfully to changes in our business environment. We do so through the commitment of our teams and simple structures that promote initiative and shared experience. The responsiveness that results is a key strength of Groupe DANONE, and explains our quick use of new information technologies to enhance efficiency.

In this area, several major programs were launched to sharpen our competitive edge:

- *CPGmarket.com, an online marketplace breaking new ground in centralized purchasing management*
- *THEMIS, a Group-wide program to boost collective efficiency through deployment of SAP enterprise software.*

Teamwork drives efficiency

Danone Vitapole — a catalyst for innovation, bringing people the best of nature, science and technology

Danone Vitapole opened its doors in September 2002, and now serves all three business lines. It is staffed by around 500 researchers, engineers and technicians representing over 20 nationalities — altogether 60% of the Group's worldwide R&D capacity.

The center harnesses synergies to create close-knit teams of research and development experts from all three of our core businesses. Exchanges generate insights with potential for short and medium-term development, allowing researchers to create breakthrough scenarios and devise concrete applications in each business line for deployment in multiple markets.

R&D now has links to all departments concerned — marketing, purchasing and production. As a result, new products reflect consumer needs more closely on all markets, time to market is reduced, and new launches in all sectors gain momentum.

DEVELOPING CREAMY YOGURT: INTERNATIONAL SUCCESS REWARDS BREADTH OF EXPERTISE AT DANONE VITAPOLE •
The challenge: produce an extra-creamy yogurt for health-conscious consumers, combining taste appeal with low calories. In April 2001, DANONE R&D teams set to work with an in-depth investigation of all factors influencing fermentation — our Group's core process. Efforts focused on the trickiest part: creating a creamy texture without fats. The Vitalinea brand, already deployed worldwide, was selected for distribution.

Thanks to an integrated, multidisciplinary approach, the solution was found in just a few months. Teams first reviewed consumer preferences for texture, fruit flavors, color and general appearance. They then combined research into the natural texturizing features of dairy proteins with the latest technology in homogenization screening. The result — launched less than four months later in France — was Cremosso yogurt.

The experience gave fresh impetus to the search for creamy textures, with advances now incorporated into a range of brands sold worldwide: Grandfrutta, Crème de Yaourt, La Crème and Fruix.

ACCELERATING SYNERGIES UNDER ONE ROOF •

Danone Vitapole brings together R&D experts from all areas to promote creative thinking and sharing of research skills and equipment for the benefit of all Danone brands.

At Vitapole, a 10,000 sq.m technology area is flanked by wings housing offices and labs. The main area contains semi-industrial pilot lines for fresh dairy products, biscuits, water, fruit and bio-processes. Each unit has an automated modular platform equipped to simulate industrial production.

THEMIS: speaking the same language

Launched in 2001, THEMIS is a program promoting dissemination of best practices throughout the Group. Based on the introduction of SAP enterprise software, it offers an excellent opportunity to review existing structures and processes at both local and global levels. In this we are building on our traditional strengths: responsiveness in the face of fast-changing business conditions, and the ability to make change an integral part of our success.

THEMIS will simplify and harmonize operating processes in all business functions, from sales to production. Delivery, purchasing, quality, marketing, finance and human resources are equally concerned.

With improved sales forecasts and planning, for example, we can optimize flows of finished products and raw materials, thus reducing inventories and risks of building up stocks of products that have passed their expiry date. At the same time, we improve client service by ensuring that store shelves are adequately stocked. There are clear benefits for our relationships with partners, customers and suppliers.

Establishing a common vocabulary facilitates collection and analysis of data. It will also help enhance the effectiveness of a Group-wide approach by business function and, by the same token, overall management of our business.

Harmonizing our processes and tools will at the same time accelerate the integration of newly acquired companies.

After successful testing at four pilot sites, Group-wide deployment of THEMIS began in mid-2002. By 2004, some 30 companies around the world will have completed implementation, acquiring the resources they need to better anticipate future developments, take decisions and act swiftly to improve the efficiency of Groupe DANONE and our partners — consumers, customers and suppliers.

By introducing shared practices and a common language, THEMIS will play a key role in reinforcing the cohesiveness of the Group, above and beyond business functions and national markets.

Leading the field in online-purchasing

Groupe DANONE is now one of the most active users of CPGmarket.com, an online marketplace for consumer packaged goods that we co-founded 18 months ago. We are convinced that the internet offers enormous scope for optimizing purchasing operations and to date have used the site for over 1,000 projects covering raw materials, packaging and services, in more than 160 markets.

In 2002, internet transactions accounted for over 25% of volumes purchased by DANONE worldwide and 35% of the total for western Europe. For even greater efficiency, standard procurement steps have now been automated and purchasing models are systematically shared. We also make greater use of pooling within the Group and benefit from real-time access to best practices drawn up by the tool users.

Today over 40 Groupe DANONE subsidiaries in 20 countries use CPGmarket.com, with plans to extend this worldwide in 2003. Since the project's launch in spring 2001, DANONE buyers have used it to negotiate contracts totaling over €1.5 billion.

Instant access to a single venue with a large number of buyers and sellers has won the site up to 400 bids a day, allowing users to track price trends closely and respond quickly. CPGmarket.com also facilitates information flows between subsidiaries and suppliers, streamlining the purchasing process and saving precious time.

CPGmarket.com is the first internet marketplace for consumer packaged goods. Founded by DANONE, Henkel and Nestlé, it today counts 30 large client companies and 6,000 suppliers.

DANONE principles

Responsibility and anticipation

The appropriate measures of business performance and corporate responsibility for development in the broader sense — and for the well-being of the community at large — are issues that have quite rightly attracted renewed public attention.

DANONE has played a pioneering role in finding ways to deal with these challenges, building on the dual commitment to business success and social responsibility promoted by our founder, Antoine Riboud, 30 years ago. Policies on corporate responsibility to employees, the community and the environment have thus taken shape step by step, reflecting our enduring conviction that this approach is a genuine competitive advantage, contributing to the overall performance of our Group.

In 2002, the structures dealing with these issues were consolidated at Group level to ensure effective pursuit of efforts to deal with challenges on an international scale, and to meet increasingly demanding expectations.

Receptiveness

Familiarity with our environment is essential to doing business responsibly. At DANONE, we have long been convinced that it is part and parcel of our managers' duties to understand all those concerned with our operations, in every part of the world, and establish ongoing relationships with them. Laying the groundwork in untroubled times means a more favorable, constructive business climate, easing anticipation of future developments and facilitating quick responses in the event of upsets along the way.

To this end, factory managers in Europe have for several years benefited from innovative training programs to help them better understand their social and economic environment, and build ties to local communities and institutions. A variety of other initiatives have followed, in particular to safeguard the Group's image. These include adoption of a structured system for crisis management that has proven its effectiveness, and, more recently, the creation of an External Affairs department charged with monitoring relevant social developments and information-gathering in general.

Jean-René Buisson
55, Group General Secretary.

Reinforcing crisis management

- *In 2002, DANONE continued its drive to train crisis management units at business units and encourage sharing of best practice.*
- *New procedures for crisis reporting, designed for greater efficiency and confidentiality, were drawn up and will be deployed in 2003.*
- *In September 2002, crisis management staff from all over the world held a first meeting in Paris.*
- *DANONE has also initiated consultations with customers, distributors and some suppliers to plan joint action to improve crisis prevention and management.*

Danone Way, a yardstick for progress

Reflecting our dual commitment to business success and social responsibility, Danone Way is an original program aimed at defining good practice for an efficient business with worldwide scope.

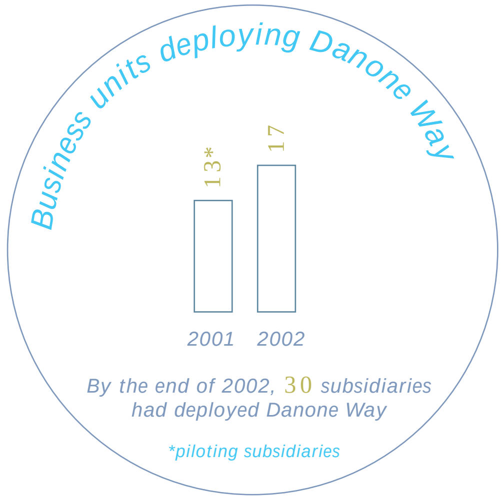
In the past ten years, employees outside western Europe have risen from 6% to 74% of our total workforce, and our Group has significantly expanded its presence on emerging markets. To meet the challenge, we launched Danone Way, a tool to assess standards of environmental practice and social responsibility at all Groupe DANONE companies.

The program is intended to favor the development of a common culture based on shared practices. At local level, it helps subsidiaries to better understand Group expectations as well as to identity specific problem areas and draw up plans for improvement. More broadly, it is a means to flesh out dialogue with all our stakeholders — customers, consumers, suppliers, the community, environmental issues, shareholders and employees.

Drawing on the active participation of employees, Danone Way centers on a questionnaire that subsidiaries access via our intranet to enter self-assessments on a scale of one to four for a total of 130 practices. Headings cover all areas of corporate responsibility, from food safety and respect for the environment to human resource policies and relationships with suppliers. Rather than imposing inflexible rules, Danone Way aims to provide guidance in setting a course for progress.

Deployment of Danone Way worldwide

- *In 2002, around 1,600 employees (excluding Executive Committee members) took part in Danone Way working groups, representing up to 30% of employees in each subsidiary.*
- *In 2003, 30 new subsidiaries will roll out Danone Way and 13 subsidiaries involved in piloting will launch a new round of self-assessment (scheduled every two years).*



Consumers, our most important partners

Consumer satisfaction is the ultimate aim of all our efforts. Achieving this demands readiness to listen above all else. Over the years, DANONE companies have thus developed an array of tools to facilitate communications and encourage dialogue. Examples include customer-service call centers, now fully deployed in France and in the course of development in other countries; internet sites with FAQ pages and question & answer forums; and the Danoé magazine circulated to households in France. In all countries follow-up and close analysis of consumer complaints is a priority, ensuring continued improvement.

Keeping consumers in the know

In 2002, DANONE launched a food safety newsletter circulated to opinion leaders in France as well as all business units.
Group companies also produce specialized publications that include:
- *a guide to food safety translated into several languages*
- *a guide to food purchases for allergy sufferers in France.*

In addition to these standard forms of communication, DANONE has made a special point of building ties to consumer associations to respond to their concerns in a constructive way and achieve new progress.

Product quality — a core concern

DANONE has a longstanding commitment to offering consumers quality products that do not put health at risk and that provide genuine nutritional benefits. In keeping with this commitment, we make an active contribution to the development of domestic and international regulations governing hygiene, packaging, ingredients and other aspects of food safety. Similarly, we participate in debates on public health and related ethical issues — for example, vitamin and mineral supplements and nutritional claims in advertising. Groupe DANONE has its own Food Safety Center charged with identifying and assessing the microbiological, chemical and physical risks associated with our business.

ISO certification

Since 1987 the International Standardization Organization, commonly known as ISO, has offered quality and environmental certification, respectively ISO 9000 and 14000. Certification is valid for three years and is only granted after a full independent audit.

- 98 Group production sites have quality certification under ISO 9000.
- Environmental certification of sites under ISO 14000 is gathering pace, with 54 already qualified and nearly 30 currently deploying programs.

Constant efforts to enhance quality span all stages in the product lifecycle:

- upstream, the quality and safety of ingredients is backed by scientific know-how, inspection of suppliers' sites and facilities, certification of approved suppliers, ongoing supervision and analysis of deliveries
- in DANONE factories, production processes are strictly controlled to ensure the highest standards of hygiene, in particular through the application of Hazard Analysis and Critical Control Point methods
- downstream, lots are clearly identifiable through strict coding, while storage and handling are strictly supervised, in particular to ensure compliance with temperature requirements.

Safety training worldwide

In 2002, 84 managers attended Quality Management training programs, making a total of 252 since 1999, and 72 attended the Food Safety Management program, for a total of 91 since the end of 2001.

Some hazards — such as those relating to allergies — have come in for special attention. In these areas, all Group companies are required to comply with rules that go well beyond legal requirements.

Groupe DANONE has also set up a corporate Quality Department to ensure overall consistency and consolidate progress to date.

Environmental standards — clearly defined targets

DANONE is actively committed to reducing the environmental impact of its factories, products and packaging as far as possible, and to keeping the use of non-renewable resources to a minimum. During 2002, a main focus was on working towards the targets that the Executive Committee set in September 2001. These call for use of water and energy to be reduced by 30% and packaging weight per unit to be cut by 10% over ten years.

The information and disclosures concerning environmental and social standards required under French law (ministerial decree No. 2002-221 dated February 28, 2002) appear in the DANONE social responsibility report, which is available on request and downloadable at www.responsibility.danone.com

Efforts to reduce consumption in this way and to control risk as well as ensure regulatory compliance will draw support from an independent environmental audit of industrial sites, now nearing completion. Key indicators have also been adopted to track progress objectively.

Most of the raw materials that go into DANONE products come from the land, and DANONE, in keeping with our commitment to product quality and environmental standards, encourages suppliers to apply responsible farming methods. In 2002, three special operations were launched in France to develop this approach for milk, grain and fruit.

Respect for the environment naturally also concerns packaging and its recovery for recycling or use as a source of energy. This has long been a special focus for DANONE, a founder of France's Eco-Emballages initiative in 1992 and an active participant in programs for the collection and recycling of packaging in other countries. In-house, operating teams receive specialized training to encourage awareness of the need to reduce packaging weight, and in 2002 the Group brought out a new guide to environment-friendly packaging design.

Eastern Europe, America, and Asia are main targets for environmental training programs and materials including intranet pages, guides, an ISO 14001 training CD-ROM and environmental newsletters. Regional meetings are also organized to address common themes.

DANONE Children's Day — principles in action

With DANONE Children's Day, an initiative launched at all DANONE subsidiaries in December 2002, employees around the world were asked to find ways to help children in their area.

Staff at each factory, office and logistics site selected a local organization — a school, hospital, association or home helping children in difficulty — and then organized an event to provide support. The Group backed each such project with a financial contribution.

In 115 initiatives around the world, staff members demonstrated a shared commitment to helping local children. In each case, a dedicated team took the lead to coordinate contributions from employees, collecting toys, books, computer equipment or school supplies, and organizing fund-raising events.

Strong support

To celebrate DANONE Children's Day, 53 subsidiaries promoted 115 initiatives in 27 countries.

Some teams planned and financed entertainment for hospitalized children, excursions, sports events and games. Others pitched in with maintenance work or rehabilitation of premises.

A second DANONE Children's Day will be organized in 2003, reflecting our Group's continuing commitment to the community and the readiness of staff members to put our principles into action.

Reorganization of biscuit business in Europe nears completion

In 2002, DANONE pursued its commitment to promoting the industrial redevelopment of sites where the group is no longer operating and finding new jobs for staff affected by cutbacks. Solutions were found for each facility, with over 2,200 jobs to be created Europe-wide by 2005, 1,300 of them in France. This is more than the number of jobs lost through closures.
Locating new jobs for staff members previously employed at plants affected by restructuring remains Groupe DANONE's top priority and we are moving ahead on schedule in this area.

Country	No. of employees affected	No. of employees for whom jobs have been found*	% of employees affected for whom jobs have been found
France	794	446	56%
Belgium	415	363	87%
Netherlands	212	212	100%
Italy	274	153	56%
Hungary	330	273	83%
Total Europe	2,025	1,450	72%

* at January 31, 2003

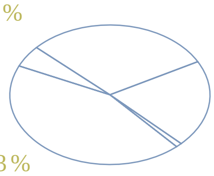
Human resources: the pathway to success

Effective human resource management has always been a hallmark of the Groupe DANONE and remains a key strength. In 2002, Franck Mougin took over at the head of the Group Human Resource Department, consolidating expertise to serve the business in accordance with our values.

Streamlined organization attuned to practical needs

At operational level, human resource management is now structured by business line in keeping with overall Group organization. The corporate Human Resource Department at headquarters is charged with essential cross-company functions that include compensation, organization, knowledge management, integration of newly acquired businesses, recruitment, and career planning for senior management. The Department also naturally takes overall responsibility for Group human resource policies and supervises their implementation. There are also shared human resource teams serving Group companies in the same country, an arrangement which has proved its effectiveness and is now being extended to other countries.

Employees by business line



Employees by region

	2001		2002	
France	12,275	12%	12,236	13.5%
Rest of Western Europe	16,027	16%	11,621	12.5%
Sub-total Western Europe	28,302	28%	23,857	26%
Eastern & Central Europe	9,987	10%	9,497	10%
Asia-Pacific	44,276	44%	41,961	46%
North & South America	17,995	18%	16,894	18%
World excluding W. Europe	72,258	72%	68,352	74%
TOTAL	100,560	100%	92,209	100%

Odyssée — new horizons in management development

We know that the success of DANONE hinges on the quality of our workforce — the capacity of employees to move the business forward from day to day. Which means that we have to do all we can to be an employer of choice in each country where we operate. Achieving this goal and attracting the best talent calls for continuing progress in management efficiency and know-how. That was the focus of the Odyssée program launched by the DANONE Executive Committee in 2001. It continued in 2002 with highlights including a seminar for all management committee members in Asia — a region that now accounts for nearly half the Group's workforce.
Throughout the year all subsidiaries maintained their focus on individual development using methods that include 360° assessments and personal coaching, the latter initially on offer for Vice Presidents but now being extended by stages to all management staff.

Franck Mougin
44, Senior Vice President, Human Resources.

Overall management performance is tracked with a range of key indicators, which next year will be rounded out with the results of our worldwide management survey.

