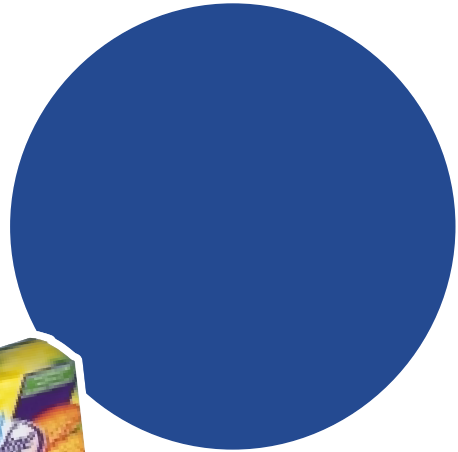
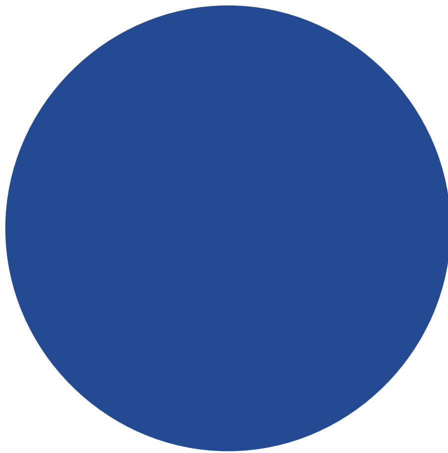


DANONE Group

Form-20F



DANONE

As filed with the Securities and Exchange Commission on May 4, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2000

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14734

GROUPE DANONE

(Exact name of Registrant as specified in its charter)

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

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

Title of each class:	Name of each exchange on which registered:
American Depositary Shares, each representing one-fifth of one Ordinary Share nominal value € 1.0 per share	**New York Stock Exchange**
Ordinary Shares, nominal value € 1.0 per share*	**New York Stock Exchange**

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

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

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

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

Ordinary Shares, nominal value € 1.0 per share: 149,086,208

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

Yes ☒ No ☐

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ☐ Item 18 ☒

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PRESENTATION OF INFORMATION

In this annual report, the "Company" refers to Groupe Danone, and "Danone" or the "Group" refer to Groupe Danone and its consolidated subsidiaries. All references herein to "U.S. dollars", "dollars", "cents" or "$" are to the currency of the United States; references to "France" are to the Republic of France; references to "French francs", or "FF" are to the currency of France; and references to "euros" or "€" are to the currency of the European Union.

Certain period-to-period comparisons provided in this annual report are given on a "comparable basis". In such context, "comparable basis" means that the Group recalculates the financial information with respect to the earlier period (for purposes of the comparison) to give effect to (i) the exchange rates applied in the later period to convert foreign currency amounts into euros ("constant exchange rates"); and (ii) changes in the Group's scope of consolidation resulting from acquisitions and divestitures which, on an historical basis, first took effect in the later period.

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

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

Various amounts and percentages in this annual report have been rounded and, accordingly, may not total.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this annual report that are not historical facts, including, without limitation, certain statements made in the sections entitled "Item 3. Key Information—Risk Factors", "Item 4. Information on Groupe Danone" and "Item 5. Operating and Financial Review and Prospects", are statements of future expectations. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "would be", "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Although the Company believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties. Risks that could cause actual results to differ materially from the results anticipated in the forward-looking statements include, among other things:

- the risks of actual or alleged contamination or deterioration of food products;
- changes in exchange rates, including particularly the exchange rate of the euro to non-euro zone currencies, including the British pound, the U.S. dollar and U.S. dollar-influenced or pegged currencies;

- changes in economic trends and seasonality;
- increasing levels of competition in France and other international prepared food and beverage markets;
- customers and market concentration;
- pricing and availability of raw materials;
- changes in laws and regulations;
- risks and uncertainties attendant to doing business in numerous countries which may be exposed to, or may have recently experienced, economic or governmental instability; and
- general competitive and market factors on a global, regional and/or national basis.

Readers are urged to carefully review and consider the various disclosures made by the Company that attempt to advise interested parties of the factors affecting the Company's business, including the disclosures made under the captions "Item 3. Key Information—Risk Factors", "Item 4. Information on Groupe Danone" and "Item 5. Operating and Financial Review and Prospects" in this annual report, as well as the Company's other periodic reports on Form 6-K filed with the Securities and Exchange Commission.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The Company publishes its consolidated financial statements in euros. However, the Company's financial statements for 1996, 1997, 1998, 1999 and 2000 were originally prepared in French francs, and have been translated into euros for purposes of this document at the rate of FF 6.55957 = € 1.00, the applicable legal rate of conversion established on January 1, 1999. The euro did not exist prior to January 1, 1999, and the conversion rate used may not reflect the French franc/euro exchange rate that would have applied if the euro had existed at such times. Solely for the convenience of the reader, this annual report contains translations of certain euro and French franc amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated or at any other rate. Unless otherwise stated, the translations of euros into U.S. dollars have been made at the rate of € 1.07 per $ 1.00, or $ 0.9388 per € 1.00, the noon buying rate in New York City for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York ("the Noon Buying Rate") on December 29, 2000. See "—Exchange Rate Information" below for information regarding the euro and French franc/U.S. dollar exchange rates from 1995 to the present.