New technology serving all employees

Deployment of Hiris, the human resource information system, continued in 2002 and it is now up and running at 28 companies employing nearly 30,000 people in Europe, North and South America. The system should be available in nearly all countries by mid-2004. It enables all business units to apply the same processes for human resource management and provides a clear view of our workforce as a whole.
Benefits include not only greater administrative efficiency, but also support for policies favoring mobility within the Group and internationalization of management teams.
Individual employees can access the system to get the information they need to plan their careers effectively. They can also consult job listings and apply on line.

Worldwide scope

In recent years the greatest challenge facing human resource management has been to provide effective support for DANONE's international expansion. Within this framework, significant progress was made on three fronts in 2002.

RECRUITMENT • with a view to attracting the best talent, DANONE has deployed an institutional communications campaign spanning all continents and present on the internet with the launch of a new site at www.danonepeople.com. Group businesses in a dozen countries now use the site, which attracts applicants in large numbers — confirming its success in projecting the vibrant, focused corporate image associated with potential for job satisfaction.

STAFF MOBILITY • international management teams were expanded in the course of the year, with staff representing more countries of origin and posted to more foreign destinations. DANONE provides support through a dedicated team preparing departures and returns, factoring in administrative, financial and personal considerations.

A special program for younger managers allows them to start their careers with a posting abroad. Launched in 1997, this has attracted over 280 international graduates to date.

INTEGRATION OF NEWLY ACQUIRED BUSINESSES • speedy, harmonious integration of companies joining the group as a result of mergers and acquisitions poses special challenges. To meet them effectively, the Human Resource and Development teams have joined forces to produce a kit to help management over the first year. Input is adapted to different countries, the scale of the business, ownership structure and other specific conditions. These tools are backed up by the presence of an ad hoc team to explain how DANONE operates and to communicate Group values.
Integration can also draw on the resources of the Danone Way program, which provides key insights into the processes and principles that set DANONE apart (see page 19).

Corporate governance

Groupe DANONE management

The Board of Directors has three specialized committees providing support for effective analysis, supervision and decision-making.

• The Appointments Advisory Committee ensures that people appointed to key positions are those best able to meet Group targets. It met three times in 2002.

• The Audit Committee oversees compliance with principles of good management and prudence in in-house standards and procedures, in financial statements and in risk management policies. It met three times in 2002.

• The Compensation Committee monitors management compensation to ensure that this is in keeping with market standards for comparable business. It met once in 2002.

Board of Directors at December 31, 2002

13 members, including 7 independent directors, appointed for renewable terms of 3 years. Each director owns at least 1,000 shares. • 5 meetings were held in 2002 with average attendance 82%.

Compensation and stock options

Groupe DANONE has adopted compensation policies designed to motivate managers and Executive Committee members in the pursuit of aims which are also in the interest of shareholders.

At December 31, 2002: 3,554,335 unexercised options outstanding, including 678,600 held by Executive Committee members, with exercise prices ranging from €64.10 to €155.82 • The vesting period is 8 years.

These policies, which apply to approximately 1,200 employees, involve:

• a bonus representing 20% of total annual compensation on average, with approximately 60% of this bonus calculated on the basis of criteria relating to value creation

• biennial allocation of stock options in quantities reflecting levels of responsibility and individual performances.

Compensation of corporate officers on the Executive Committee

F. Riboud
(Chairman and CEO)
• Total compensation in 2002[(1)] : €2,400,000.
• Stock options granted in 2002: 50,000 (exercise price €138.81).
• Options exercised in 2002: 49,000 (exercise price €53.66).

J. Vincent
(Vice Chairman and CEO)
• Total compensation in 2002[(1)] : €1,500,000.
• Stock options granted in 2002: 30,000 (exercise price €138.81).
• Options exercised in 2002: 30,000 (exercise price €66.77).

E. Faber
(Executive Vice President Finance, Strategy and Information systems)
• Total compensation in 2002[(1)] : €715,750.
• Stock options granted in 2002: 20,000 (exercise price €138.81).
• Options exercised in 2002: nil.

(1) including salary, bonuses, profit sharing, indemnities, and social security and related charges.

Risk management

Groupe DANONE pursues active risk management policies to provide the best protection possible for its employees, consumers, the environment and the assets of its shareholders.

These center on:

- *rigorous procedures to identify risk through a range of reporting systems and internal controls*
- *preventive measures to reduce the extent and frequency of the risk identified*
- *a comprehensive policy of cover to limit the potential impact of contingencies on Group finances*
- *effective crisis management organization, with procedures to quickly recognize signs of a possible incident and to ensure the most effective response possible.*

Safety a priority

In 2002, 143 independent safety audits were carried out at our sites. From 1994 to 2002, the average rating rose from 1.8 to 3.63 (up from 3.47 in 2001 at constant scope) • At December 31, 2002, 43 sites boasted a 5 rating, enabling them to obtain high risk protection certification.

PROTECTING PEOPLE AND PROPERTY • Safeguarding plants and employees from major accidents is a natural priority for Groupe DANONE. Since 1994, we have implemented a system in which independent consultants are called in to carry out annual inspections and evaluations of sites. Their reports enable operational units to adopt appropriate preventive measures and remedies.

New methods to identify and control risk

VESTALIS is a mapping program that tracks operational risk worldwide. It facilitates identification of risk at local level and makes it easier to prioritize action. More specifically, the program:

- *relates business performances to the level of risk involved*
- *provides a clear overview of major issues at Group level.*
- *At December 31, 2002, the system was deployed at over 20 operational units representing nearly 50% of sales.*

POLITICAL RISK • Social conflict, economic strains and currency upsets can make for significant changes in business conditions, especially in developing countries. In some cases, they may also lead to restrictions on transfers of goods or capital, or to the nationalization of assets.

Active on many emerging markets, Groupe DANONE is naturally attentive to this form of risk in asset allocation.

We factor it into financial valuations so as to ensure an adequate return on capital invested. By the same token, we aim for a balanced geographical presence to diversify and thus limit our overall risk.

No single emerging economy accounted for more than 10% of total Group sales for the 2002 financial year, and none of the major emerging economy regions accounted for more than 15%.
We have taken out cover to minimize the financial impact of possible nationalizations in the countries where this risk is highest.

CUSTOMER RISK • Groupe DANONE's centralized monitoring and supervision procedures provide a comprehensive view of exposure to customer risk on the basis of regular reporting from each business unit. Major retailing chains account for a significant proportion of our Group's worldwide sales.

Sector concentration over recent years has added to the relative weight of our main customers. However, this also means that exposure to customer risk mainly concerns a limited number of large firms, most with stronger financial bases than in the past. This 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 top 10 customers account for 35% of consolidated revenues.

Carrefour is our largest single client, representing over 10% of total sales.

SUPPLIES • The nature of the products we buy and our broad geographical presence mean that there is little risk of a major interruption in supplies. While the products DANONE uses 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. 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 price falls on Group accounts.

Ingredients

Main products purchased by DANONE (in descending order)

- *milk*
- *plastics*
- *fruit and fruit-based preparations*
- *cardboard packaging*
- *sugar*
- *grain products.*

Currencies and interest rates

In this area, our Group limits intervention to the management of positions resulting from industrial and sales operations, prohibiting 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 defined by management.

Since most of our production is for domestic markets, exchange-rate risk relating to export sales is very limited in proportion to the Group's business as a whole. It mainly concerns sales of Evian and Volvic to the US, the UK and Japan.

2002 activity and results

Organic sales growth 6%

Consolidated sales for 2002 came to €13,555 million on a like-for-like basis, 6.3% less than the €14,470 million reported in the previous year.

Changes in the scope of consolidation resulted in a decline of 6%. These principally concerned Galbani, no longer consolidated after the end of April, and to a lesser extent, the exclusion of bottled US spring waters from July 1 on as result of the partnership agreement with The Coca Cola Company. Acquisitions during the year, of which the main two were Frucor and Shape, offset divestments to only a very limited extent.

Exchange rates also had a negative impact, cutting revenues by 6.3%. This was mainly attributable to falls in the Argentine peso and Brazilian real, compounded in the latter half by the euro's gains against the US dollar and allied currencies.

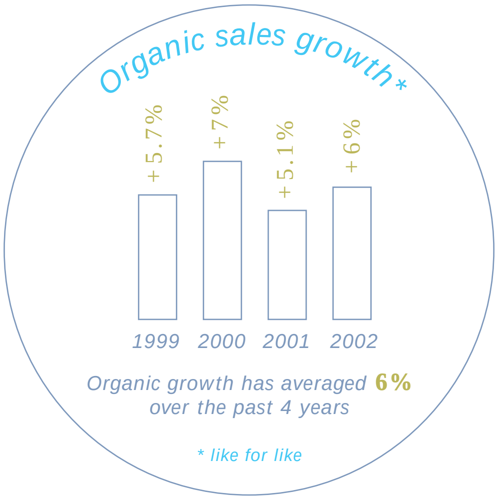
At constant structure and exchange rates, sales were up 6%, beating the Group's initial target. Higher volumes contributed 3.8% to the rise, and prices 2.2%. Organic growth accelerated to 8% in the second half following a first-half performance that suffered from the persistence of trends observed at the end of the previous year. These included stiffer competition in bottled water in the US, slowing business in Latin America, and the difficulties of the Robust beverage brand in China.

Sales of Fresh Dairy Products were on a firm track throughout the year, showing a rise of 9.4% [(1)], while Beverage sales were up a more moderate 4.3% [(1)], reflecting unseasonably cool summer weather in Europe as well as troubles encountered by some businesses in other parts of the world during the first half. Sales of Biscuits and Cereal Products rose 2.4% [(1)], with business in Asia and western Europe providing most of the momentum.

Turning to geographical performance, sales growth remained firm and steady to reach 5.7% in western Europe as a whole and 5.9% in France. Growth in other parts of the world was driven by a 10% rise in Asia, setting the overall figure at 6.4%.

(1) at constant structure and exchange rates.

Emmanuel Faber
39, Executive Vice President, Finance, Strategy and Information Systems.



Fresh rise in operating margin to 11.7%

• *Operating income for 2002 came to €1,590 million, showing a 1.2% decline from 2001 due to the unfavorable effects of changes in the scope of consolidation and exchange-rate variations. Operating margin was up for the eighth year in a row to stand at 11.7%, 61 basis points above the figure for the previous year. Changes in the scope of consolidation, principally the sale of Galbani and 51% of domestic bottled water in the US, contributed 38 basis points to the total. The launch of the THEMIS program overhauling group information systems had a negative impact of around 20 basis points. Overall, variations in prices of raw materials had no significant impact.*

• *The rise in operating income as a percentage of sales reflects a significant decline in the cost of goods sold, partly offset by rises in selling and other expense.*

These trends in turn result from a healthy rise in sales volumes, with high-value lines doing particularly well. Other factors include continuing efforts to raise productivity in production, purchasing, and supply chain management.

In keeping with Group policy, gains were partly reinvested in additional advertising and promotional outlays to consolidate brands and consumer loyalty.
Our Group also continued the development of cross-company structures in purchasing, information systems, supply-chain management and other areas to encourage all subsidiaries to share best practice. These initiatives will gain added effectiveness with Vitapole, the new Group-wide R&D center, plus the deployment of THEMIS in information systems and the continuing expansion of CPGmarket.com, the online marketplace.

Net income per share up 10.9% excluding exceptional one-time items

NET INCOME came to €1,283 million compared with €132 million in 2001.

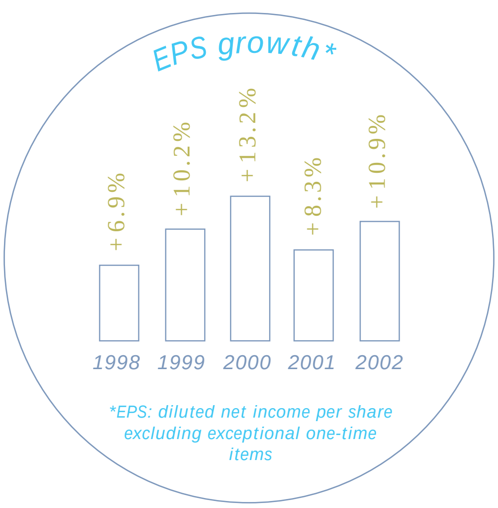
Excluding exceptional one-time items, it showed a rise of 6.2% from €780 million in 2001 to €828 million in 2002.

Exceptional one-time items represented a net total of €455 million in 2002 including:

- *a net capital gain of €1,362 million on divestments, a figure mainly made up of the capital gain recorded on finalization of the sale of European brewery business to Scottish & Newcastle, less a capital loss on the sale of 51% of domestic bottled water business in the US to The Coca Cola Company*
- *€808 million for exceptional impairment of assets in developing countries, mainly in Latin America*
- *restructuring costs making up the remainder of the total.*

INTEREST EXPENSE and other financial items declined from €180 million in 2001 to €110 million in 2002.
These figures included dividends received in connection with the agreement for withdrawal from European brewery business. The latter amounted to €68 million in 2001 and €72 million in 2002. The decline in interest expense principally resulted from a decline in the average financing rate paid from 5.1% in 2001 to 3.5%. This, in turn, reflected the general decline in interest rates and the effects of the low-coupon convertible bond issue in June 2001. Lower interest expense also resulted from lower average debt following divestments in the course of the year.

The average rate of taxation, excluding exceptional one-time items, eased from 36.4% in 2001 to 35.4% in 2002, principally due to lower rates in France.



MINORITY INTERESTS rose from €163 million to €182 million, mainly because of higher contributions from subsidiaries with large minority shareholders, especially in China, Spain and India.

COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD contributed €17 million to Group income in 2002 after €39 million in 2001. This decline was due mainly to restructuring provisions at BSN Glasspack. Excluding these exceptional one-time items, income from equity affiliates rose 28% to €50 million reflecting good overall performances, particularly in Fresh Dairy Products.

FULLY-DILUTED NET EARNINGS PER SHARE excluding exceptional one-time items rose 10.9% from €5.51 in 2001 to €6.11 in 2002. The share buyback program, leading to the purchase of six million shares for a total of €786 million in 2002, partly offset the unfavorable impact of currency translation on net earnings per share.

A sound financial position

NET FINANCIAL DEBT fell from €4,827 million at the end of 2001 to €2,269 million at the end of 2002 due to a rise in free cash flow and the impact of divestments in the course the year.
The ratio of debt to equity thus fell from 72% at the end of 2001 to 39% at the end of 2002.

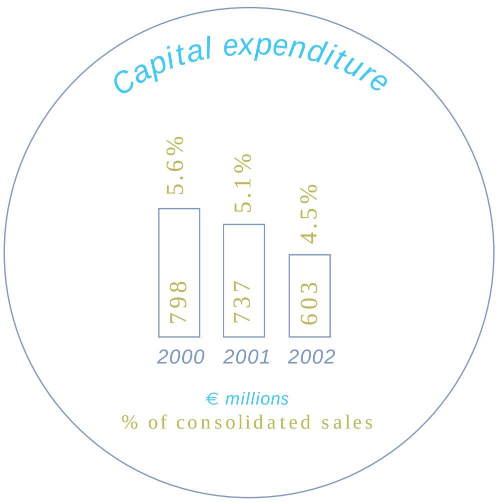
CASH FLOW FROM OPERATIONS came to €1,578 million in 2002, representing 11.6% of sales, up from 11.1% in 2001.

- *Standard & Poor's ratings:* A+ *for long-term debt and* A1 *for short-term debt.*
- *Moody's rating:* A1 *for long-term debt.*

WORKING CAPITAL requirement edged down a little during the year.

CAPITAL EXPENDITURE amounted to €603 million in 2002 or 4.5% of sales compared with 5.1% in 2001. Reflecting tighter control of investment programs, this decline is in line with a targeted structural reduction in capital expenditure as percentage of sales.

ACQUISITIONS OF BUSINESSES AND EQUITY INTERESTS amounted to €495 million in 2002 after €1,071 million in 2001. They include in particular the acquisitions of beverage firm Frucor in New Zealand and Chateaud'eau, no.1 in France for Home and Office water Delivery.



DIVESTMENTS totaled €3,410 million in 2002. Main transactions were the completion of withdrawal from European brewery operations and the sales of Galbani and 51% of domestic bottled water business in the US.

Main changes in the scope of consolidation [1]

Excluded

- *Galbani's business not consolidated after the end of April*
- *Domestic bottled water business in the US not consolidated from July 1*

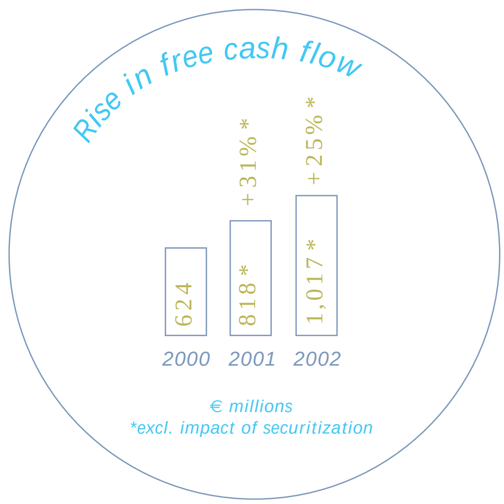
Included

- *Frucor consolidated from January 1*
- *Shape from October 1*
- *First full-year consolidation of Zywiec Zrodj and Aqua*

(1) Fully consolidated companies

Free cash flow up nearly 25% *

FREE CASH FLOW showed a further rise of nearly 25% from the previous year, rewarding continuing efforts to improve this key indicator of the performances of the Group and its operating units.*



Continued improvement in return on capital

Return on invested capital (ROIC) rose from 9.3% in 2001 to 11.8% in 2002, due in particular to divestments and exceptional impairment of assets.

Groupe DANONE and shareholders — mutual trust

DANONE shares declined only 6.5% in 2002 despite extremely unfavorable stock-market trends. This compares very favorably with falls of 33.7% in France's CAC 40 index and 37.3% in the Eurostoxx 50 index over the year.

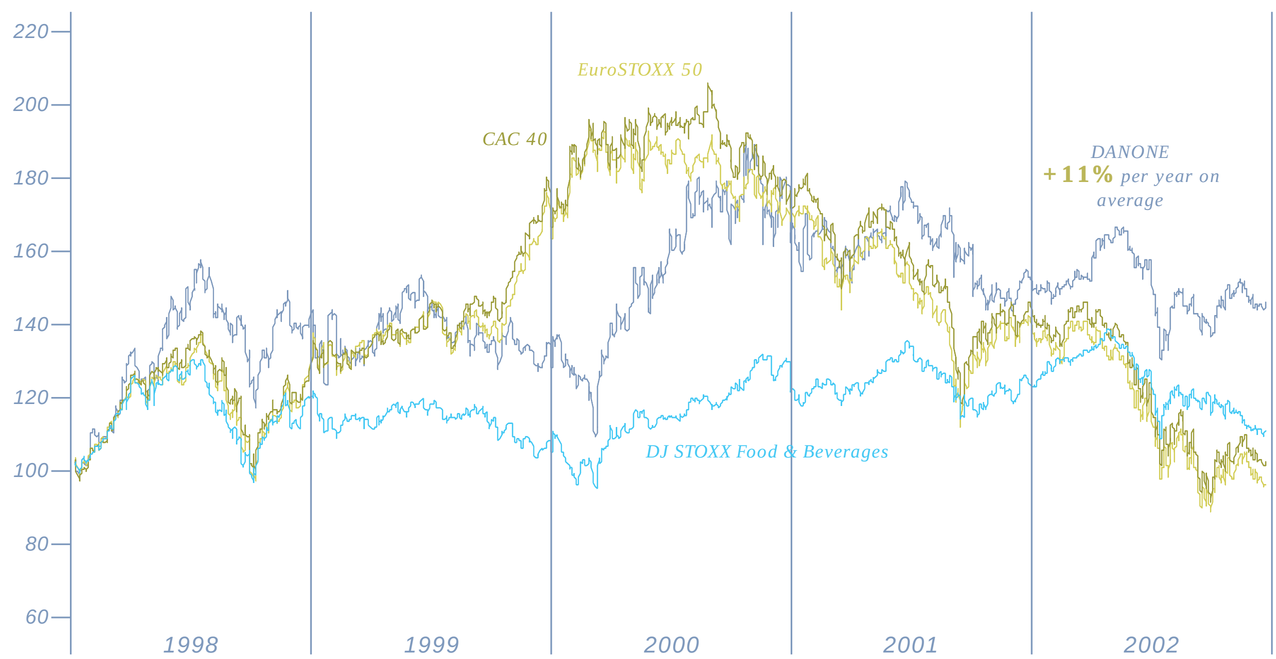
Resilience reflects the continued confidence of markets in our Group's strategy for profitable growth and the capacity of management to respond quickly and effectively to more testing conditions.

Annual return on DANONE shares averaged +11.1% from 1998 to 2002

Group management maintained close ties to financial analysts and investors, with over 400 meetings and other contacts in the course of the year. DANONE was also on hand at main conferences organized around the world for blue chips in mass-market consumer goods.

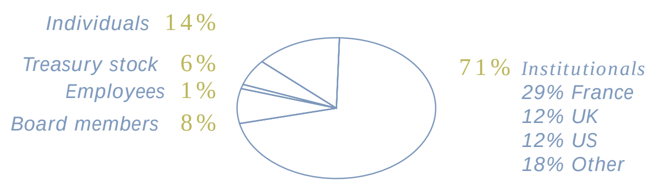
The Annual General Meeting is always a high point of the year, offering a unique opportunity for meetings between management and individual shareholders. The meeting held at the Carrousel du Louvre in Paris on April 25, 2002 was attended by nearly 2,000 individual shareholders.

Main indexes



DANONE share performance compared with CAC 40, EuroSTOXX 50 and DJ STOXX Food & Beverages (from 01/01/1998 to 31/12/2002)

Share ownership at December 31, 2002



Groupe DANONE ensures that full financial information is readily accessible:

- *Announcements of earnings, acquisitions and other significant financial developments are made quickly and are widely circulated in France and other countries, via data vendors and websites.*

- *Our website at http://www.finance.danone.com is regularly updated to provide detailed information on all major financial developments. Content includes press releases, presentations and main financial publications (hard copies available on request):*
  - *annual reports*
  - *shareholders' newsletter*
  - *reference document*
  - *Form 20-F*

The site also displays the latest DANONE share prices.

Groupe DANONE shares

Nominal value: €1 per share (1)

137,335,122 shares outstanding (1)

Listed with • Euronext : Amsterdam, Brussels, Paris (eligible for deferred payment service) • London, Brussels, Switzerland and New York (2)

An index component of
DJ EuroSTOXX 50 • CAC 40 • DJ STOXX Food & Beverages

(1) at Dec. 31, 2002
(2) via American Depositary Shares (ADS); 5 ADS for one share

SHARE BUYBACKS AND CANCELLATIONS

- *2.8 million shares canceled in October 2002.*
- *1.4 million shares canceled in December 2002.*
- *8,043,289 own shares held at December 31, 2002.*
- *Legal limits on share buybacks and cancellations in France:*
  - *treasury stock may not represent more than 10% of outstanding shares at any time*
  - *no more than 10% of shares may be canceled in any 24-month period.*

The Annual General Meeting will be asked to authorize buybacks within these limits.

Main shareholders

Dec. 31 2002	% of equity	% of voting rights
Eurazeo	3.97%	3.88%
Worms & Cie	1.26%	2.43%
Caisse des Dépôts et Consignations*	2.50%	2.42%

* interest declared on Jan. 31, 2002

CONTACT DETAILS

- *www.finance.danone.com*
- *Investor Relations*
  7, rue de Téhéran - 75008 Paris
- *Toll-free information line for investors in France: 0800 320 323*
- *Email: finance@danone.com*

Stockmarket data *at December 31*

€ millions	1998	1999	2000	2001	2002
Market capitalization	17,971	17,347	23,943	19,322	17,606
€					
Closing price for the year	122	117	161	137	128.2
High for the year	144	138	173	163.3	150.4
Low for the year	78	103	91	124.9	109.4
‘000					
Average number of shares traded daily	535	525	600	590	787

Per share data *at December 31*

’000	1998	1999	2000	2001	2002
Number of shares representing capital stock	147,850	148,271	149,086	141,033	137,335
Number of shares for the calculation of diluted EPS	157,115	148,990	141,373	142,697	137,241
€					
Diluted EPS	4.08	4.69	5.09 (3)	5.51 (3)	6.11 (3)
Growth in EPS	+6.9%	+15%	+13.2% (3)	+8.3% (3)	+10.9% (3)
Net dividend per share	1.5	1.8	1.9	2.06	2.3 (1)
Net dividend plus tax credit (2)	2.3	2.6	2.9	3.09	3.45 (1)
Payout ratio	35%	35%	37% (3)	38% (3)	36% (3)

(1) subject to approval of the Annual General Meeting on April 11, 2003
(2) dependent on law applicable to beneficiaries, given here as 50% of the dividend
(3) excluding exceptional one-time items

Being better every day

At Danone, we are hard at work strengthening our no. 1 position worldwide with a unique portfolio of brands and products. These draw on outstanding R&D and industrial know-how — combining flavor with healthy eating to meet fast-changing trends in consumer tastes.

Bernard Hours
46, Executive Vice President
Fresh Dairy Products
Worldwide

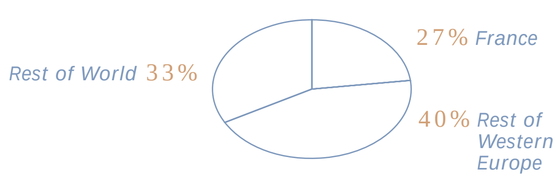
Sales

Fresh Dairy Products were again the main driver for Groupe DANONE's growth in 2002, with the overall rise reaching 9.4% like for like, and 10.1% for yogurt and assimilated products (excluding Galbani and Blédina). The beginning of the year saw the sale of Galbani which was no longer consolidated after May 1.
All major geographical regions contributed to excellent performance of the business line, with each reporting organic growth in excess of 6% for yogurt and assimilated products. In Western Europe, a healthy rise in sales was associated with increased shares of key national markets. Despite less favorable economic conditions, growth remained brisk in Eastern Europe, with Russia providing much of the momentum. Pace picked up in North America, especially the US, where Dannon sales grew over 10% for a further rise in market share. Performances in Latin America were sound, even in Argentina, where Danone Argentina increased sales volumes to consolidate its number-one market ranking, despite the economic crisis.

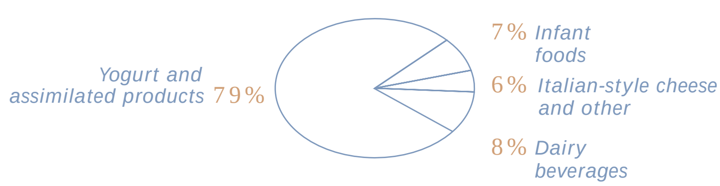
2002 highlights • April: sale of Galbani for €1,015 million. • June: Acquisition of a 10.1% equity interest in National Foods, Australia's largest listed company for Fresh Dairy Products, with leading positions on its markets. • August: acquisition of Shape, no. 2 in the UK for low-fat Fresh Dairy Products. The transaction doubled Group sales to make it the UK's no. 3 contender in Fresh Dairy Products.

Results for 2002 again demonstrate the business line's ability to innovate effectively and expand the reach of its core products and brands, whether through moves into new geographical markets or expansion of existing lines such as Taillefine Cremosso or drinkable Taillefine.
Actimel, now on sale in over 20 countries, continued to post sales growth above 35%, with the total up to approximately €480 million. Sales growth was over 15% for the Taillefine/Vitalinea low-fat line and the Bio Activa range for the health conscious.
In children's products, Petits Gervais aux Fruits again made a strong showing, in particular with the successful launch of a drinkable version in Russia and Brazil.

Sales by region



Sales by segment



Operating margin

Operating margin showed a further rise from 11.4% in 2001 to 12.7% in 2002. The sale of Galbani's business, which generated margins below the Group average, contributed approximately half a percentage point to the rise. The gain excluding this was still substantial, reflecting strong organic growth built on high-profile products and continuing efforts to raise efficiency in production and logistics. Advertising investments remained high, while shifts in milk prices were moderately favorable, without, however, making any significant contribution to the rise in margin.

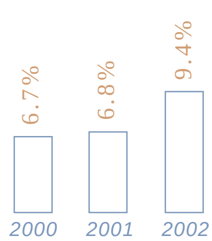
Combining tasty products and health benefits is a top priority for research and development at Groupe DANONE. This is well illustrated by the successful launch in new market of products to meet the nutritional needs of children, including Rastishka in Russia, Nutrichoco in Brazil and Danette Goûter in France. Research, too, has contributed to product innovation with smoother, creamier textures in particular for low-fat lines. Drawing on the technical progress behind the success of Recette Crémeuse, Vitalinea and Crème de Yaourt, Danone has rounded out its ranges with Bio Crémeux, Cremosso and Velouté in France, as well as Light'n Fit in the US.

No. 1 worldwide in Fresh Dairy Products with approximately 18% of the market. Fresh Dairy Products account for 46% of Groupe DANONE sales and 50% of operating income.

Consolidating relationships with consumers at points of sale is central to group strategy. In 2002, we moved to win added attention for Actimel by raising the number of refrigerated display cases in hypermarkets. There are now over 4,000 in 15 countries, making a significant contribution to sales growth.

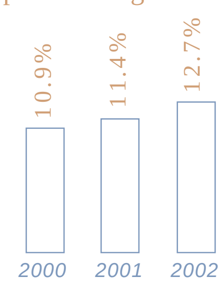
A strong presence in local retailing is clearly a crucial strength in countries where traditional shops and individually-owned supermarkets still account for a significant share of food sales. In Latin America, for example, 70% of sales are through this type of local outlet. In Argentina, our distribution network fans out to supply 70,000 outlets using a fleet of over 700 trucks operated by an outside supplier. This system was a major reason for our continuing success in the troubled economic conditions that prevailed last year. Expertise acquired in Latin America will now be put to good use in other countries.

Sales growth*



* like for like

Operating margin



Europe

Sales growth in FRANCE was brisk for all ranges, with Actimel, Crème de Yaourt and Bio doing particularly well. Danone's share of the market for yogurt and assimilated products was at an all-time high for the second year in a row. Blédina consolidated its number-one position on the growing market for infant foods with a healthy rise in sales.
In SOUTHERN EUROPE, where market growth slowed a little, our companies continued vigorous expansion and gained market share.

ACTIMEL is a probiotic yogurt with a unique all-natural ferment — L. Casei — that strengthens the body's natural defenses. Sales rose by over 35% to around €480 million in 2002. Actimel is sold in more than 20 countries.

A big success in the fast-growing health and low-fat segment, TAILLEFINE/VITALINEA ranges are now on sale in over 20 countries. Recent additions Cremosso and Drinkable have been enthusiastically received.

BIO/ACTIVIA, a yogurt with the health benefits of Bifidus Actif ferments, is on sale in 15 countries. Drinkable and high-fiber versions have quickly won a place with consumers.

THE ALDAIA FACTORY IN VALENCIA, Spain • Inaugurated on June 12, 2002, Danone's Fresh Dairy Products factory in ALDAIA is the most modern anywhere in Europe in its segment. Offering annual capacity of 200,000 tons, it was designed with the active participation of partners with complementary expertise in areas such as bottle making, waste water treatment, energy efficiency and logistics.
These partnerships reflect the four priorities set out in Danone's environmental policy: full regulatory compliance, effective risk control, reducing consumption of natural resources and production of waste at all sites, and preserving the environment.

World market for yogurt and assimilated products at a glance

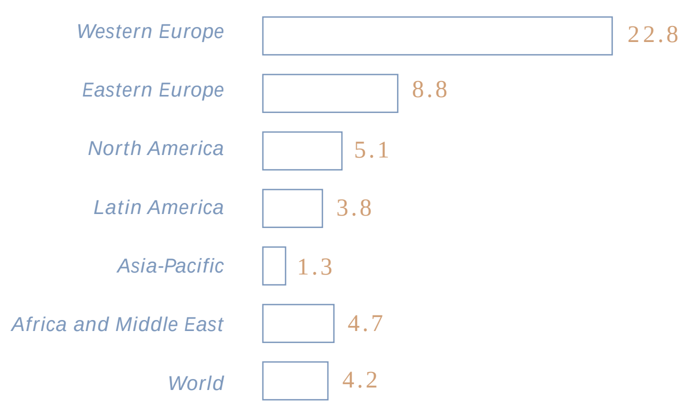
• €47 billion for 22 million tonnes • Main suppliers: DANONE, Nestlé, Yoplait and Yakult • Local producers still account for over 60% of the market • Over 50% of volumes consumed outside western Europe and North America • Wide gaps in per capita consumption: 22.8 kg per capita in western Europe, 2.7 kg per capita in the rest of the world.

Sales in NORTHERN EUROPE were also firm, in particular in the UK, where a strategy focusing on health benefits though Actimel and Bio paid off. In GERMANY, sales picked up in the face of stiff competition, reflecting the success of Actimel and the relaunch of Dany Sahne, a top range dessert.
In CENTRAL & EASTERN EUROPE, growth remained brisk. Business did particularly well in RUSSIA, where Actimel and Rastishka, a drinkable yogurt for children, got off to a good start early in the year. In contrast, business in POLAND had a more difficult time due to unfavorable economic trends.

North America

Dannon reported sales growth of over 10%, making a significant contribution to overall growth on the US market for yogurt and assimilated products in 2002. Main sources of momentum were La Crème and Light'n fit Creamy, local products based on concepts developed in Europe. The results illustrate our Group's capacity to make the most of its outstanding portfolio of brands and products.
In CANADA, sales again showed a healthy rise, gaining more pace than in the previous year. This reflected good performances for Taillefine/Vitalinea low-fat ranges as well as the successful launch of La Crème.

Per capita consumption *(kilos a year)*



Ranking by country

	Position(1)
France	No. 1
Spain	No. 1
US	No. 2
Eastern Europe	No. 1
Mexico	No. 1
Germany	No. 1
Benelux	No. 1
Italy(2)	No. 1

(1) ranking in yogurts and assimilated products by sales volume
(2) yogurts and assimilated products only

Latin America

While devaluation led to a further slump in the ARGENTINE economy, we were forced to raise prices several times to reflect rising raw material and salary costs. However, the strength of the Danone brand, backed by higher advertising outlays and an extensive local distribution network, boosted volumes and consolidated our leading position.
Sales showed particularly robust growth in BRAZIL, led by Vitalinea brand low-fat products and children's specialties such as Danoninho Nutrichoco.
In MEXICO sales continued to grow apace, underpinned by demand for Taillefine/Vitalinea and the successful launch of Actimel. Ranges for children remained a major driver.

Africa / Middle East

In SOUTH AFRICA, Group sales were up more than 10%.

Affiliates accounted for by the equity method

In MOROCCO and TUNISIA, Danone partners reported sales growth of over 10% and increased market share. The successful launch of Danonino and Danio in SAUDI ARABIA reflects buoyant demand for children's products and drinkable yogurt. With sales growth of over 15%, Stonyfield Farm confirmed its leading position in the organic Fresh Dairy Products segment in the US.