Unless otherwise indicated, the financial information contained in this annual report has been prepared in accordance with French generally accepted accounting principles ("GAAP"), which differ in certain significant respects from U.S. GAAP. See Note 2 to the Company's audited consolidated financial statements for the years ended December 31, 1998, 1999 and 2000 (the "Consolidated Financial Statements") included elsewhere in this annual report for a description of the principal differences between French GAAP and U.S. GAAP, as they relate to the Company and its consolidated subsidiaries, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

The tables below present selected consolidated financial data for the Group for the five-year period ended December 31, 2000. Such data with respect to the years ended December 31, 1996, 1997, 1998, 1999 and 2000 have been extracted or derived from the consolidated financial statements of the Group, and are qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and the Notes thereto and "Item 5. Operating and Financial Review and Prospects" included elsewhere in this annual report. The Consolidated Financial Statements have been audited by PricewaterhouseCoopers, independent accountants, as indicated in their report thereon, which also appears in this annual report.

	Year ended December 31,					
	1996	1997	1998	1999	2000	2000[1]
	(in millions, except per share data)					
Consolidated Income Statement Data						
Amounts in accordance with French GAAP:						
Net sales	€ 12,797	€ 13,488	€ 12,935	€ 13,293	€ 14,287	$ 13,413
Cost of goods sold	(7,245)	(7,466)	(6,807)	(6,663)	(6,973)	(6,546)
Selling expenses	(3,338)	(3,633)	(3,650)	(3,964)	(4,453)	(4,181)
General and administrative expenses	(763)	(826)	(852)	(913)	(950)	(892)
Research and development expenses	(102)	(116)	(120)	(122)	(125)	(117)
Other expense and income[2]	(209)	(223)	(213)	(240)	(236)	(222)
Operating income[3]	1,140	1,224	1,293	1,391	1,550	1,455
Non-recurring items[3]	—	6	(44)	2	23	22
Interest expense, net	(190)	(170)	(146)	(131)	(193)	(181)
Provision for income taxes	(365)	(451)	(433)	(499)	(562)	(528)
Minority interests	(94)	(82)	(97)	(110)	(130)	(122)
Equity in net earnings of affiliated companies	24	32	25	29	33	31
Net income	516	559	598	682	721	677
Earnings per share (basic)[4]	3.63	3.94	4.24	4.88	5.13	4.82
Earnings per share (diluted)[4]	3.53	3.82	4.08	4.69	5.10	4.79
Earnings per ADS (diluted)[4][5]	0.71	0.76	0.82	0.94	1.02	0.96
Dividends per share (including the *avoir fiscal*)	1.95	2.12	2.25	2.63	2.85	2.68
Dividends per ADS[4][5] (including the *avoir fiscal*)	0.39	0.42	0.45	0.53	0.57	0.54
Approximate amounts in accordance with U.S. GAAP:[6]						
Net income	472	512	553	637	807	758
Earnings per share (basic)	3.32	3.61	3.93	4.56	5.74	5.39
Earnings per share (diluted)[4]	3.26	3.53	3.79	4.39	5.71	5.36
Earnings per ADS (diluted)[4][5]	€ 0.65	€ 0.71	€ 0.76	€ 0.88	€ 1.14	$ 1.07

(See notes on following page)

	Year ended December 31,					
	1996	1997	1998	1999	2000	2000[1]
	(in millions, except per share data)					
Consolidated Balance Sheet Data						
Amounts in accordance with French GAAP:						
Marketable securities, cash and cash equivalents	€ 866	€ 966	€ 894	€ 951	€ 783	$ 735
Current assets	4,887	4,499	4,383	4,438	4,302	4,039
Total assets	15,378	15,030	15,042	15,015	17,233	16,178
Net debt[6]	3,289	2,752	2,873	3,119	4,401	4,132
Stockholders' equity	6,156	6,512	6,514	6,146	7,189	6,749
Approximate amounts in accordance with U.S. GAAP:[7]						
Stockholders' equity	5,739	6,134	6,057	5,788	7,041	6,610
Total assets	15,155	14,882	14,822	14,908	17,300	16,241
Cash Flow Statement Data						
Amounts in accordance with French GAAP:						
Cash flow from operating activities	1,212	1,334	1,358	1,325	1,422	1,335
Cash flow from investing activities:						
Capital expenditures	(684)	(797)	(711)	(703)	(798)	(749)
Investments in companies (net of divestitures)	(1,020)	547	(247)	351	(2,137)	(2,006)
Total cash flows from investing activities	(1,704)	(250)	(958)	(352)	(2,935)	(2,755)
Cash flow from financing activities	504	(1,009)	(472)	(913)	1,585	1,488
Other Data						
EBITDA[8]	1,818	1,960	1,995	2,149	2,307	2,166
Depreciation and amortization	€ 677	€ 736	€ 702	€ 758	€ 757	$ 711
Cost of goods sold as a percentage of net sales	56.6%	55.4%	52.6%	50.1%	48.8%	48.8%
Operating income as a percentage of net sales	8.9%	9.1%	10.0%	10.5%	10.8%	10.8%

(1) Translated solely for convenience into dollars at the Noon Buying Rate on December 31, 2000 of € 1.06518 per $ 1.00.