Fresh Dairy Products business in the Asia-Pacific area is described on page 58

Key figures *(€ millions)*

	1998	1999	2000	2001	2002
Sales	5,665	5,981	6,530	6,945	6,295
Growth (like for like)*	+5.2%	+5.4%	+6.7%	+6.8%	+9.4%
Operating income	621	655	712	790	802
Operating margin	11.0%	11.0%	10.9%	11.4%	12.7%
Cash flow from operations	586	615	667	742	746
Depreciation & amortization	210	233	259	293	233
% of sales	3.7%	3.9%	4.0%	4.2%	3.7%
Capital expenditure	253	312	308	286	200
% of sales	4.5%	5.2%	4.7%	4.1%	3.2%
Employees	21,696	22,023	23,692	24,129	20,126

** at constant structure and exchange rates*

PETIT GERVAIS and DANONINO are sold in 21 countries, with a drinkable version already on the market in 14.

CRÈME DE YAOURT, LA CRÈME, CREMOSSO, VELOUTÉ & BIO -- new products with luscious creaminess are a big hit with consumers.

A thirst for well-being and freshness

As vigorous demand and growth potential attract new contenders to the market, Groupe DANONE remains a pace setter with quick reflexes and high profitability that reflect:
• strong regional positions as no. 1 in Asia, no. 2 in western Europe and no. 1 in Latin America, providing the basis for consolidation of our no. 1 worldwide ranking by volume • powerful brands including three of the world's top five for bottled water • unrivalled familiarity with consumers and an acknowledged capacity to innovate and stay attuned to shifting patterns of consumption, offering new products and formats while moving into new areas of distribution such as Home and Office Delivery.

Pierre Cohade
41, Executive Vice President
Beverages Worldwide

Sales

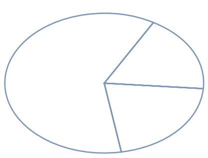
Sales showed a 4.3% rise at constant structure and exchange rates in 2002. Following a first half marked by some local difficulties, in particular for Robust in China and domestic bottled waters in the US, growth picked up to 8% in the second half, matching the average for recent years. Product innovation again made a significant contribution to growth, confirming our Group’s capacity to anticipate shifts in consumer demand.

IN FLAVORED WATERS, a segment that continues to show rapid growth, a number of new products and brands were added to the range. Newcomers include black-currant Volvic Magique and strawberry and apricot-flavored Salvetat, two low-sugar lines with attractive packaging designed to appeal to children. The Taillefine range was also extended with flavored waters in one-liter bottles for health, pleasure and convenience. Danone Activ Aro calcium-enriched water was launched on the UK and Belgian markets, while in Latin America additions included Villa Del Sur Aro in Argentina and Bonafont Levite in Mexico.

NEW FORMATS were introduced in a number of countries.
In Spain, Lanjaron, the country's number-two brand, brought out a new five-liter jug to benefit from firm trends in the “garrafas” segment. This is growing at a rate of 10% a year and already accounts for 40% of the Spanish market for still waters.
In France, SMDA (Source du Mont d’Or en Auvergne) launched a 2-liter family-size bottle combining aesthetic appeal and convenience.
Finally, Evian's Nomade got off to a strong start in Japan over the summer, making a significant contribution to the brand's progress on that market.

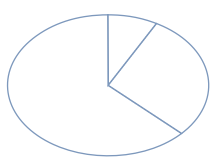
No. 1 worldwide (by volume) for packaged water with approximately 12% of the market • No. 1 worldwide for still water • No. 1 worldwide for Home and Office Delivery • Strong positions in Europe, Latin America and North America • A strong no. 1 position in Asia • Beverages account for 27% of Groupe DANONE sales and 29% of operating income.

Sales by region



Rest of World 61%
18% France
21% Rest of Western Europe

Sales by segment



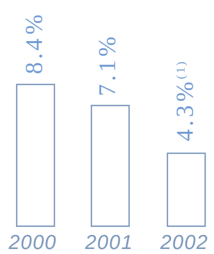
Still water 63%
8% Sparkling water
29% Other beverages

Highlights • *April:* master agreement with The Coca-Cola Company for distribution of Evian water in North America • *June:* partnership agreement with The Coca-Cola Company for production, marketing and distribution of Groupe DANONE domestic bottled water in the US • *September:* partnership agreement with Kirin Beverage Corporation and Mitsubishi Corporation for the distribution of Volvic in Japan and development of a local brand • *October:* acquisition of Patrimoine des Eaux du Québec, the no. 3 in the Canadian HOD market and no. 1 in the Quebec City region. A definitive agreement signed for acquisition of Chateau d'eau International, no. 1 in France for Home and Office Delivery and major playor on the European market • *November:* a definitive agreement signed for acquisition of Sparkling Spring Water Holdings, reinforcing Group business in Home and Office Delivery on North American and European 5-gallon water market.

Operating margin

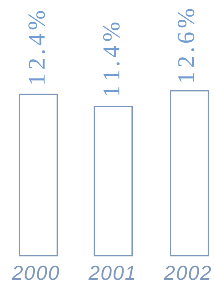
Operating margin rose from 11.4% in 2001 to 12.6% in 2002, benefiting from higher volumes, the success of value-added products and continuing efforts to raise efficiency in production, logistics and purchasing. Robust's return to growth from the third quarter on and the shift to equity-method accounting for domestic bottled waters in the US also contributed to the improvement in the second half. Favorable trends in PET prices had a limited effect, since declines, which were particularly steep in Asia, were passed on to consumers.

Sales growth



* like-for-like
(1) 1st half 1.2%, 2nd half 8%

Operating margin



Home and Office Delivery account for 30% of the world market for packaged water and 50% in emerging countries • Growth is a strong 15% compared with 10% for the total market • The segment accounts for 30% of sales volumes for DANONE • No. 1 worldwide with leadership positions in North and South America, no. 1 in Canada, no. 2 in Mexico, no. 3 in the US and no. 1 in Argentina, as well as in ASIA, ranking no. 1 in Indonesia and China, and in EUROPE, where it is no. 3.

Europe

Sales growth remained firm in WESTERN EUROPE despite unseasonably cool summer weather.

In FRANCE, the market slackened but strong brands and the success of flavored waters drove a continued rise. Trends in SPAIN were again particularly vigorous, with sales growth reaching double digits.

Growth was also strong in the UK and GERMANY, consolidating number-one positions in still water with Evian and Volvic brands. Trends in ITALY were less favorable, with sales declining on a more and more hotly disputed market.

STRAWBERRY and APRICOT SALVETAT have only half the sugar usually found in children's soda and fruit drinks.

BLACK-CURRANT VOLVIC MAGIC new enjoyment and refreshment for children.

TAILLEFINE/ VITASNELLA/VITALINEA, a new way to stay fit and trim.

World market for packaged water • €38 billion, 121 billion liters • Volume growth a strong 11% on average over the past three years • Market leaders: DANONE, Nestlé, PepsiCo and Coca-Cola • Local suppliers account for nearly 70% of the world market • Wide gaps in per capita consumption: 95 liters a year in western Europe and 13 liters in the rest of the world. *Market segments* • 80% still water, 20% sparkling water.

North America

In response to changing patterns of competition on the US market for bottled waters, our Group signed two strategic agreements with The Coca-Cola Company. Under the first, The Coca-Cola Company took over distribution of the Evian brand in North America from July 1, 2002. The second concerns the production, marketing and distribution of Groupe DANONE domestic bottled waters, principally Dannon and Sparkletts. Implementing this agreement, which took effect from July 1, DANONE contributed its five production sites and licenses for brand use to a joint company in which The Coca-Cola Company holds a 51% interest.

These moves will favor quicker expansion for our brands through access to the highly effective distribution network of the number-one supplier of non-alcoholic beverages to the US market.

Our Group's home and office delivery businesses in North America are not affected by these agreements.

In this area, trends in 2002 diverged, with sales showing only a limited rise in the US but growing vigorously in CANADA.

Emerging markets • 55% of volume, contributing to 70% annual growth in the world market over the past three years.

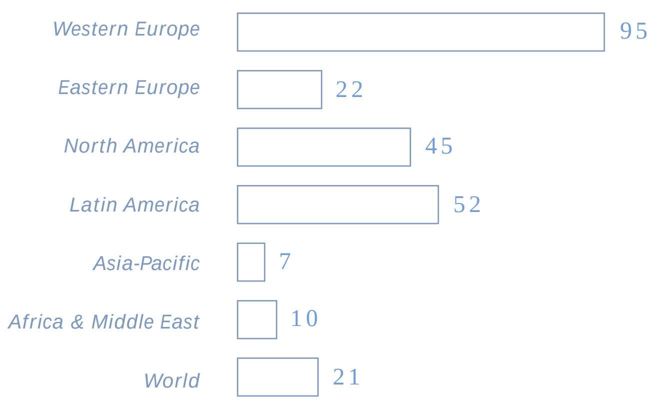
Latin America

In MEXICO, sales showed a healthy rise, driven by the successful launch of Levite flavored water in summer, and market share headed up.

In ARGENTINA, demand for water in bottles and jugs fell sharply as a result of the economic crisis, but we increased our share of the market.

In URUGUAY, the newly launched Matutina brand targeting the core market accounted for a third of annual sales, helping to stabilize volumes despite the economic crisis.

Per capita consumption *(liters a year)*



Rankings by country

	Position[1]
France	No. 2
Italy	No. 3
Spain	No. 1
US	No. 3
Mexico[2]	No. 1
Germany[3]	No. 1
UK	No. 1
China	No. 1
Indonesia	No. 1

(1) volumes
(2) bottled water only
(3) in still water

Other countries

In POLAND Zywiec Zdroj posted a strong rise in sales, gaining added momentum from the launches of Primavera and Vitalinea, two new products developed in partnership with San Benedetto. Sales under its own name continued to gain ground.

In JAPAN, our Group teamed up with Kirin Beverage Corporation, a leader in the market for non-alcoholic beverages, and Mitsubishi Corporation. Under the agreement signed in September, a jointly-owned company has taken over distribution of Volvic in Japan, as well as production and marketing under the Alkali Ion brand launched by Kirin. This will consolidate Volvic's place as the number-one imported water with the support of Kirin's distribution network, at the same time marking a move into the fast-growing domestic water market. With Volvic and Evian, DANONE ranks first by sales revenues for bottled waters in Japan and posted healthy growth in 2002.

Affiliates accounted for by the equity method

Aga, number two in MEXICO, reported a sizable increase in sales, benefiting from an overhaul of its home delivery services.

Beverage business in the Asia-Pacific area is described on page 58.

Key figures (€ millions)

	1998	1999	2000	2001	2002
Sales	3,004	3,565	4,141	3,796	3,691
Growth (like for like)*	+8.2%	+9.4%	+8.4%	+7.1%	+4.3%
Operating income	368	440	513	432	464
Operating margin	12.3%	12.3%	12.4%	11.4%	12.6%
Cash flow from operations	456	533	537	519	556
Depreciation & amortization	240	302	302	276	269
% of sales	8.0%	8.5%	7.3%	7.3%	7.3%
Capital expenditure	241	247	395	321	236
% of sales	8.0%	6.9%	9.5%	8.5%	6.4%
Employees	20,651	23,031	31,042	42,556	40,124

* at constant structure and exchange rates

Following a successful French launch in August 2001, the peel-off Evian Barcode was introduced for all packs of 1.5-liter bottles of Evian in Belgium and the UK.

NEW BOTTLES MAKE LIFE EASIER

CONVENIENCE BUILT IN WITH GARRAFAS: family-size jugs fitted with a convenient tap.

The goodness of grain for daily health and enjoyment

Building on strong number-one domestic positions and making the most of vigorous growth in emerging markets to expand business and boost margins. Offering new value-added products to benefit from the increasing appeal of an association with healthy enjoyment. Innovative flair to highlight the nutritional value of grain and new formats attuned to changing patterns of consumption.

Jean-Louis Gourbin
55, Executive Vice President
Biscuits and Cereal Products
Worldwide.

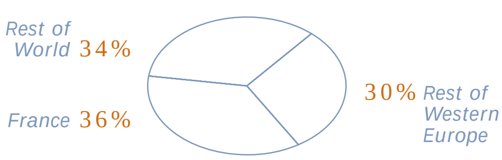
Sales

Sales of Biscuits and Cereal Products rose 2.4% at constant structure and exchange rates in 2002. Persistently unfavorable economic conditions in Latin America continued to weigh on overall performance, but sales growth remained strong in Asia. Business in eastern Europe had a difficult year against a backdrop of economic slowing, while there was a satisfactory rise in western Europe.

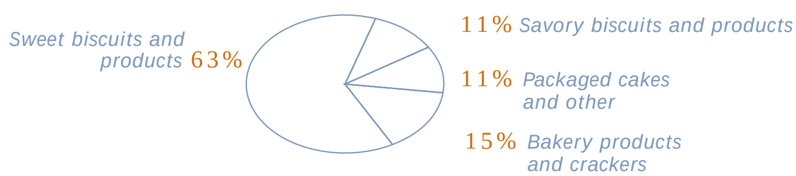
Innovation made an important contribution to growth, as illustrated by the confirmed success of Petit Déjeuner biscuits. These continued to expand across Europe, backed by the launch of several new versions. Prince, the core children's line, continued to post strong growth, particularly on key markets in FRANCE, the BENELUX and SPAIN.

Sales of low-fat Taillefine/Vitalinea lines benefited from the success of the "Les matins de Taillefine" range and the launch of new savory versions.

Sales by region



Sales by segment



A MAIN DEVELOPMENT THIS YEAR WAS THE IMPLEMENTATION OF RESTRUCTURING OF EUROPEAN BISCUIT OPERATIONS announced in March 2001. In technical terms this involved 51 production transfers affecting factories in five countries — FRANCE, THE NETHERLANDS, BELGIUM, ITALY and HUNGARY. Most had been completed by the end of 2002, with production quickly hitting its stride at sites selected for expansion: La Haye Fouassière and Cestas in FRANCE, Herentals in BELGIUM, and Capriata in ITALY.

Smooth transfers made way for the presentation at the end of January 2003 of a plan for production to be stopped earlier than anticipated at Calais and Evry in France. The Dordrecht site in the NETHERLANDS was sold in 2002, while the Locate site in ITALY and the Beveren facility in BELGIUM will stop production in the course of 2003 as scheduled (see page 21).

ALL THE ENERGY OF GRAIN FOR A STRONG START TO THE DAY • Launched in 2001, Petit Déjeuner breakfast biscuits are specially designed for a meal not traditionally associated with biscuits. Products apply the long-lasting energy concept developed by Vitapole, the Group's worldwide R&D center, and backed by international experts. Group R&D teams have proven that some complex sugars are digested slowly, freeing the glucose to provide essential energy over an optimum period.

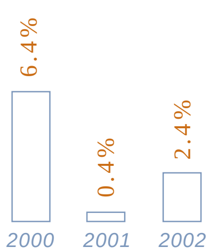
Launches outside France have proved a success, both under international brands such as Prince, Taillefine and LU, and under domestic brands including Bebe Dobre rano in the Czech Republic and Gyori Édes in Hungary.

No. 2 worldwide in Biscuits and Cereal Products with 11% of the market • No. 1 in Western Europe • No. 1 in emerging markets: No. 1 in Asia, No. 2 in Latin America, No. 1 in North Africa • Biscuits and Cereal Products account for 24% of Groupe DANONE sales and 20% of operating income.

Operating margin

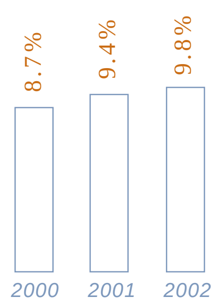
Operating margin rose from 9.4% in 2001 to 9.8% in 2002 despite difficulties in Latin America and higher prices for raw materials including cocoa and vegetable oils. These were more than offset by increases in retail prices.

Sales growth*



** like for like*

Operating margin



PIM'S rich flavors
now include a new version
with a fruity tang.

Europe

Sales in FRANCE showed a return to moderate growth in 2002. Restructuring of production caused no disruption. Low-fat Taillefine biscuits, Petit Déjeuner breakfast biscuits and Prince brand sandwich cookies continued to perform well.
A steady flow of new products was put on the market, including a biscuit representing cartoon character Titeuf, a great favorite with French children aged 8 to 12. A peanut flavored version of Croustille contributed to the continued success of this savory line launched in 2001.

Business in other parts of Europe also did well overall.
BELGIUM saw healthy sales growth, reflecting good performances from Prince and Taillefine brands, as well as the success of newly launched Petit Déjeuner breakfast biscuits.
In the UK, strategic refocusing on savory products continued to yield rewards, with Jacob's consolidating its lead in this expanding segment of what is otherwise a contracting market.

World biscuit market • €47 billion, for 12.6 million tons • Main producers: DANONE and Nabisco • Over 60% of the market is still supplied by local producers • Wide gaps in per capita consumption: 7 kilos per capita a year in Western Europe. 2.2 kilos per capita a year in the rest of the world.

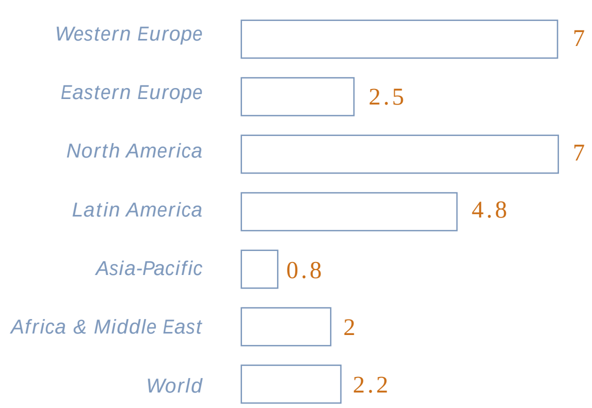
Business in ITALY and SPAIN did well, with sales growth steadily accelerating. In the Nordic countries, integration of businesses taken over from United Biscuits is now complete.

In GREECE, sales rose sharply to account for an increased share of a growing market.

In EASTERN EUROPE sales fell back overall, reflecting the combined impact of a decline in demand in both POLAND and RUSSIA.

Emerging markets: 54% of total volumes and 74% of average annual growth over 3 years.
Market segments: 70% sweet biscuits and products, 30% savory biscuits and products.

Per capita consumption *(kilos a year)*



Latin America

In ARGENTINA, the economic crisis brought a steep decline in demand, but the Group increased market share, in particular by adapting its offer to lower consumer purchasing power.

In BRAZIL, sales edged down in an increasingly competitive market.

Affiliates accounted for by the equity method

Equity affiliates reported steady sales growth and significantly improved operating margin on the whole.

Rankings by country

	Position*
France	No. 1
Eastern Europe	No. 1
UK & Ireland	No. 2
India	No. 1
Benelux	No. 1
Italy	No. 2
New Zealand	No. 1
China (1)	No. 2
Argentina	No. 2
Brazil	No. 2

* volumes
(1) DANONE No. 1 brand in the country

Biscuit and Cereal Products business in the Asia-Pacific area is described on page 58.

Key figures *(€ millions)*

	1998	1999	2000	2001	2002
Sales	2,607	2,822	3,255	3,371	3,232
Growth (like for like)*	+3.6%	+3.4%	+6.4%	+0.4%	+2.4%
Operating income	203	222	282	316	317
Operating margin	7.8%	7.9%	8.7%	9.4%	9.8%
Cash flow from operations	226	263	315	308	295
Depreciation & amortization	135	154	172	183	155
% of sales	5.2%	5.5%	5.3%	5.4%	4.8%
Capital expenditure	99	88	83	93	118
% of sales	3.8%	3.1%	2.5%	2.8%	3.7%
Employees	24,797	27,849	28,835	30,553	27,361

* at constant structure and exchange rates

TAILLEFINE / VITALINEA
extend their
reach to new markets
and new times
of the day.

PRINCE, a leader
in children's biscuits,
comes in formats for
every moment,
from breakfast to snacking,
including individual packs.

Petit Déjeuner
breakfast biscuits
continue to win favor
in France and
other countries.

Asia-Pacific

In 2002, we drew continued momentum from the region's unmatched growth potential through unique strategic strengths:
• a focus on key geographical markets, favoring economies of scale
• undisputed leadership in bottled water founded on strong number-one positions on domestic markets • powerful brands backed by marketing know-how and recognized capacity for effective innovation.

Sales

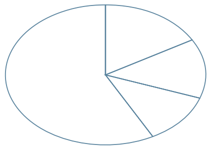
Sales in the Asia-Pacific area came to nearly €2 billion, confirming the region's place as our Group's most important emerging market with organic sales growth over 10%. Trends were vigorous for Biscuits and Cereal Products, with sales up nearly 10% like for like, while beverage sales accelerated in the second half for a full-year rise of 10%.*

Sales growth in China showed renewed pace in the second half after a slacker first-half performance reflecting an unfavorable basis for year-on-year comparisons as well as the impact of restructuring at Robust. Indonesian business confirmed its potential with an excellent performance, while results were satisfactory in India and New Zealand. Product innovation made a significant contribution to growth, with special successes recorded for ready-to-drink tea and fruit juices, and extensions to the Tiger range of biscuits.

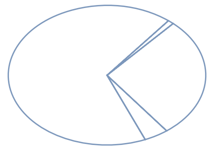
In 2002 Tiger consolidated its position as Asia's number-one biscuit brand by volume with sales topping 120,000 tons. Originally developed in India for mass markets, it has seen growth accelerate with successful expansion into Malaysia and Indonesia under the Biskuat name. The Indonesian range was rounded out with a milk biscuit offering added nutritional benefits in a country where milk consumption remains low, while a cracker version was launched in Malaysia.

Highlights • Early 2002: divestment from brewery business in China completed • Acquisition of Frucor in New Zealand, no.1 in the region for energy drinks • Britannia dairy product business removed from the scope of consolidation and contributed to a joint venture in association with the New Zealand Dairy Board • Acquisition of a 10.1% interest in National Foods, Australia's leading listed company for dairy products with top positions on its markets.

Sales by country



Sales by segment



(1) 68% non-alcoholic beverages, 32% water

** excludes Evian-Volvic exports to Japan*

Simon Israel
49, from New Zealand
Executive Vice President,
Asia-Pacific

Operating margin

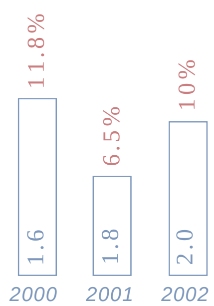
Operating margin in the region showed a further healthy rise from 10.7% in 2001 to 12.4% in 2002, with business in all countries making positive contributions. Gains reflected a steep rise in volumes, making for economies of scale, a steady flow of product innovation and continued commitment to high levels of targeted advertising. Trends in raw-material prices made no significant contribution. While PET prices fell sharply in China, the benefits were passed on to consumers.

Operating margin on business in the region thus doubled in the space of four years to beat the Group average. As such, the Asia-Pacific region bears out the potential of our Group's strategy for profitable growth on emerging markets, centering on affordable products, high-profile brands and efficient distribution to extend sales reach and forge close ties to consumers.

Backing the overall move for high growth, R&D resources in the Asia-Pacific region have been substantially reinforced in close cooperation with Danone Vitapole, the Group's worldwide R&D center. A dedicated R&D management unit has been set up to optimize development synergies and accelerate the pace of innovation in Asia.

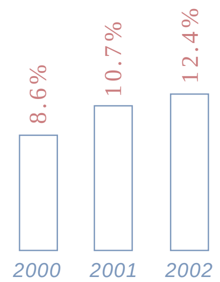
More specifically, in-depth nutrition studies are under way in several countries to build on the success of beverages and cereal products with health and energy benefits. Targeted application of expertise is designed to ensure the closest possible match with needs and consumer tastes. Shared technical capacity has also made for significant productivity gains, in particular through progress in biscuit baking, water treatment and water bottling.

Regional sales*



* like-for-like

Operating margin



*TIGER biscuits —
successful expansion
from India
to Malaysia
and Indonesia*

MIZONE sportswater a success.

*Frucor, no.1 in
Asia-Pacific on the high-energy
drinks market
with its "V" brand.*

China

China is our Group's main market in Asia with sales totaling €1.1 billion in 2002. Beverages accounted for over 80%, with the remainder from Biscuits & Cereal Products and Sauces. We consolidated our number-one position for water in bottles and jugs, with more than 2.8 billion liters sold in the year, accounting for over 40% of the market. Our Group is also number one in lactic beverages and holds a significant proportion of the cola market.

WAHAHA sales rose sharply, with ready-to-drink tea and fruit-juice beverages showing a spectacular rise to account for nearly 15% of the total. Restructuring initiated at ROBUST early in the year involved the adoption of a region-based organization as well as staff reduction. After a difficult first half, the company's sales started up again in the second. HEALTH, a premium brand for bottled water in the south of the country, reported very strong growth in sales.

In BISCUITS AND CEREAL PRODUCTS, growth was again very brisk, confirming our number-one position in the east region, CHINA's largest market.

SAUCE sales under the Amoy brand showed a moderate rise.

WATER IN LARGE JUGS — A STRATEGIC PRIORITY ON THE CHINESE MARKET • Danone is number one in China for Home and Office Delivery, with sales under the Robust and Health brands totaling over 500 million liters in 2002. The two companies have built up a network of franchisees delivering jugs to end-users in accordance with clearly defined standards of quality and service. Attractive outlet design and displays make for highly prominent brands — a key factor in sales growth.

The franchise network, accounting for over 80% of Group home and office delivery volumes in China, allows optimum geographical coverage while limiting direct outlays on logistics. Counting over 1,500 franchisees, Robust is present nationwide, whereas Health is focused on the Guangzhou-Shenzhen area. The Group also has a 50% interest in Aquarius, number one for Home and Office Delivery in the Shanghai area.

Indonesia

Indonesian business showed strong organic growth for both Water and Biscuits & Cereal Products in 2002. This excellent performance reflected firm demand and substantial rises in market shares.

AQUA sold over 3.3 billion liters of water in 2002, confirming its number-one worldwide position by volume, at the same time increasing its lead with market share over 40% for bottled water and over 50% for water in jugs.

Market share was also up in BISCUITS AND CEREAL PRODUCTS. This was due in particular to the success of Biskuat, the local version of Tiger brand biscuits, which launched a number of additions to its lines and consolidated its number-one position in sweet biscuits.

Main subsidiaries

	Position (volume)
Wahaha and Robust (China)	No. 1 Beverages
Aqua (Indonesia)	No. 1 Beverages
Frucor (New Zealand & Australia)	No. 1 Beverages*
Britannia (India)	No. 1 Biscuits
Britannia (Malaysia)	No. 1 Biscuits
Griffin's (New Zealand)	No. 1 Biscuits
Amoy (China)	No. 1 Sauces & allied products

* No. 1 energy drinks

India

Number one in India for Biscuits and Cereal Products, Britannia again reported strong sales growth, driven by the success of its Tiger brand.

Other countries

Early in 2002, DANONE moved into beverage markets in AUSTRALIA and NEW ZEALAND, acquiring FRUCOR, number one in the Asia-Pacific area for energy drinks with its V brand. The company also has leading positions on New Zealand markets for fruit juices and bottled water, in particular under the Mizone brand.
Sales trends were highly satisfactory in 2002, with Mizone, a vitamin-enriched flavored water, providing much of the momentum. After giving Frucor the lead on the NEW ZEALAND market for bottled water, Mizone has now got off to a good start in Australia.
Biscuits and Cereal Products sales in NEW ZEALAND also rose sharply.
In MALAYSIA, Biscuit and Cereal Products sales showed a modest decline against a backdrop of slowing in both domestic and export markets.

Key figures (€ millions)

	1999	2000	2001	2002
Sales	1,119	1,571	1,800	1,957 (1)
Growth (like for like)*	+24.9%	+11.8%	+6.5%	+10%
Operating income	86	136	192	243
Operating margin	7.7%	8.6%	10.7%	12.4%
Cash flow from operations	124	193	261	293
Capital expenditure	88	167	128	152
% of sales	7.9%	10.6%	7.1%	7.8%
Employees	23,878	33,736	44,276	41,961

* at constant structure and exchange rates
(1) excluding exports of Volvic and Evian to Japan

Other Food Business

Business under this heading covers sauces in the United Kingdom, the United States and China, with sales accounting for nearly 3% of the Group total.

Sales

Sales edged down 1.4% like for like. The move to focus on top brands initiated in 2001 was continued in 2002, leading to brand rationalization and a moderate decline in sales.

Operating margin

Operating margin showed a further rise from 16% in 2001 to 17.1% in 2002, rewarding a focus on high-value lines and continuing efforts to raise productivity.

United Kingdom

Traditional sauces under the HP and Lea & Perrins brands showed a healthy rise in sales, reflecting the success of new advertising campaigns on the domestic market as well as continuing pace in exports to over 60 countries.
Amoy brand sauces also continued to gain ground.

United States

Business was satisfactory in the US, with Lea & Perrins consolidating its leadership in Worcester sauces.

Georges Casala
61, Executive Vice President, International Strategy.

Statutory auditors' report on the consolidated financial statements[1]

To the Shareholders of GROUPE DANONE

In accordance with the assignment entrusted to us by your Annual Stockholders' Meeting, we have audited the accompanying consolidated financial statements of GROUPE DANONE and its subsidiaries, expressed in Euros, for the years ended December 31, 2001 and 2002, presented on pages 67 to 91.

These consolidated financial statements have been approved by the Board of Directors.

Our role is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with the professional standards applied in France. 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 financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of GROUPE DANONE and its subsidiaries and their assets and liabilities as of December 31, 2001 and 2002, and the consolidated results of their operations for the years then ended, in conformity with accounting principles generally accepted in France. We have also reviewed the information given in the Group's management report. We have no comments as to its fair presentation and its conformity with the consolidated financial statements.

Paris, France, February 13, 2003.

The Statutory Auditors

MAZARS & GUERARD

Yves ROBIN - Loïc WALLAERT

PRICEWATERHOUSECOOPERS AUDIT

Pierre COLL - Eric BULLE

(1) This version of the report is a translation from the original, which was prepared in French. In all matters of interpretation of information, views on opinions expressed therein, the original language version of the report takes precedence over this translation.

Groupe DANONE Consolidated financial statements

Consolidated statements of income

In € millions	Notes	2001	2002
Net sales		14,470	13,555
Cost of goods sold		(7,196)	(6,442)
Selling expenses		(4,331)	(4,170)
General and administrative expenses		(988)	(964)
Research and development expenses		(126)	(133)
Other expense and income	22	(220)	(256)
Operating income		1,609	1,590
Non-recurring items	2	(757)	458
Interest expense, net	23	(180)	(110)
Income before provision for income taxes and minority interests		672	1,938
Provision for income taxes	24	(416)	(490)
Income before minority interests		256	1,448
Minority interests		(163)	(182)
Net earnings of equity method companies		39	17
Net income		132	1,283

Per share information (note 1 R and note 13)

Amounts in € (except number of shares)	2001	2002
Number of shares used in calculating		
basic earnings per share	139,362,077	131,850,131
diluted earnings per share	142,697,380	137,241,129
Basic earnings per share	0.95	9.73
Diluted earnings per share	0.97	9.43

The notes on pages 71 to 91 are an integral part of the consolidated financial statements

Consolidated balance sheets Assets

In € millions	Notes	2001	2002
Property, plant and equipment	5	8,547	6,895
Less: accumulated depreciation		(4,473)	(3,903)
		4,074	2,992
Brand names	6	1,615	1,259
Other intangible assets (net)		119	234
Goodwill	6	5,074	3,140
		6,808	4,633
Long-term loans	7	209	388
Investments in non-consolidated companies	8	429	634
Investments accounted for under the equity method	9	553	660
Other	10	900	284
		2,091	1,966
Non-current assets		12,973	9,591
Inventories	11	764	592
Trade accounts and notes receivable	12	1,289	947
Other accounts receivable and prepaid expenses	12	770	863
Short-term loans		190	128
Marketable securities		396	2,801
Cash and cash equivalents		713	568
Current assets		4,122	5,899
TOTAL assets		17,095	15,490

Liabilities and stockholders' equity

In € millions	Notes	2001	2002
Capital stock (par value €1 per share; shares issued: 2002: 137,335,122; 2001: 141,033,427)		141	137
Capital surplus		1,150	649
Retained earnings	13	5,560	6,568
Translation adjustments		(301)	(1,441)
Treasury stock		(603)	(826)
Stockholders' equity		5,947	5,087
Minority interests		780	729
Convertible bonds	15	1,000	1,000
Long-term debt	16	4,425	3,092
Retirement indemnities, pensions and post-retirement healthcare benefits	17	334	272
Provisions and long-term liabilities	18	542	492
Stockholders' equity and non-current liabilities		13,028	10,672
Trade accounts and notes payable	19	1,715	1,516
Accrued expenses and other current liabilities	19	1,841	1,756
Short-term debt and bank overdrafts		511	1,546
Current liabilities		4,067	4,818
TOTAL liabilities and stockholders' equity		17,095	15,490

The notes on pages 71 to 91 are an integral part of the consolidated financial statements

Consolidated statements of cash flows

In € millions	2001	2002
Net income	132	1,283
Minority interests in net income of consolidated subsidiaries	163	182
Net earnings of equity method companies	(39)	(17)
Depreciation and amortization	777	721
Other	578	(591)
Cash flows provided by operations	1,611	1,578
Decrease in inventories	(21)	11
Net variation in trade accounts and other accounts receivable (1)	460	(109)
Net variation in trade accounts and other accounts payable	180	148
Other variations	10	13
Net change in current working capital	629	63
Cash flows provided by operating activities	2,240	1,641
Additions to property, plant and equipment	(737)	(603)
Acquisitions	(1,071)	(495)
Proceeds from the sales of businesses and other investments	218	3,410
Cash flows (used in) provided by investing activities	(1,590)	2,312
Increase in capital and capital surplus	46	47
Purchases of treasury stock	(921)	(786)
Dividends	(393)	(404)
Net change in long-term debt	1,248	(467)
Net increase in long-term loans and other assets	108	(232)
Net change in short-term debt	(416)	245
Proceeds from the sales of marketable securities	(146)	(2,418)
Cash flows (used in) provided by financing activities	(474)	(4,015)
Effect of exchange rate changes on cash and cash equivalents	(11)	(83)
Increase (decrease) in cash and cash equivalents	165	(145)
Cash and cash equivalents at beginning of year	548	713
Cash and cash equivalents at end of year	713	568

(1) including the impact of the trade accounts receivable securitization program (refer to Note 12).

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

	Number of shares (in millions)		In € millions					
	Issued	Excluding treasury stock	Capital stock	Capital surplus	Retained earnings	Translation adjustments	Treasury stock	Stockholders' equity attributable to the Group
Balance at December 31, 2000	149,086,208	140,980,336	149	2,191	5,696	(63)	(784)	7,189
Capital stock issues	447,219	447,219		45				45
Capital stock reduction	(8,500,000)	(8,500,000)	(8)	(1,086)				(1,094)
Net income for 2001					132			132
Dividends paid					(268)			(268)
Translation adjustments						(238)		(238)
Change in treasury stock		1,760,193					181	181
Balance at December 31, 2001	141,033,427	134,687,748	141	1,150	5,560	(301)	(603)	5,947
Capital stock issues	501,695	501,695		45				45
Capital stock reduction	(4,200,000)	(4,200,000)	(4)	(546)				(550)
Net income for 2002					1,283			1,283
Dividends paid					(275)			(275)
Translation adjustments						(1,140)		(1,140)
Change in treasury stock		(1,697,610)					(223)	(223)
Balance at December 31, 2002	137,335,122	129,291,833	137	649	6,568	(1,441)	(826)	5,087

At December 31, 2002 the negative translation adjustments related to currencies in the Euro zone amount to €235 million.