(2) Other income and expense includes the amortization of goodwill which amounted to € 124 million, € 93 million, € 90 million, € 94 million and € 78 million in the years ended December 31, 2000, 1999, 1998, 1997 and 1996, respectively.

(3) Beginning in 1994, gains and losses on disposals of companies, restructuring costs and certain other exceptional items have been shown separately as non-recurring items. See Note 1.Q to the Consolidated Financial Statements. In 1997, the € 6 million non-recurring profit had a negative impact of € 5 million on net income after income taxes and minority interests. In 1998, the € 44 million non-recurring loss had a negative impact of € 22 million on net income after income taxes and minority interests, which related mainly to restructuring charges. In 1999, the € 2 million non-recurring profit had a positive impact of € 12 million on net income after income taxes and minority interests. In 2000, the € 23 million non-recurring profit had a positive impact of € 1 million on net income after income taxes and minority interests. See Note 3 to the accompanying Consolidated Financial Statements.

(4) Earnings and dividends per share have been adjusted following the June 2000 two-for-one stock split. Basic earnings per share is based on an average number of shares of 140,662,272, 139,877,348, 141,078,170, 141,959,740 and 142,241,084 as of December 31, 2000, 1999, 1998, 1997 and 1996, respectively. Diluted earnings per share and ADS are based on the average number of shares outstanding during the year assuming full conversion of all common stock equivalents and convertible bonds and taking into account the related reduction in interest charges, net of tax. Such average number of shares was 141,373,721, 148,990,002, 157,115,154, 158,185,068 and 158,152,884 for the years ended December 31, 2000, 1999, 1998, 1997 and 1996, respectively.

(5) Data given per ADS reflects the ratio of one fifth of one share per ADS. Earnings and dividends per ADS have been adjusted following the June 2000 two-for-one stock split.

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

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

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

	Year ended December 31,					
	1996	1997	1998	1999	2000	2000[1]
	(in millions)					
Net income	€ 516	€ 559	€ 598	€ 682	€ 721	$ 677
Equity in net earnings of affiliated companies	(24)	(32)	(25)	(29)	(33)	(31)
Minority interests	94	82	97	110	130	122
Provision for income taxes	365	451	433	499	562	528
Interest expense (net)	190	170	146	131	193	181
Non-recurring items	—	(6)	44	(2)	(23)	(22)
Depreciation and amortization	677	736	702	758	757	711
EBITDA	€ 1,818	€ 1,960	€ 1,995	€ 2,149	€ 2,307	$ 2,166

(1) Translated solely for convenience into dollars at the Noon Buying Rate on December 31, 2000 of € 1.06518 per $ 1.00.

Exchange Rate Information

Under the provisions of the Treaty on European Union signed by the then 12 member states of the European Union in early 1992, a European Monetary Union, known as the EMU, was implemented on January 1, 1999, and a single European currency, known as the euro, was introduced. The following member states participate in the EMU and have adopted the euro as their national currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and, since January 1, 2001, Greece. The legal rate of conversion between French francs and euros was established on January 1, 1999 at FF 6.55957 = € 1.00.

Since January 1, 1999, the euro has been the lawful currency of the EMU states. Euro banknotes and coins are expected to enter circulation starting January 1, 2002. New public debt will be issued in euros and outstanding obligations denominated in national currencies have been converted at the legal rates established on January 1, 1999 (unless specific contracts provide for an alternative conversion rate). During a limited period of time, which is planned to begin on January 1, 2002 and end at the latest by July 1, 2002, national currencies, including banknotes and coins, will subsist as non-decimal denominations of the newly introduced euro banknotes and coins. By July 1, 2002 at the latest, national currencies will be completely withdrawn. There can be no assurance that these events will take place on time or otherwise as currently expected.

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in New York City for cable transfers for foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York expressed in French francs per $ 1.00 or U.S. dollars per € 1.00, as the case may be. These rates are provided solely for the convenience of the reader and are not the rates used by the Company in the preparation of its Consolidated Financial Statements included elsewhere in this annual report. The Group uses the rate published by the Banque de France for its internal financial reporting and for the presentation of certain U.S. dollar/French franc and U.S. dollar/euro translations set forth herein (see "—Selected Financial Data"). No

representation is made that French francs or euros could have been, or could be, converted into U.S. dollars at these rates or any other rate. January 15, 1999 was the last day that the Federal Reserve Bank of New York published Noon Buying Rates for French francs.