The notes on pages 71 to 91 are an integral part of the consolidated financial statements

Notes to the consolidated financial statements

As of January 1, 2001, the consolidated financial statements are prepared in euros and all previous data have been translated into euros, using the financial exchange rate of 6.55957 French francs per euro in place of Januray 1, 2000. All data related to capital stock and earnings or dividend per share have been adjusted to take into accounts 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 regulation 99-02, applied from 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 and goodwill treatment and the valuation of some financial assets. Differences between accounting principles adopted by the Company under French GAAP and US GAAP are summarized in Note 2 of the financial statements included in the Form 20-F.

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 2002, of the 152 companies included in the consolidation (2001: 162), 129 are consolidated (2001: 142) and 23 are accounted for under the equity method (2001: 20). A list of subsidiaries and equity investee companies included in the consolidation at December 31, 2002, and of newly consolidated and de-consolidated companies, is shown in Note 29.

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 inter-company 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 euros 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 euros are included in retained earnings under the heading "Translation adjustments" until the related foreign investments are sold or liquidated. Goodwill are translated at closing exchange rate except for the acquisition of subsidiaries in the euro zone for which historical exchange rates are maintained.

Where the functional currency is not the local currency (highly inflationary countries: Romania, Russia and Turkey), 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.

Goodwill is tested for impairment annually, mainly on the basis of expected discounted future cash flows or comparative market multiples. If changes occur and negatively impact the assumptions and prospects made at acquisition, or if the assets and relating goodwill are to be disposed of, the amortization period of goodwill may be reduced or an impairment loss is recognized.

BRANDS AND OTHER INTANGIBLE ASSETS • The brands which have been separately identified are only premium brands, with a substantial and long-term sustainable value supported by advertising expenses. Their useful life is determined to be indefinite.

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 impaired, an allowance would be recorded via a charge to income.

Purchased goodwill ("fonds de commerce"), licenses, patents, leasehold rights and other acquired intangible assets 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.*

An impairment loss is recognized if the carrying amount of an asset is not fully recoverable and exceeds its estimated fair value.

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 of 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 when their carrying amount exceeds their fair value. 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 value. At the end of 2002 and 2001, 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 recorded 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 income tax rates expected to be applicable when the temporary differences reverse. No provision is made on retained earnings of consolidated companies when the Group decided not to distribute them in a foreseeable future.

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 enter 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 trade support actions that are generally invoiced by customers, which are treated as selling expenses.

If consideration given by Danone to its customers and resellers were classified as a reduction of sales, rather than as selling expenses, net sales would be reduced by €1,069 million and €1,047 million in 2001 and 2002, respectively.

Revenue from distribution of beverages 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 €810 million and €845 million for 2001 and 2002, 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 impairment of tangible and intangible assets.

R. Earnings per share

Basic earnings per share are 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 are 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 amounts could differ from those estimates.

T. Reclassification

Certain amounts in the accompanying 2001 financial statements could have been reclassified from previously issued financial statements to conform to the 2002 presentation.

Note 2
Non-recurring items

In 2002 non-recurring items mainly include (i) a capital gain resulting from the disposal of the company Kro Beer Brands, which owns the brand names Kronenbourg and 1664, to the Scottish & Newcastle group, (ii) a capital loss resulting from the divestiture of 51% of domestic water retail businesses in the USA following an agreement with The Coca Cola Company, effective July 1, 2002, (iii) exceptional impairment losses of goodwill, tangible and intangible assets of Group businesses located in developing countries, mainly Latin America, and (iv) integration or restructuring … costs of divested or acquired companies and other restructuring costs, mainly relating to the European Biscuits division restructuring, which did not qualify as exit costs in 2001 and thus could only be recorded when incurred.

Furthermore, net earnings of equity method companies include non-recurring items for a negative amount of €33 million. They include an exceptional goodwill impairment loss of a BSN Glasspack subsidiary, restructuring costs of BSN Glasspack subsidiaries and a capital gain resulting from the sale of long-term investments by Mahou.

The non-recurring items impact the different lines of the income statement as follows:

In € millions, except EPS	Non recurring items	Taxes	Minority interests	Equity investees net earnings	Net income
Beer capital gain	1,819	(37)	-	-	1,782
Domestic Water Retail USA capital loss	(317)	4	-	-	(313)
Other capital gains and losses	(109)	(7)	(7)	16	(107)
Exceptional impairment losses	(829)	36	1	(16)	(808)
Integration or restructuring costs	(74)	8	-	(33)	(99)
One-off exceptional items	490	4	(6)	(33)	455
Other restructuring costs	(32)	9	-	-	(23)
Non-recurring items	458	13	(6)	(33)	432

In 2001, non-recurring items included (i) the exceptional impairment loss of the Galbani goodwill for €475 million, based on the estimated fair value of the cheese and cured meat businesses of this company, which were sold in 2002, (ii) incurred or accrued restructuring costs relating to the European Biscuits division reorganization for €236 million (cf. Note 18), (iii) a €26 million charge for a European Union fine for non-competitive practices relating to the Beer business in Belgium, and (iv) integration costs of newly acquired companies and restructuring costs, other than those related to the Biscuits restructuring, for €20 million. After tax and minority interest, the assets impairment charges, the Biscuits restructuring costs and the European Union fine had a total negative impact on net income of €648 million, whereas the other restructuring costs had a net negative impact of €11 million.

Non-recurring one-off items increased diluted earnings per share by €3.32 in 2002 and reduced diluted earnings per share by €4.54 in 2001.

Note 3
Acquisitions

In 2002, the Group's main acquisitions included:
• acquisition of the company Chateaud'eau International (HOD – Europe);
• acquisition of the company Frucor (Beverages – New Zealand);
• additional interests in the company Zywiec Zdroj (Water – Poland);
• acquisition of a 10% stake in National Foods (Fresh Dairy Products – Australia) and of a 6% stake in Wimm Bill Dann (Fresh Dairy Products and Beverages – Russia).

In 2001, the Group's main acquisitions included:
• acquisition of the companies San (Biscuits in Poland) and Fazer (Biscuits in Finland) bought from the United Biscuits Group;
• acquisition of 50.1% of Al Safi Danone (Fresh Dairy Products in Saudi Arabia), 50% of Pureza Aga (Water in Mexico) and 51.08% of Zywiec Zdroj (Water in Poland);
• additional interests in Aqua (Water in Indonesia), Mecaniver (Belgian holding company, which owns the Group's American subsidiaries in the Water and the Fresh Dairy Products businesses), Galbani (Fresh Dairy Products in Italy) and Bagley (Biscuits in Argentina).

Note 4
Subsequent events

In November 2002, DANONE entered into an agreement to acquire Sparkling Spring Water Holdings. The Sparkling Spring Water Group has annual net sales of approximately €100 million, mainly in Canada, United Kingdom, United States and the Netherlands in the HOD business.

Note 5
Property, plant and equipment

In € millions	2001	2002
Land	316	235
Buildings and rental property	1,839	1,427
Machinery and equipment	5,120	4,197
Consigned containers	168	182
Vehicles, office furniture and other	739	610
Capital assets in progress	365	244
Total	8,547	6,895
Less accumulated depreciation	(4,473)	(3,903)
Net property, plant and equipment	4,074	2,992

Note 6
Intangible assets

In € millions	2001	2002
Gross amounts :		
Goodwill	6,574	3,915
Brand names	1,660	1,259
Other	373	459
Total gross intangible assets	8,607	5,633
Accumulated amortization :		
Goodwill	(1,500)	(775)
Other intangible assets	(299)	(225)
Total accumulated amortization	(1,799)	(1,000)
Net intangible assets	6,808	4,633

Goodwill

In € millions	2001	2002
Net book value as at January 1	4,948	5,074
Additions during the year	846	170
Decreases during the year	(557)	(1,979)
Amortization	(163)	(125)
Net book value as at December 31	5,074	3,140

No individual goodwill item represents more than 5% of the total, with the exception of Danone Waters of North America USA, Lu, Volvic and Jacob's Bakery which in the aggregate amount to a net of approximately €1,548 million as of December 31, 2002.

Additions and decreases during years 2001 and 2002 mainly result from newly acquired companies (whether consolidated or accounted for under the equity method) and from divestitures (refer to Notes 2 and 3) after allocating the intangible assets acquired to the relevant balance sheet items.
The 2002 goodwill decreases result from (i) exceptional goodwill impairment losses for €661 million (refer to Note 2), (ii) the divestiture of the Group's USA Water Retail businesses for €351 million), (iii) the divestitures of the companies Galbani, Dongxihu and Haomen for €229 million, and (iv) the evolution of foreign exchange rates against euro, mainly the devaluation of the Latin America's currencies.

Current year amortization charge for consolidated companies of €125 million (€149 million for 2001) is recorded as "Other expense and income" while current year amortization charge for companies accounted for under the equity method of €16 million (€14 million in 2001) is recorded as "Net earnings of equity method companies".

Goodwill in the amount of €471 million and €406 million at the end of 2001 and 2002, respectively, relates to equity investees. Under US GAAP, such goodwill would be recorded under "Investments accounted for under the equity method".

BRAND NAMES • Brand names result from the allocation of the excess of the purchase price of the companies acquired since 1989 and are recorded at fair value. They include Volvic, the Danone brand in Spain and the main brand names of the Group Biscuits operations, among others.

In 2002, changes in brand names mainly result from the divestiture of the Galbani brand for €340 million and the complete impairment of the Bagley brand (Biscuits – Argentina).

Note 7
Long-term loans

At December 31, 2002, long-term loans include a total of €364 million of vendor loans to holdings set up by investment funds, following the disposal of the glass container division in 1999 and of the Galbani cheese and cured meat businesses in 2002.

These loans are redeemable in principal and interests at the latest in 2009 and 2013.

Note 8
Investments in non-consolidated companies

In € millions and at net book value	2001	2002
Investments to be consolidated at the beginning of subsequent year	104	161
Subsidiaries (more than 50% owned)	78	33
Affiliates (20% to 50% owned)	29	14
Other investments (less than 20% owned)	218	426
TOTAL	429	634

Investments in non-consolidated subsidiaries and affiliates are mainly comprised of investments in the Chateaud'eau International company acquired in December 2002 which will be consolidated in 2003, and of minority stakes in Scottish & Newcastle plc, Yakult, Wimm Bill Dann and National Foods.

Note 9
Investments accounted for under the equity method

In € millions	2001	2002
Net book value as at January 1	408	553
New investments accounted for under the equity method (Note 29)	118	155
Net earnings	39	17
Dividends paid	(26)	(30)
Other	14	(35)
Net book value as at December 31	553	660

Other changes mainly result 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):

In € millions	2001	2002
Net sales:		
European Union	2,602	2,527
Rest of the world	1,777	1,893
Net income	197	162
Stockholders' equity	1,740	1,946

Note 10
Other financial assets

As of December 31, 2001, other financial assets included various securities received by Kro Beer Brands and other Group companies as consideration for the sale of beer assets to the Scottish & Newcastle group in 2000. Following the sale of the Kro Beer Brands company to the Scottish & Newcastle group in 2002, some securities were also sold and the Scottish & Newcastle ordinary shares were reclassified as investments in non-consolidated companies.

Note 11
Inventories

In € millions	2001	2002
Goods purchased for resale	64	59
Raw materials and supplies	304	247
Semi-finished goods and work in process	60	26
Finished goods	317	250
Non-returnable containers	44	34
Less allowances	(25)	(24)
Net inventories	764	592

Note 12
Trade accounts receivable; other accounts receivable and prepaid expenses

TRADE ACCOUNTS RECEIVABLE •

In € millions	2001	2002
Trade accounts receivable	1,308	900
Notes receivable	88	136
Less allowance for doubtful receivables	(107)	(89)
Net trade accounts receivable	1,289	947
of which unmatured discounted bills account for	8	3

Movements in the allowance for doubtful receivables are as follows:

In € millions	2001	2002
Balance as at January 1	99	107
Charge (net of reversal) for the year	28	22
Utilization	(20)	(20)
Translation differences	-	(20)
Balance as at December 31	107	89

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 10% of the total consolidated net sales.

Since July 2001, the Group entered into agreements with financial institutions to sell without recourse receivable trade accounts, up to €760 million. The receivable trade accounts are sold on a monthly basis and are net of a guarantee deposit, which represents a percentage of the total sold; this deposit is paid back as receivable trade accounts sold are collected; it is valued at cost, as its maturity is short. The Group provides ongoing credit and collection services on the sold accounts. The agreements average costs, net of the servicing fees, represent about 3.22% of the securitized trade accounts receivable in 2002 (3.90% in 2001) and are recorded in interest expenses. The securitized trade accounts receivable, net of the guarantee deposit, amount to €706 million at December 31, 2002 (€685 million at December 31, 2001).

OTHER ACCOUNTS RECEIVABLE
AND PREPAID EXPENSES •

In € millions	2001	2002
State and local authorities	301	325
Interest receivable	16	28
Prepaid expenses	87	72
Advance payments to suppliers	62	44
Other	304	394
Other accounts receivable and prepaid expenses	770	863

Note 13
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 Naverage number of shares outstanding	Net income per share (in €)
2002			
Before dilution	1,283	131,850,131	9.73
Convertible bonds	11	5,076,142	(0.28)
Stock options	-	314,856	(0.02)
After dilution	1,294	137,241,129	9.43
2001			
Before dilution	132	139,362,077	0.95
Convertible bonds	6	2,664,975	0.03
Stock options	-	670,328	(0.01)
After dilution	138	142,697,380	0.97

Note 14
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 2001. As of December 31, 2002, 1,070,250 options could still be issued as part of the 2001 plan but the former authorizations relating to the 1995, 1997 and 1999 plans could not lead to any new grant.

The December 31, 2002 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 (in €)	Outstanding and exercisable options at December 31, 2002
1997	64.1– 66.8	209,365
1998	78.0–116.2	424,350
1999	111.5–128.4	572,780
2000	103.1–155.8	673,840
2001	141.6–147.1	899,900
2002	121.5–138.8	774,100
Total		3,554,335

The following table summarizes transactions during 2001 and 2002, including balances from previous plans:

Number of shares	2001	2002
Balance as at January 1	2,519,650	3,169,425
Granted	899,900	774,100
Exercised	(181,325)	(295,990)
Surrendered	(68,800)	(93,200)
Balance as at December 31	3,169,425	3,554,335

Note 15
Convertible bonds

In June 2001, GROUPE DANONE issued bonds amounting to €1,000 million and bearing interests at an annual rate of 1.2%. Those 5,076,142 bonds have a nominal value of €197 and may be converted and / or exchanged into new or existing shares of GROUPE DANONE at the rate of one ordinary share per bond.

The bonds mature on January 1, 2007 and

will be able to be redeemed at par with the interest that has accrued since the interest payment date before the early redemption date until the effective redemption date, on June 19, 2003, on June 19, 2004 and on June 19, 2005 at the request of the bondholders. In case of default, the bonds shall be immediately redeemable.

At the option of GROUPE DANONE, the bonds will be able to be redeemed at par increased by the accrued interest from the interest payment date preceding the early redemption date until the effective redemption date with effect from January 1, 2005 until December 31, 2006, if the GROUPE DANONE share's price exceeds 30% of the early redemption price of each bond (for information only, € 259.17).

Note 16
Long-term debt

CLASSIFICATION BY NATURE •

In € millions	2001	2002
Bonds (average interest rate: 4.7% 2001 : 4.8%)	1,223	1,505
Bank loans, other debt and employee profit-sharing debt (average interest rate: 3.3% 2001 : 4.5%)	3,485	2 918
Less short-term portion	(283)	(1,331)
Long-term debt	4,425	3,092

In 2002, GROUPE DANONE issued three equity-linked notes (hereafter the Notes). These Notes have been issued for an amount of €200 million for one Note and for an amount of €37.5 million for the two other Notes and have maturity dates between 18 and 30 months. At maturity, if GROUPE DANONE share reference price is between an agreed floor and cap share price, the Notes are redeemed at par. If GROUPE DANONE share reference price is lower than the floor price or higher than the cap price, the Notes redemption price is increased by 100% to 115% of the difference between the share reference price and the floor or cap price, which one is applicable. On GROUPE DANONE initiative, if the share reference price is lower than the floor price or higher than the cap price, GROUPE DANONE may redeem the Notes at par and buy GROUPE DANONE shares at floor price, if the share reference price is lower than the floor price, or sell GROUPE DANONE shares at cap price, if the share reference price is higher than the cap price. At December 31, 2002, GROUPE DANONE owns 2,105,114 treasury shares for hedging these equity-linked notes.

CLASSIFICATION BY YEAR OF MATURITY AND BY CURRENCY •

In € millions	2001	2002
Year of maturity		
2003	919	-
2004	1,246	839
2005	379	625
2006	358	323
2007	-	347
2007-2011	44	-
After 2011	1,476	-
2008-2012	-	58
After 2012	-	891
No fixed maturity	3	9
TOTAL	4,425	3,092

Currency	2001	2002
Euros	4,396	2,987
US Dollar	9	51
Mexican Peso	-	27
Indian Rupee	12	20
Singapore Dollar	-	4
Chinese Renminbi	5	1
Sterling Pound	1	1
Other	2	1
TOTAL	4,425	3,092

At December 31, 2002, the Group held commitments from banks and other financial institutions for approximately €2,900 million (€2,960 million at December 31, 2001) 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 €880 million at December 31, 2002 (€1,465 million at December 31, 2001). This debt is classified as long-term debt.