	French francs per $ 1.00				U.S. dollars per € 1.00			
	Year/period end rate	Average rate[1]	High	Low	Year/period end rate	Average rate[1]	High	Low
Yearly amounts								
1995	FF 4.90	FF 4.96	FF 5.39	FF 4.78	—	—	—	
1996	5.19	5.12	5.29	4.90	—	—	—	—
1997	6.02	5.84	6.35	5.19	—	—	—	—
1998	5.59	5.90	6.21	5.39	—	—	—	—
1999[2]	FF 6.51	FF 6.20	FF 6.54	FF 5.55	$ 1.01	$ 1.06	$ 1.18	$ 1.00
2000[2]					0.94	0.92	1.03	0.83
Monthly amounts								
November 2000	—	—	—	—	0.87	0.86	0.87	0.84
December 2000	—	—	—	—	0.94	0.90	0.94	0.88
January 2001	—	—	—	—	0.93	0.94	0.95	0.92
February 2001	—	—	—	—	0.92	0.92	0.94	0.91
March 2001	—	—	—	—	0.88	0.91	0.93	0.88
April 2001	—	—	—	—	0.89	0.89	0.90	0.88
May 2001 (through May 3)	—	—	—	—	$ 0.89	$ 0.89	$ 0.89	$ 0.89

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

(2) January 15, 1999 was the last day that the Federal Reserve Bank of New York published Noon Buying Rates for the French franc.

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro-denominated prices of the shares and, as a result, will affect the market price of the ADSs in the United States. In addition, exchange rate fluctuations will affect the U.S. dollar equivalent of any cash dividends received by holders of ADSs.

For a discussion of the impact of exchange rate fluctuations on Danone's results of operations, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Impact of Changes in Exchange Rates."

Risk Factors

In addition to the other information contained in this annual report, prospective investors should consider carefully the risks described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company or that the Company currently deems immaterial may also impair its business operations. The Company's business, financial condition or results of operations could be materially adversely affected by any of these risks.

The Group's sales may be affected by overall economic trends in its principal geographic markets

As a producer principally of consumer foods and beverages, Danone's results of operations may be affected by the overall economic trends of its principal geographic markets. In periods of economic slowdown, consumer purchase decisions may be affected by specific considerations, thus creating negative pressure on the sales volumes of many of the Group's products.

Seasonal consumption cycles and weather conditions may result in fluctuations in demand for some of the Group's products and impact results of operations

Some of the Group's product markets reflect seasonal consumption cycles and weather which can affect Group's quarterly and annual results. In particular, packaged water and beverages experience peak demand during the summer months. As a result, the Group's sales are generally higher during these months. Conversely, relatively cool summer temperatures may result in substantially reduced sales of packaged water and beverages and thus may have a material adverse effect on the Group's results of operations for such year.

The actual or alleged contamination or deterioration of the Group's products, or of similar products of other producers, could hurt its reputation

The Group's business could be negatively affected by the actual or alleged contamination or deterioration of certain of its principal products, or of similar products sold by other producers. Depending on the specific type of food product, a risk of contamination or deterioration exists at each stage of the production cycle, including the purchase and delivery of food raw materials such as milk, the processing and packaging of food products, the stocking and delivery of finished products to distributors and food retailers, and the storage and shelving of finished products at the points of final sale. A substantial portion of the Group's products, such as dairy products, must be maintained within certain temperatures at certain or all of such stages to retain their nutritional value and avoid contamination or deterioration. With respect to packaged water, the natural sources of Danone's supply may be subject to pollution. In the event certain of Danone's products are found, or alleged, to have suffered contamination or deterioration, whether or not while such products were under Danone's control, the Group's net sales, results of operations and financial condition could be materially adversely affected. In addition, reports or allegations of inadequate product quality control with respect to certain products of other food manufacturers could negatively impact sales of the Group's products.

Competition may lead to a reduction of the Group's margins and a decline in profitability

The markets for each of Danone's main business lines are highly competitive and subject to significant pressure on margins. In Western Europe, the markets served by Danone tend to be relatively mature and competition for market share is therefore particularly intense. As a result, the Group must continually strive to strengthen the selling power and premium image of Danone brand names and differentiate its products and to improve the efficiency and management of its operations in order to maintain or increase profit margins. With respect to the Group's activities outside Western Europe, certain international food and beverage groups also have important positions in certain product lines and in certain emerging markets and seek to expand such positions and enter new markets. In addition, as a result of the development of private labels by major retail and grocery chains, certain of Danone's customers also offer their own competing products, which could pose a commercial conflict between Danone's customers as such and as direct competitors.

The Group's dependence on key customers and increased market concentration could negatively affect the Group's ability to achieve its targeted margins and reduce its competitiveness

While the final consumers of Danone products are individual retail customers, Danone sells its products principally to major retail and grocery chains. The distribution market has become increasingly concentrated and in most markets, the top three retailers in such market cover nearly or more than 50% of the market. In 2000, the Group's fifteen largest customers worldwide accounted in the aggregate for approximately 37% of the Group's consolidated sales. Five of those customers are French companies that are also Danone's top customers in France.

Price increases and shortages of food and packaging raw materials could adversely affect the Group's results of operations

The Group's results of operations may be affected by the availability and pricing of raw materials, principally materials needed to produce Danone's food and beverage products, including mainly fresh milk, wheat, sugar and cocoa, and materials needed for packaging its products, including mainly PET and PVC plastics and light cardboard for cartons. Changes in the global or regional levels of supply and demand, weather conditions and government controls could substantially influence the price of food raw materials. In addition, changes in global supply and demand may substantially influence the price of packaging raw materials. A substantial increase in raw material prices (if not passed on to customers through price increases) or a continued interruption in supply could have a material adverse effect on the Group's financial condition and results of operations.

Changes in governmental regulations could harm the Group's business

As a producer of consumer foods and beverages, the Group's activities are subject to extensive regulation and law by national authorities and international organizations, including regulation with respect to hygiene, quality control, beverages or market control and tax laws. The Group's activities may also be subject to all kinds of barriers or sanctions set up by countries in order to restrain the international trade of products. The Group's activities could be adversely affected by significant changes in such regulation.

The activities of the Group are subject to ever-changing and extensive regulations, which are increasingly restrictive with regard to the emission or discharge of substances or waste into the environment, the protection of the environment and the protection of health and human safety. To comply with these regulations, the Group could entail investment and substantial costs.

However, the Group considers that it has put in place the necessary measures to limit the risks associated with these activities. In particular, it is currently establishing an environmental management policy which consists of regular audits of all of its sites.

Volatility in emerging markets where the Group operates could harm its business

The Group's operations are subject to the risks and uncertainties attendant to doing business in numerous countries which may be exposed to, or may have recently experienced, economic or governmental instability, particularly in China, Latin America and certain regions of Asia. Also, a number of countries in which the Group's operations are conducted have a less developed and safe legal environment, maintain controls on the repatriation of earnings and capital, impose taxes and other payments or put in place restrictions on the activities of multinational companies. Management believes that it has taken and continues to take appropriate measures to minimize the risks arising from the Group's international operations. However, there can be no assurance that the financial results of the Group could not be materially affected by a downturn in the economic conditions in any of these countries or by any regional emerging market crisis.

The Group's results of operations and financial condition could be harmed by changes in exchange rates

The Group publishes its consolidated financial statement in euros. A substantial portion of Danone's assets, liabilities, sales, costs and earnings are denominated in currencies other than the euro, particularly the U.S. dollar and other currencies influenced by the U.S. dollar. As a result, Danone is exposed to fluctuations in the values of such currencies against the euro with respect to the translation into euro of amounts to be reflected in its consolidated financial statements. These currency fluctuations, especially with respect to these principal non-euro currencies, against the euro, can have a significant impact on Danone's results of operations. In particular, the appreciation of the euro relative to other currencies decreases the euro value of the contribution to Danone's consolidated results and financial condition of subsidiaries which maintain their financial accounts in such other currencies. In

addition, to the extent Danone incurs expenses and effects sales in different currencies in cross-border transactions, fluctuations in exchange rates can also affect the profitability of such transactions.

Labor disputes may cause work stoppages, strikes and disruptions

The Group has in the past implemented and intends in the future to implement restructuring measures, including plant closings and workforce reductions, in order to lower production costs, improve efficiency of its facilities, exploit synergies and cope with the demands of a changing market. Restructurings could harm its employee relations and result in labor disputes, including work stoppages, strikes and disruptions, and thus have an adverse impact on the Group's business or financial results.

The Group's strategy relies significantly on acquisitions, which involve risks

The Group's strategy is to be a leading brand in each of its three core business lines and in each of the markets in which it operates. This strategy involves the pursuit of growth opportunities through acquisitions and alliances. Any acquisitions or similar arrangements may harm its business if the Group is unsuccessful in the integration process or fails to achieve the synergies and savings it expects.

The Group may not be able to protect its intellectual property rights adequately

Given the importance of brand recognition to its business, the Group has invested considerable effort in protecting its portfolio of intellectual property rights, including trademark registration such as for example, the trademarks *Danone, Evian,* and *LU*. The Group also uses security measures to protect its patents, licenses and its own formula. However, the Group cannot be certain that the steps it has taken will be sufficient or that third parties will not infringe or misappropriate its proprietary rights. Moreover, some of the countries in which the Group operates offer less protection for intellectual property rights than Europe or North America. If the Group is unable to protect its proprietary rights against infringement or misappropriation, its future financial results and its ability to develop its business could be harmed.

Item 4. Information on Groupe Danone

History and Development

Groupe Danone is a *société anonyme*, a form of limited liability company, organized under the laws of the Republic of France. It was incorporated on February 2, 1899, for a duration of 141 years, except in the event of anticipated dissolution or extension. Its principal office is located at 7, rue Téhéran, 75008 Paris, France and its telephone number is +(33-1) 01.44.35.20.20. The Group's agent in the United States is: The Dannon Company Inc., located at 120 White Plains Road, Tarrytown, New York, 10591- 5536, USA.

The Group's origins date back to 1966 when the French glass manufacturers, Boussois Souchon Neuvesel and Verrerie Souchon Neuvesel, merged to form Boussois Souchon Neuvesel, or BSN. In 1967, BSN had sales of flat glass and glass containers of approximately € 0.15 billion. In 1970, BSN began a program of diversification in the food industry and successively purchased Brasseries Kronenbourg, La Société Européenne de Brasserie and La Société des Eaux Minérales d'Evian, which at the time of acquisition were major customers of BSN for glass containers. As a result of these acquisitions, BSN became France's market leader in beer and bottled water, as well as infant food, which was at that time one of Evian's product lines. In 1973, BSN merged with Gervais Danone, a French food group with significant sales in dairy products and pasta, thereby becoming France's largest food and beverage group with consolidated sales in 1973 of approximately € 1.4 billion, of which 52% consisted of food and beverage sales.