Note 17
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 2001 and 2002 in conformity with SFAS 87, based on the following key actuarial assumptions:
• personnel turnover and mortality ;
• retirement age between 60 and 65 years, depending upon each employee's category;
• discount rate applied: 4,7% (5% in 2001);
• salary growth rate, depending on the age and category of each employee: between 1,5% and 2,8% (between 2% and 3% in 2001);
• rate of return of plan assets: 6% (6% in 2001).

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 between 60 and 65 years, depending upon each employee's category;
• discount rate applied: between 2% and 7% (between 2% and 7,5% in 2001);
• salary growth rate, depending on the age and category of each employee: between 1% and 5.9% (between 1% and 5.9% in 2001);
• rates of return of plan assets ranged: between 2.8% and 8.5% (between 5.5% and 8% in 2001).

The following table reconciles the funded status of the companies' plans with the provision recorded in the consolidated balance sheet at December 31, 2001 and 2002:

	2001		2002	
In € millions	France	Other countries	France	Other countries
Accumulated benefit obligation	232	472	237	409
Projected benefit obligation	265	506	278	452
Fair value of plan assets	76	312	72	276
Projected benefit obligation in excess of plan assets	189	194	206	176
Actuarial differences and modifications of plans	13	36	14	96
Accrued pension cost recognized in the financial statements	176	158	192	80

The accumulated benefit obligation is higher than the fair value of plan assets and accrued pension costs for €60 million at December 31, 2002.

Accrued post-retirement healthcare benefits are included under the projected benefit obligation, as the related amount is not significant (€11 million as of December 31, 2001 and 2002, respectively).

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

In € millions	Projected benefit obligation	Fair value of plan assets	Unrecognized gains or losses	Net accrued pension
Balance as at January 1, 2001	727	392	16	319
Net periodic pension cost:				
service cost	28			28
interest cost	40			40
return on plan assets		25		(25)
amortization of actuarial gains and losses			(3)	3
Pension benefits payments to employees	(32)	(15)		(17)
Contributions made to plan assets		12		(12)
Unrecognized gains or losses	14	(39)	53	-
Effect of exchange rate changes	6	5	1	0
Other	(12)	8	(18)	(2)
Balance as at December 31, 2001	771	388	49	334

In € millions	Projected benefit obligation	Fair value of plan assets	Unrecognized gains or losses	Net accrued pension
Balance as at January 1, 2002	771	388	49	334
Net periodic pension cost :				
service cost	23			23
interest cost	35			35
return on plan assets		23		(23)
amortization of actuarial gains and losses			(4)	4
Pension benefits payments to employees	(34)	(21)		(13)
Contributions made to plan assets		13		(13)
Unrecognized gains or losses	11	(44)	55	-
Effect of exchange rate changes	(19)	(14)	(5)	-
Other	(57)	3	15	(75)
Balance as at December 31, 2002	730	348	110	272

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 impact of the sale of Galbani in 2002.

The components of the net periodic pension cost for 2001 and 2002 are as follows:

In € millions	2001	2002
Service cost	28	23
Interest cost	40	35
Return on plan assets	(25)	(23)
Net amortization and deferral	3	4
Net periodic pension cost	46	39

Note 18 Provisions and long-term liabilities

In € millions	2001	2002
Restructuring	176	145
Long-term accrued liabilities	238	321
Long-term net deferred tax (asset) / liability	113	13
Capital investment grants	15	13
Provisions and long-term liabilities	542	492

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

In € millions	Employees: redundancy & other benefits	Write-down of plants & factories	Ancillary costs	TOTAL
Balance as at December 31, 2000	7	17	6	30
Charge	130	1	13	144
Utilization	(7)	(16)	(3)	(26)
Amounts recorded in connection with purchase accounting for acquired businesses	5	5	18	28
Balance as at December 31, 2001	135	7	34	176
Charge	3	-	1	4
Utilization	(20)	(2)	(15)	(37)
Amounts recorded in connection with purchase accounting for acquired businesses		2		2
Balance as at December 31, 2002	118	7	20	145

On March 29, 2001, the Group announced its plan to reorganize the European Biscuits operations, which should result in the closure of 5 plants in the two following years and in the developing of 5 large capacity factories, leading to a net reduction of the workforce of about 1,700 people.

At December 31, 2001, the recorded restructuring charges include (i) exceptional assets write-downs of €56 million, recorded as a reduction of fixed assets, (ii) accrued costs of €144 million and (iii) already incurred costs or costs to be paid in the near future of €36 million, recorded in "accrued expenses and other current liabilities".

LONG-TERM ACCRUED LIABILITIES •
Long-term accrued liabilities include:

In € millions	2001	2002
Business related liabilities	87	102
Financial and tax liabilities	92	159
Reinsurance claims reserves	59	60
TOTAL	238	321

The Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, including in connection with certain warranties given as part of divestitures completed between 1997 and 2002. In a few cases, substantial amounts of damages are sought and liabilities are accrued, when a loss is more likely than not and can be reasonably estimated. Moreover, when tax reassessments are notified, liabilities are accrued accordingly.

Furthermore, the European Commission is investigating alleged anti-competitive practices in the Beer market of several European countries and has inspected the main market leaders of several countries, including France. Based on the current situation, Management cannot predict with certainty the outcome and resolution date of the proceedings, and thus their potential financial consequences, in particular regarding the terms of the indemnification agreement signed with Scottish & Newcastle following the divestiture of the European Beer activities to this group. No liability has therefore been recorded.

Note 19
Trade accounts and notes payable; Accrued expenses and other current liabilities

TRADE ACCOUNTS AND NOTES PAYABLE •

In € millions	2001	2002
Trade accounts payable	1,506	1,322
Notes payable	209	194
Trade accounts and notes payable	1,715	1,516

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES •

In € millions	2001	2002
Personnel and social charges	341	353
Year-end rebates payable to customers	366	380
State and local authorities	353	291
Consigned containers	79	89
Accrued interest payable	20	47
Income tax payable	120	111
Other	562	585
Accrued expenses and other current liabilities	1,841	1,756

Note 20
Personnel and remuneration

Group personnel costs (including payroll taxes and related charges) for 2002 amounted to €1,930 million (2001: €2,066 million), of which €9 million (€9.6 million in 2001) represented remuneration paid to the Executive Committee of the Group.

Group personnel at December 31, 2001 and 2002 were comprised of the following:

	2001	2002
France	12,275	12,236
Rest of western Europe	16,027	11,621
International	72,258	68,352
TOTAL	100,560	92,209

On a comparable basis, Group personnel would have been 92,209 as at December 31, 2002 and 93,020 as at December 31, 2001.

Note 21
Depreciation and amortization

In € millions	2001	2002
Property, plant and equipment	591	577
Goodwill	149	109
Intangible assets	37	35
TOTAL	777	721

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 and does not include the exceptional impairment losses of €661 million recorded in 2002, mainly relating to the Argentinean and Brazilian companies, and of €475 million recorded in 2001 relating to Galbani.

Note 22
Other expense and income

In € millions	2001	2002
Employee profit-sharing	108	117
Goodwill amortization	149	109
Other	(37)	30
Other expense net	220	256

The line "other" mainly includes royalties for the utilization of the Kronenbourg and 1664 brand names, which are received by Kro Beer Brands, a wholly owned subsidiary of the Group until September 2002.

Note 23
Interest expense, net

In € millions	2001	2002
Interest expense	323	247
Interest income	(39)	(74)
Other financial income and expenses	(104)	(63)
Interest expense net	180	110

Interest paid amounted to €202 million, and €105 million for the years ended December 31, 2001, and 2002, respectively.

The line "other financial income and expenses" mainly includes dividends from the various securities of Scottish and Newcastle received as consideration in the sale of the European Beer activities in 2000.

Note 24
Income taxes

INCOME TAXES •
Income before taxes and income tax expense consist of:

In € millions	2001	2002
Income before provision for income taxes:		
french companies	336	1,041
foreign companies	336	897
Total	672	1,938
Income tax expense (income):		
• Current income taxes:		
french companies	115	177
foreign companies	317	323
Total	432	500
• Deferred income taxes:		
french companies	9	(17)
foreign companies	(25)	7
Total	(16)	(10)
Provision for income taxes	416	490

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. Similar consolidated tax schemes exist in other countries, mainly in the United States, United Kingdom and Germany.

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 €453 million and €431 million in 2001 and 2002, respectively.

ANALYSIS OF THE EFFECTIVE INCOME TAX RATE • The effective tax rate is 25.28% in 2002, compared with 61.90% in 2001. Such rates can be analyzed as follows:

Amounts in percentage of income before taxes	2001	2002
Statutory tax rate in France	36.43	35.43
Effect of foreign tax rate differential	(5.01)	(0.36)
Effect of amortization of goodwill	6.46	1.81
Effect of exceptional goodwill impairment losses	25.53	13.30
Effect of capital gains and losses	-	(23.42)
Effect of other differences	(1.51)	(1.48)
Effective income tax rate	61.90	25.28

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:

In € millions	2001	2002
Deferred tax assets on temporary differences:		
• retirement benefits	67	84
• restructuring provisions	66	23
Deferred tax assets on tax loss carry forward:		
• gross	75	117
• less valuation allowance for carry forward	(58)	(94)
Long-term deferred tax assets	150	130
Deferred tax liabilities on temporary differences:		
• depreciation of property, plant & equipment	(100)	(95)
• capitalized interests	(4)	(4)
• other differences	(159)	(44)
Long-term deferred tax liabilities	(263)	(143)
Net long-term deferred tax asset / (liability)	(113)	(13)

Net short-term deferred tax assets amounting to €72 million as of December 31, 2002 (€88 million as of December 31, 2001) are almost exclusively related to temporary differences between statutory and taxable income of subsidiaries.

TAX LOSS CARRY FORWARD • Tax losses carried forward and not yet utilized amount to €352 million as of December 31, 2002 and mainly expire after 2003. They mainly relate to the tax deductibility of goodwill amortization charges in some countries and have been partly depreciated. At December 31, 2002, available long-term capital losses amount to €850 million and can only be used for offsetting long-term capital gains recorded in France.

Note 25
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:

In € millions	2001	2002
Interest rate swaps, with a remaining term at December 31:		
• less than one year	(2,505)	3,937
• between one and five years	1,107	1,921
• more than five years	22	10
Interest rate caps and floors, with a remaining term at December 31:		
• less than one year	(57)	4,694
• between one and five years	(2,954)	1,427
• more than five years	-	-

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

At December 31, 2002, the consolidated net debt amounts to approximately €2 billion. Taking into account the interest rates risks hedging instruments, the Group is not exposed to a change in short-term interest rates at December 31, 2002 (the Group was exposed on 29% of its net debt at December 31, 2001).

As a result of these hedging instruments, the effective weighted average interest rate of the Group's consolidated net debt in 2002 is 3.52% (2001: 5.07%), compared to a 3.5% (2001: 5.08%) 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 used financial instruments are mainly forward exchange contracts, as well as purchased foreign exchange options, negotiated with major counterparts.

The contractual amounts of the Group's forward exchange contracts and foreign exchange options are summarized below. Foreign currency amounts are translated at current rates at the balance sheet date:

In € millions	2001	2002
Forward (purchases) / sales:		
Pound Sterling	369	342
Yen	151	106
US Dollar	338	104
Canadian Dollar	75	26
Mexican Peso	113	24
Australian Dollar	-	18
Swiss Franc	43	16
Euro	(1,125)	(714)
Other	42	45
TOTAL forward	6	(33)
including:		
• forwards purchased	(1,523)	(1,028)
• forwards sold	1,529	995
Currency options purchased	1	5
TOTAL currency hedging instruments	7	(28)

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 46% of net sales (47% in 2001) and 36% of operating income (34% in 2001).

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 counterpart:

As a percentage of total fair values as of December 31, 2001 and 2002	2001	2002
Counterparties' rating (according to Standard & Poor's)		
AAA	9%	4%
AA	23%	68%
A	68%	28%
BBB	-	-

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 counterparts located in a geographical area with a political or financial risk (i.e., all counterparts 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, 2001 and 2002:

	2001		2002	
	Net book value	Market value	Net book value	Market value
In € millions at December 31,				
Balance sheet and off balance sheet items-Assets and (liabilities)				
Excluding net debt items				
Long-term loans	209	209	388	388
Investments in non-consolidated companies	429	498	634	706
Investments accounted for under the equity method	553	729	660	835
Other financial assets	900	931	284	287
Trade debtors	2,059	2,059	1,810	1,810
Short-term loans	190	190	128	128
Trade creditors	(3,556)	(3,556)	(3,272)	(3,272)
Off-balance sheet currency instruments	-	(6)		33
Balance sheet and off balance sheet items-Assets and (liabilities)				
Net debt				
Convertible bonds (including the redemption premium accrued before tax)	(1,000)	(1,005)	(1,000)	(1,011)
Long-term debt	(4,425)	(4,450)	(3,092)	(3,101)
Short-term debt and bank overdrafts	(511)	(511)	(1,546)	(1,564)
Marketable securities	396	398	2,801	2,804
Cash and cash equivalents	713	713	568	568
Off-balance sheet interest rate instruments		8		(8)

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

The market value of investments in non-consolidated companies (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, except when the Group has a sale option.

The value of the convertible bonds and of main long-term debt is computed item by item, using the closing market prices 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 close to their 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 counterparts to the transactions.

The market value of the consolidated net debt represents what the Group would theoretically pay to redeem its net debt.

Note 26
Commitments and contingencies

COMMITMENTS RELATING TO INVESTMENTS IN SUBSIDIARIES • The Group has also entered into put agreements to purchase interests held by third party stockholders in certain consolidated subsidiaries, should these stockholders wish to sell their interests. The exercise price under these agreements is generally based on a multiple of earnings or a valuation based on the financial situation of the concerned subsidiary. At December 31, 2002 these financial commitments do not exceed €2 billion and no investment, under these agreements, over €100 million is currently planned.

The BSN Glasspack shares, representing a holding interest of 44% of the company, are secured to the profit of banks, which finance the BSN Glasspack company.

OTHER COMMITMENTS • As of December 31, 2002, the Group had non-cancelable lease commitments and other commitments amounting to €202 million with respect to the years 2003 through 2006, and €41 million with respect to subsequent years.

Commitments received with respect to non-cancelable sub-leases amount to €23 million.

Note 27
Financial information by division

Beginning on January 1, 1998, the Group has implemented a new structure which principally consists of three core operational divisions (Fresh Dairy Products, Beverages and Biscuits and Cereal Products).

The segment reporting reflects this structure.

In € millions	Year ended December 31, 2002					
	Fresh Dairy Products	Beverages	Biscuits	Other food businesses	Containers	Total divisions
Gross sales	6,771	4,208	3,537	370	-	14,886
Sales within the division	(476)	(517)	(305)	(14)	-	(1,312)
Net divisional sales	6,295	3,691	3,232	356	-	13,574
Sales within the Group	(18)	-	(1)	-	-	(19)
Net sales outside the Group	6,277	3,691	3,231	356	-	13,555
Operating income	802	464	317	61	-	1,644
Net earnings of Equity method companies	8	38	14	-	(43)	17
Capital expenditures	200	236	118	5	-	559
Depreciation and amortization expense	233	269	155	10	-	667
Cash flow from operations	746	556	295	54	-	1,651
TOTAL assets	3,643	4,245	4,033	390	-	12,311

	Total divisions	Unallocated items	Total Group
Operating income	1,644	(54)	1,590
Net earnings of Equity method companies	17	-	17
Capital expenditures	559	44	603
Depreciation and amortization expense	667	54	721
Cash flow from operations	1,651	(73)	1,578
TOTAL assets	12,311	3,179	15,490

In € millions	Year ended December 31, 2001					
	Fresh Dairy Products	Beverages	Biscuits	Other food businesses	Containers	Total divisions
Gross sales	7,486	4,291	3,645	391	-	15,813
Sales within the division	(541)	(495)	(274)	(16)	-	(1,326)
Net divisional sales	6,945	3,796	3,371	375	-	14,487
Sales within the Group	(17)	-	-	-	-	(17)
Net sales outside the Group	6,928	3,796	3,371	375	-	14,470
Operating income	790	432	316	60	-	1,598
Net earnings of Equity method companies	(1)	23	11	-	6	39
Capital expenditures	286	321	93	6	-	706
Depreciation and amortization expense	293	276	183	13	-	765
Cash flow from operations	742	519	308	53	-	1,622
TOTAL assets	5,779	5,494	4,508	415	64	16,260

	Total divisions	Unallocated items	Total Group
Operating income	1,598	11	1,609
Net earnings of Equity method companies	39	-	39
Capital expenditures	706	31	737
Depreciation and amortization expense	765	12	777
Cash flow from operations	1,622	(11)	1,611
TOTAL assets	16,260	835	17,095

Note 28
Activities of divisions by geographical area

In € millions	Year ended December 31, 2002 France	Rest of European Union	Rest of World	Total	Year ended December 31, 2001 France	Rest of European Union	Rest of World	Total
Total sales by geographical area of origin	4,247	4,933	5,706	14,886	4,064	5,487	6,262	15,813
Intra-Group sales within geographical areas	(45)	(323)	(71)	(439)	(42)	(350)	(70)	(462)
Net sales by geographical area of origin	4,202	4,610	5,635	14,447	4,022	5,137	6,192	15,351
Intra-Group sales between geographical areas	(676)	(193)	(23)	(892)	(651)	(210)	(20)	(881)
Net sales outside the Group	3,526	4,417	5,612	13,555	3,371	4,927	6,172	14,470
Operating income	494	599	551	1,644	462	584	552	1,598
Net earnings of Equity method companies	(43)	46	14	17	6	35	(2)	39
Capital expenditures	114	142	303	559	128	183	395	706
Cash flow from operations	518	513	620	1,651	505	526	591	1,622
TOTAL assets	3,734	3,845	4,732	12,311	3,991	5,283	6,986	16,260

Exports by French companies of Groupe DANONE amounted to €681 million and €719 million in 2001 and 2002, respectively.