Throughout the remainder of the 1970s and the 1980s, BSN focused on expansion in the food and beverage industry, primarily in the European Union, after disposing of its flat glass business. This

expansion included the acquisition of major breweries in Belgium, Spain and Italy; The Dannon Company, the leader in yogurt in the United States; Générale Biscuit, a French holding company which owned LU and other major producers of biscuits in Europe; the biscuit subsidiaries of Nabisco, Inc. in France, Italy, the United Kingdom and Asia; and Galbani, Italy's leading cheesemaker. As a result, with consolidated sales of € 7.4 billion in 1989, BSN became Europe's third largest diversified food group, ranking first in France, Italy and Spain.

Beginning in the early 1990s, BSN pursued a strategy of consolidating its main business lines, developing synergies in the European Union and expanding into growing markets outside the European Union. As a result, BSN increased the international scope of its operations and strengthened its portfolio of brands through a number of significant acquisitions and joint ventures. Within the European Union, BSN acquired Volvic in France to strengthen its position in the bottled water sector. Outside the European Union, BSN, renamed "Groupe Danone" in 1994 (as described below), pursued an active acquisition strategy to expand internationally in Asia-Pacific, Latin America and Central Europe, and selected markets like South Africa and the Middle East.

In 1994, BSN adopted one of the Group's best known international brands and changed its name to Groupe Danone, with a view to consolidate its position as an international food and beverage group and to reinforce the marketing strength of the Danone brand name.

In 1997, the Company's management decided to focus on three core activities on a worldwide basis (fresh dairy products, beverages and biscuits). Over the last four years, the Group completed several significant divestitures in grocery, pasta, ready-to-serve meals and confectionery activities, mainly in France, Belgium, Italy, Germany and Spain. In 1999, 56% of the Group's glass containers business was sold and in 2000, the Group sold most of its European beer activities to different companies in the industry, including the U.K. group Scottish & Newcastle. The operations sold represented consolidated net sales of approximately € 4.0 billion. This strategy enabled Danone to concentrate its financial and human resources on product lines with strong commercial potential for which the Group holds a leading position in the world and to pursue its expansion outside the European Union, through internal growth and strategic acquisitions, which in the aggregate, represented consolidated net sales of approximately € 1.5 billion since 1997.

Since 1998, the Group has been organized around three core activities which, together, represented nearly 97% of the Group's consolidated net sales in 2000:

- fresh dairy products, including yogurts, cheeses, dairy desserts and infant foods, representing approximately 46% of the Group's net sales;
- beverages, including primarily bottled water (following the sale of European beer activities) representing approximately 29% of the Group's net sales; and
- biscuits, including cookies and savory snacks, representing approximately 22% of the Group's net sales.

During 1999, the Group continued to pursue its strategic goals: refocusing, internationalization and profitable growth. The Group pursued its strategy of withdrawal from non-strategic activities and therefore sold its fresh and frozen ready-to-serve dishes in France, Italy and Spain (essentially Marie Surgelés France, Générale Traiteur, Star and Pycasa), as well as the majority of its ownership interests (56%) in glass containers. Following this divestiture, the glass containers have been accounted for under the equity method in the Group's consolidated financial statements starting in the third quarter of 1999. The internationalization of Danone's activities resulted in many acquisitions outside the European Union. The Group reinforced its presence in biscuits in Poland, Colombia, Tunisia, Morocco, and Brazil; in fresh dairy products, in Argentina, the United States, Poland and Turkey; and in bottled water, in Argentina.

Key Events in 2000

In 2000, the Group finalized its refocusing strategy with the disposal of most of its European beer activities. The Group's operating margin has continued to progress noticeably, despite an increase in raw materials costs. See below "Purchasing—Raw Materials". The Group's internal growth, amongst the highest worldwide for major food production groups, has displayed a new acceleration. Similarly, Danone has continued to lead in targeted international growth acquisitions, achieving its strategy of internationalization in its three core businesses.

In 2000, the Group completed two significant acquisitions: the acquisition of the U.S. McKesson Water Products Company and the purchase of certain assets of the U.K. United Biscuit Group.

McKesson Water Products Company, a leader in the United States in home delivery of large quantity water supplies, with sales of $335 million over 10 months in 2000 is particularly well established in the American sunbelt (west and southwest coast) with its brand Sparkletts. Under this brand name, McKesson has, over the past few years, developed a growing business in bottled water for home-delivery and supermarkets distribution. This acquisition has brought to the Group a distinct know-how and technology, which the Group intends to use in its current activities in large water containers in Indonesia, Canada and Argentina, or in future developments.

In biscuits, Danone purchased certain assets from United Biscuits, following its acquisition by a group of financial investors. This transaction allowed the Group to reinforce its position in certain markets (salted biscuits and crackers in the United Kingdom, Italy and Malaysia and sweet biscuits in Poland) and to penetrate new markets where its presence was limited, or non-existent (Hungary, Scandinavia).

The Group has also led an active policy of expansion of its core business activities in different regions of the world. In fresh dairy products, the Group acquired a newly-created Brazilian company, which owns the brand *Paulista* and the fresh dairy product activity and long-life milk of Cooperativa Central de Laticinios of Sao Paulo, thus becoming the leader in the Brazilian market. The Group also acquired 51% of Logistica Serenissima, a distribution company in Argentina, and approximately 5% of the Japanese company Yakult, specialized in probiotic products. In addition, the Group's participation in Galbani in Italy increased from 90% to 95%. In beverages, the Group purchased 92% of Robust, a major Chinese producer of water and other beverages, which, together with its existing Wahaha activities, gave Danone an absolute market leadership position in the rapidly growing Chinese market. The Group, which also formed a joint venture with San Benedetto with the goal of penetrating the water market in Poland, acquired 57.34% of the Uruguayan leader Salus, and acquired Flora in Turkey, as well as a significant portion of the assets of the Canadian company Naya. In biscuits, Danone acquired the remaining shares it did not already hold in the Brazilian company Aymore.

In addition, in 2000, the Group entered into an agreement with the Al-Faisaliah Group regarding certain activities of the company Al Safi, one of the principal suppliers of fresh dairy products in Saudi Arabia and an agreement to acquire 50% of Aquarius Water, a leader in home-delivered water in Shanghai. The Group also announced the launching of a takeover bid for the remaining shares of Mecaniver, a company in which it already owns 89% and which holds the Group's principal subsidiaries in the United States.

For a description of Danone's principal capital expenditures and divestitures, including investments in other companies in 2000 and in the two preceding financial years, see "Item 5. Operating and Financial Review and Prospects—Overview—Acquisitions and Investments."

These acquisitions reflect the Group's international growth strategy: (i) to increase its control of companies in which Danone does not own 100%; (ii) to reinforce its current market positions to achieve leadership positions locally; and (iii) to expand in other countries to develop the Group's core business lines.

The success of the Group's innovation policy, illustrated by a 50% increase in net sales of Actimel and a 40% increase in net sales of the line of low-fat Taillefine/Vitalinea Biscuits in 2000, continued to contribute to the Group's goal to expand profitably. New promising products were introduced in 2000: the launching of Danone bottled water in certain European countries, 5-liter bottles of Volvic, a new "nomad" format for Evian, a drinkable version of Danimals yogurt in the United States, Taillefine cereal bars in France and the introduction in Malaysia, Indonesia and China of the Tiger biscuit, already very successful in India.

With a sustained organic increase in net sales (7%), an increase in operating margin (from 10.5% to 10.8%) and net profit per share (+13.2% excluding capital gains relating to divestitures and impairment charges), management believes that these results validate the soundness and potential of the Group's strategic orientations implemented over the past few years.

Finally, in March 2001, the Group announced its intention to reorganize its biscuits operations in Europe. See "Item 5. Operating and Financial Review and Prospects—Recent Developments—Reorganization of Biscuit Operations."

Business Overview

Danone is one of the world's leading food companies, with worldwide sales and operating income of € 14.3 billion and € 1.5 billion, respectively, in 2000. On the basis of annual sales and production, Danone is the world leader in fresh dairy products and the world's second largest producer of biscuits and packaged water.

Danone's portfolio of brands and products includes national and international market leaders such as *Danone* (*Dannon* in the United States), the world's leading brand of fresh dairy products; *Evian,* the world's leading brand of bottled still water; *Volvic*, the Group's other major international brand of bottled still water; *LU*, one of Europe's major biscuits brands; *Wahaha*, the leading Chinese brand of bottled water and *Galbani* cheeses, Italy's best-selling brand of cheese and one of the world's main producers of mozzarella cheese. In addition, the Group is also present in sauces with internationally known brands such as *HP Foods*, *Lea & Perrins* and *Amoy*.

The brand name *Danone* currently represents more than one-third of the Group's net sales and grew more than 12% internally in 2000. In addition to fresh dairy products, the brand has been extended to certain other products, such as bottled water in the United States and Europe and biscuits in Latin America and Asia are now sold under this brand name.

The Group's strategy of international expansion, through both internal and external growth, has led to net sales outside the European Union to increase to 41% of total net sales in 2000 from less than 15% in 1995 and a strong presence in emerging countries, which in 2000, accounted for 30% of total net sales.

Danone believes that demographic trends and economic development in Asia and Latin America will lead in the medium term, despite current economic difficulties, to the expansion of these markets. The progressive improvement in the purchasing power of local populations, together with the development of a middle class, should increase demand for bottled beverages and branded food products.

Danone's main product for export is bottled water, under the brand names *Evian* and *Volvic*. *Evian* was exported to approximately 120 countries in 2000 and has strong market shares in the United States, Canada, Great Britain and Germany. *Volvic* is the leading still mineral water in Germany, and the leading imported water in Japan.

Business Strategy

The Group principally operates on three markets: (i) fresh dairy products, (ii) beverages and (iii) biscuits.