Note 29
Companies consolidated at December 31, 2002

COMPANIES CONSOLIDATED OR ACCOUNTED FOR UNDER THE EQUITY METHOD FOR THE FIRST TIME IN 2002 •
- STONYFIELD
- DJURDJURA DANONE
- FRUCOR
- MONT ROUCOUS
- AQUARIUS
- CCDA WATERS
- INGETEC

MERGED COMPANIES AT DECEMBER 31, 2002 •
- LU POLSKA merged with LU SAN
- LES EAUX NAYA DU CANADA merged with DANONE WATERS OF NORTH AMERICA (Canada)
- DANONE SERVICES merged with DANONE ITALY
- NEWCO merged with SAIWA
- BEST CORPORATION merged with GRIFFINS
- COFIVE merged with MECANIVER
- DANONE ARGENTINA merged with BAGLEY

COMPANIES NO LONGER CONSOLIDATED AT DECEMBER 31, 2002 •
- GALBANI FRANCE
- GALBANI ROYAUME UNI
- GALBANI SUISSE
- GALBANI BELGIUM
- KRO BEER BRANDS
- FAS
- WUHAN EURO DONGXIHU BREWERY
- TANGSHAN UNITED EUROPEAN & HAOMEN BREWERY
- DIB AUSTRALIE
- DIB JAPAN

On April 30, 2002 the company Edigio Galbani SpA changed its name to Roncevaux SpA after the disposal of its cheese and cured meat business.

Companies	Country	Percentages Group's control	Percentages Interest
GROUPE DANONE	France	Parent-company	
Fresh Dairy Products			
BLÉDINA	France	100.00	100.00
DANONE	France	100.00	100.00
DANONE	Germany	100.00	99.93
DANONE	Austria	100.00	99.93
DANONE	Belgium	100.00	100.00
STENVAL	Belgium	100.00	100.00
DANONE	Denmark	100.00	100.00
DANONE	Spain	55.96	55.96
DANONE CANARIES	Spain	78.50	43.93
DANONE	Finland	100.00	100.00
DANONE	Ireland	100.00	100.00
DANONE	Italy	100.00	100.00
DANONE	The Netherlands	100.00	100.00
DANONE	Portugal	97.61	54.02
DANONE	United Kingdom	100.00	100.00
DANONE SERDIKA	Bulgaria	69.64	69.64
DANONE	Hungary	100.00	100.00
DANONE	Poland	100.00	100.00
DANONE	Czech Republic	98.30	98.30
DANONE	Romania	65.00	65.00
DANONE VOLGA	Russia	88.28	61.79
MOS DANONE	Russia	100.00	70.00
DANONE INDUSTRIA-ZAO	Russia	70.00	70.00
DANONE	Slovakia	100.00	100.00
DANONE	Argentina	99.37	99.37
DANONE	Brazil	100.00	100.00
PROSPECT PARTICIPACOES	Brazil	100.00	100.00
DANONE CANADA DELISLE	Canada	100.00	100.00
DANNON COMPANY	United States	100.00	100.00
DANONE DE MEXICO	Mexico	100.00	100.00
DANONE CLOVER	South Africa	55.00	66.77
Beverages			
SA DES EAUX MINÉRALES D'ÉVIAN	France	100.00	100.00
SEAT (Sté d'Exploitation d'Activités Touristiques)	France	99.91	99.91
SMDA	France	100.00	100.00
MONT ROUCOUS	France	100.00	100.00
VOLVIC	France	100.00	100.00
DANONE WATERS DEUTSCHLAND	Germany	100.00	100.00
AGUAS DE LANJARON	Spain	95.00	78.61
FONT VELLA	Spain	93.88	77.01
ITALAQUAE	Italy	100.00	92.67
DANONE WATERS UK & IRELAND	United Kingdom	100.00	100.00
ZYWIEC ZDROJ	Poland	88.02	88.02
AGUAS DE ARGENTINA	Argentina	100.00	100.00
VILLA ALPINA	Argentina	85.00	85.00

Companies	Country	Percentages Group's control	Percentages Interest
DANONE WATERS OF NORTH AMERICA	Canada	100.00	100.00
DANONE WATERS OF NORTH AMERICA	United States	100.00	100.00
BONAFONT	Mexico	100.00	100.00
SALUS	Uruguay	57.36	42.30
SHENZHEN HEALTH DRINKS	China	60.00	54.20
WAHAHA	China	51.00	46.07
ROBUST	China	92.00	79.79
AQUA	Indonesia	74.00	66.85
FRUCOR	New-Zealand	100.00	90.34
Biscuits			
COMPAGNIE FINANCIERE BELIN	France	100.00	100.00
GÉNÉRALE BISCUIT GLICO FRANCE	France	50.00	50.00
LU	France	100.00	100.00
FONZIE ALLEMAGNE	Germany	100.00	99.93
LU BELGIE	Belgium	100.00	100.00
LU NORDICS	Denmark	100.00	100.00
LU ESPANA	Spain	100.00	100.00
LU SUOMI OY	Finland	100.00	100.00
PAPADOPOULOS	Greece	60.00	60.00
W.&.R. JACOB (Irish biscuits)	Ireland	100.00	100.00
SAIWA	Italy	100.00	100.00
LU NEDERLAND	The Netherlands	100.00	100.00
JACOB'S BAKERY	United Kingdom	100.00	100.00
LU GYORI	Hungary	100.00	100.00
LU POLSKA	Poland	75.00	75.00
BOLSHEVIK	Russia	76.07	76.07
OPAVIA-LU	Czech Republic	99.71	99.71
DANONE	Argentina	99.37	99.37
DANONE	Brazil	100.00	100.00
JIANGMEN DANONE BISCUITS	China	100.00	90.34
SHANGHAI DANONE BISCUITS FOODS	China	100.00	90.34
BRITANNIA INDUSTRIES	India	40.15	19.76
DANONE	Indonesia	100.00	90.34
BRITANNIA BRANDS MALAYSIA	Malaysia	100.00	90.34
EVERCRISP	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	60.00	54.20

Companies	Country	Percentages: Group's control	Percentages: Interest
Export			
DIB PARIS	France	100.00	100.00
DIB ANTILLES GUYANE	France	100.00	100.00
DIB OCÉAN INDIEN	France	100.00	100.00
DIB PORTUGAL	Portugal	100.00	100.00
DIB CANADA	Canada	100.00	100.00
GBE USA	United States	100.00	100.00
DIB IMPORTED WATERS GREATER CHINA	China	100.00	100.00
DIB IMPORTED WATERS ASIA	Singapore	100.00	100.00
Holdings Companies			
Cie GERVAIS DANONE	France	100.00	100.00
GÉNÉRALE BISCUIT	France	100.00	100.00
BLANRIM	France	100.00	100.00
DANONE FINANCE	France	100.00	100.00
DANONE VITAPOLE	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
INGETEC	France	99.96	99.96
ALFABANQUE	France	100.00	100.00
LODAHLIM FRANCE	France	100.00	100.00
DANONE HOLDING	Germany	99.93	99.93
DANONE VERMOGENS VERWALTUNG	Germany	100.00	99.93
DANONE FINANCE BÉNÉLUX	Belgium	100.00	100.00
MECANIVER	Belgium	100.00	100.00
DANONE FOODS	United States	100.00	100.00
DANONE HOLDINGS USA/OSSAU LLC	United States	100.00	100.00
FINANZIARIA IMPERIESE	Italy	100.00	99.98
RONCEVAUX	Italy	100.00	100.00
SCIA	Italy	92.97	92.97
SIFIT	Italy	100.00	100.00
DANONE RE	Luxembourg	100.00	100.00
DANONE FINANCE NETHERLANDS	The Netherlands	100.00	100.00
SELBA	The Netherlands	51.00	51.00
LODAHLIM BV	The Netherlands	100.00	100.00
SETEC–SOBELPAR	Portugal	100.00	100.00
ABIH	United Kingdom	50.00	45.17
ABIL	United Kingdom	100.00	45.17
BRITANNIA BRANDS LTD	United Kingdom	100.00	90.34
DANONE HOLDINGS UK	United Kingdom	100.00	100.00
JINJA	China	100.00	90.34
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	Singapore	90.34	90.34
DANONE BRANDS SINGAPORE	Singapore	100.00	90.34
CALVON	Singapore	96.00	86.73

COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD •

Companies	Country	Percentages: Group's control	Percentages: Interest
Fresh Dairy Products			
DANONE DJURDJURA	Algeria	51.00	51.00
CLOVER	South Africa	22.75	26.15
AL SAFI DANONE	Saudi Arabia	50.10	50.10
STONYFIELD	United States	38.74	38.74
DELTA DAIRY	Greece	30.00	30.00
STRAUSS DAIRY	Israel	20.00	20.00
CALPIS AJINOMOTO DANONE	Japan	50.00	50.00
CENTRALE LAITIÈRE DU MAROC	Morocco	29.22	29.22
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
DASANBE	Spain	50.00	50.00
POLSKA WODA	Poland	50.00	50.00
CCDA WATERS	United States	49.00	49.00
PUREZA AGA	Mexico	50.00	50.00
DANONESA DANONE SABANCI	Turkey	50.00	50.00
AQUARIUS	China	50.00	45.17
Biscuits			
GRIESSON DE BEUKELAER	Germany	39.97	39.97
GALLETAS NOEL	Colombia	30.00	30.00
BIMO	Morocco	50.00	50.00
SOTUBI	Tunisia	20.00	20.00
Containers			
BSN GLASSPACK	France	44.00	44.00

Parent company financial statements and summary of resolutions

Summarized statements of income

Net income for the 2002 financial year amounted to €2,120 million. This principally represents net financial income of €720 million, in turn principally made up of dividends received from consolidated subsidiaries, combined with a net exceptional gain of €1,474 million, resulting mainly from a capital gain on disposal of Kro Beer Brands and from permanent impairment charge related to investment in Roncevaux Spa.

In € millions	2001	2002
Operating loss	(157)	(179)
Financial income	1,103	720
consisting of:		
• Payments from subsidiaries	1,168	725
• Other financial income (expense)	(65)	(5)
Non-recurring items	(485)	1,474
Income tax	126	105
Net income for the year	587	2,120

Summarized balance sheets

After allocation of income, balance sheets at December 31, 2001 and 2002, are as follows:

In € millions	2001	2002
ASSETS		
• Tangible and intangible fixed assets	21	4
• Investments	5,525	4,570
• Other accounts receivable and prepaid expense	598	3,313
• Cash and marketable securities	279	27
Total Assets	6,423	7,914
LIABILILITIES AND STOCKHOLDER'S EQUITY		
• Stockholder's equity	3,574	4,874
• Provisions for contingencies and future costs	74	60
• Financial debt	2,265	2,512
• Other debt and deferred charges	510	468
Total liabilities and shareholder's equity	6,423	7,914

Investments

At December 31, 2001 and 2002 these consisted of:

In € millions	2001	2002
Investments in subsidiaries and affiliates	4,795	3,603
Other financial investments	730	967
Total Investments	5,525	4,570

Investments in subsidiaries and affiliates are valued at acquisition cost excluding incidental expenses. If the year-end fair value is lower than the acquisition cost, a provision is set aside for the difference. Fair value 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 6,602,259 of the Company's treasury stock (compared with 4,904,649 at December 31, 2001). 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 market value is lower than cost.

Stockholder's equity

In € millions	Capital stock	Other paid-in capital	Other	Total
• Capital increase relating to employee savings plan	-	37	-	37
• Capital reduction through cancellation of shares	(4)	(546)	-	(550)
• Exercise of options for the subscription of GROUPE DANONE shares	-	8	-	8
2002 net earnings allocated to				
Retained earnings			18	18
Unregulated free reserves			1,800	1,800
• Other			(13)	(13)
Total change in the financial year	(4)	(501)	1,805	1,300

Financial debts

At December 31, 2002, financial debt consisted of the following :

In € millions	
Convertible bonds	1,000
Other bonds issued	1,480
Loans and other amounts due to banks	5
Miscellaneous borrowings and financial debt	27
Total financial debt	2,512

Allocation of income and dividends

Allocation of income for the year (pursuant to the Third Resolution submitted to the Ordinary General Meeting of Shareholders) is as follows after distribution of a net dividend of €2.30 per share, to which may be attached a tax credit of up to €1.15:

In €	
Earnings to be allocated	
Income for the year	2,120,163,650.33
Retained earnings	1,366,989,274.29
Total	3,487,152,924.62
Allocations	
Dividend	315,870,780.60
Unregulated free reserves	1,800,000,000.00
Retained earnings	1,371,282,144.02
Total	3,487,152,924.62

Summary of resolutions submitted to the combined ordinary and extraordinary general meeting of shareholders on April 11, 2003:

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 Code of Commerce

SECOND RESOLUTION • Approval of statutory and consolidated financial statements of GROUPE DANONE for the 2002 financial year.

THIRD RESOLUTION • Allocation of income and dividend distribution.
Net income for the year amounts to €2,120,163,650.33. A total of €315,870,780.60 from the distributable amount is allocated to dividends.
The net dividend per share is set at €2.30, to which may be attached a tax credit of at most €1.15. Shares will be ex-dividend from May 6, 2003 and dividends payable in cash from the same date.

FOURTH RESOLUTION •Ratification of the provisional appointment of Emmanuel FABER as a member to the Board of Directors.

FIFTH AND SIXTH RESOLUTIONS • Renewal for a 3-year period of the appointments to the Board of Directors of:

Christian LAUBIE	*5th*
Jérôme SEYDOUX	*6th*

SEVENTH, EIGHT AND NINTH RESOLUTIONS • Appointment for a 3-year period as set in the by-laws of new members to the Board of Directors:

Richard GOBLET D'ALVIELLA	*7th*
Hakan MOGREN	*8th*
Benoît POTIER	*9th*

TENTH RESOLUTION • Determination of amount of director's fees.

ELEVENTH 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 €200 per share. Shares may not be sold at a price of less than €120 each .

TWELFTH RESOLUTION • Authorization granted to the Board of Directors to issue ordinary bonds or subordinated securities for a 5-year period and for a maximum nominal amount of €2 billion.

Resolutions for the extraordinary general meeting

THIRTEENTH RESOLUTION • Authorization granted to the Board of Directors to make use of the delegations as provided in the twelfth and thirteenth resolutions by the Combined General Meeting of April 25, 2002 to issue securities in the event of a public offer for the purchase or exchange of Company shares.(*)

FOURTEENTH RESOLUTION • Authorization granted to the Board of Directors to increase the capital in favor of employees of GROUPE DANONE or the companies of the Group, with corresponding waiver of pre-emptive subscription rights.

FIFTEENTH RESOLUTION • Authorization given to the Board of Directors to grant options for the purchase of shares to employees and to all or some of the company's corporate officers.

SIXTEENTH RESOLUTION • Authorization granted to the Board of Directors to cancel shares and reduce capital pursuant to the buyback by the Company of up to 10% of Company shares.

SEVENTEENTH RESOLUTION • Powers granted to the Board of Directors to effect formalities.

**The Board of Directors on April 11, 2003 has decided to take off the 13th resolution from the General Meeting's agenda.*

Allocation and exercise of stock options in 2002

As provided under the article L.225-184 of the Commercial Code, options granted and exercised in 2002 are detailed below :

OPTIONS RECEIVED AND EXERCISED BY CORPORATE OFFICERS •

Corporate officers	Options Granted [1]: Number of options	Options Granted [1]: Expiration date	Options Granted [1]: Exercise price	Options Exercised [2]: Number of options	Options Exercised [2]: Exercise price
Franck Riboud	50,000	04/25/2010	138.81	49,000	53.66
Jacques Vincent	30,000	04/25/2010	138.81	30,000	66.77
Emmanuel Faber	20,000	04/25/2010	138.81		
Philippe Lenain				10,000	53.66

(1) Option Plan of May 29, 2001.
(2) Option Plan of May 11, 1995 for the options exercise by Messrs. Riboud and Lenain, and Option Plan of May 14, 1997, for the options exercised by Mr. Vincent.

TEN LARGEST GRANTS, EXCLUDING CORPORATE OFFICERS • In 2002, a total of 94,800 options to purchase existing shares issued under the May 29, 2001 plan were granted at a weighted average exercise price of €136.07 to the 10 employees of the Group, excluding corporate officers (mandataires sociaux), who received the largest number of options, of which 49,000 were granted to three members of the Company's executive committee.

TEN LARGEST NUMBERS OF OPTIONS EXERCISED BY EMPLOYEES OTHER THAN CORPORATE OFFICERS • During the same period, a total of 41,575 options giving a right to subscribe to shares and 72,800 options giving a right to purchase shares from the May 11, 1995, May 14, 1997 and May 19, 1999 plans were exercised at a weighted average exercise price of €83.21 by the 10 employees of the Group (excluding corporate officers), who subscribed or purchased the largest number of shares, of which 30,000 were exercised by a member of the company’s executive Commitee.

Key Dates in 2003

First quarter sales	April 10, 2003
Combined ordinary & extraordinary meetings of shareholders	April 11, 2003
Share goes ex-dividend and dividend is payable on	May 6, 2003
Half-year result	July 23, 2003
3rd-quarter sales	October 16, 2003

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