Management believes that these business lines, whose growth rate in the past few years has exceeded the international average of the food and beverage industry, have a strong potential for development due to significant regional disparities in consumption habits, a worldwide dynamic trend for health-oriented products, and the formation of a middle class in several emerging countries.

The Group will continue to follow a strategy whereby its three business lines will grow profitably, as a model of development to guarantee the Group's values and specificity.

Danone considers that it can sustain its internal growth rate, by (i) having a portfolio of activities concentrated on dynamic health-oriented products, (ii) substantially advertising and promoting a few major brands, (iii) having a significant presence in emerging countries, (iv) occupying leading positions internationally in each business line by building strong number one positions locally, (v) offering promising innovations based on consumer satisfaction, and (vi) having flexible and reactive organizational structures favoring the responsibility of each subsidiary while sharing the best global practices.

Internal sales growth should be the leading force for improving the Group's economic performances, due to the continuing leadership of highly valued products generating a favorable mix effect and the achievement by the Group of a critical size in several emerging markets. Though the operating margin of international activities (outside the European Union) is still less than the Group's average, it is constantly increasing and is expected to be an important factor of improvement of Danone's operating profitability in future years, as with the industrial reorganization project of the European's Biscuits business. Concurrently, the Group will continue to promote numerous initiatives aimed at increasing its global efficiency and transversality: a global procurement program, an organization of shared services in human resources and finance, the deployment of the ERP, or enterprise resource planning system currently being developed by the Group, the implementation of CPGmarket.com (platform of on-line purchasing) in the European subsidiaries and the launch of an ambitious program to optimize the supply chain in the Group's three business lines.

The Group will concentrate its acquisition policy to penetrate new countries with a view to obtaining a leadership position and will seek to consolidate current positions so as to have a solid number one position locally. In Danone's continuing effort to reinforce its international presence, a significant portion of the planned operations will be realized outside the European Union, already representing 41% of net sales, and mainly in emerging markets.

Products and Markets

Through the end of 1997, Danone's business activities in the European Union were organized by main business lines, while outside the European Union, Danone's activities were organized by geographic market. Starting in 1998, Danone's business activities were reorganized, on a worldwide basis, according to main business lines.

The tables below show, for each of the years 1998, 1999 and 2000, consolidated net sales and operating income by geographic zones and principal business lines.

Geographic Areas

	Year ended December 31,[1]					
	1998		1999		2000	
	(€ in millions, except percentages)					
Net Sales						
France[2]	5,042	37.0%	4,963	35.4%	4,298	28.5%
European Union (excluding France)[3]	5,267	38.7%	5,084	36.3%	5,273	35.0%
Rest of the World[4]	3,303	24.3%	3,960	28.3%	5,512	36.5%
Intragroup sales[5]	(677)	—	(714)	—	(796)	—
Total	12,935	100.0%	13,293	100.0%	14.287	100.0%
Operating Income						
France[2]	589	45.1%	587	41.7%	526	33.8%
European Union (excluding France)[3]	475	36.1%	501	35.6%	541	34.8%
Rest of the World[4]	248	18.8%	319	22.7%	489	31.4%
Unallocated expenses[6]	(19)	—	(16)	—	(6)	—
Total	1,293	100.0%	1,391	100.0%	1.550	100.0%

(1) Certain financial and statistical information in this annual report have been rounded to the next higher or lower number. As a result, various amounts and percentages may not total.

(2) Net sales or operating income of Danone's French subsidiaries after elimination of sales among French companies, but without elimination of intra-region sales (see Note 5 below).

(3) Net sales or operating income of Danone's European Union subsidiaries after elimination of sales among companies in the European Union, but without elimination of intra-region sales (see Note 5 below).

(4) Net sales or operating income of Danone's subsidiaries outside the European Union, after elimination of sales among companies outside the European Union, but without elimination of intra-region sales (see Note 5 below).

(5) Intragroup sales include sales between subsidiaries of different geographic regions (mainly sales of export products, principally bottled water, by Danone's European Union subsidiaries to subsidiaries located outside this region).

(6) Unallocated income (expense) represents the balance of Group expenses, mainly those relating to the Group's main office and Group-level management, which have not been allocated to any specific operating division.

Business Lines

	Year ended December 31,					
	1998		1999		2000	
	(€ in millions, except percentages)					
Net sales[1]						
Fresh Dairy Products	5,665	43.2%	5,981	44.7%	6,530	45.7%
Beverages[2]	3,004	22.9%	3,565	26.6%	4,141	28.9%
Biscuits	2,607	19.9%	2,822	21.1%	3,255	22.8%
Other food businesses[2]	905	6.9%	527	3.9%	378	2.6%
Glass containers[3]	932	7.1%	501	3.7%	—	—
Intragroup sales	(178)	—	(103)	—	(17)	—
Total	12,935	100.0%	13,293	100.0%	14.287	100.0%
Operating income[1]						
Fresh Dairy Products	621	447.3%	655	46.5%	712	45.8%
Beverages[2]	368	28.1%	440	31.3%	513	33.0%
Biscuits	203	15.5%	222	15.8%	282	18.1%
Other food businesses[2]	29	2.2%	39	2.8%	49	3.1%
Glass containers[3]	91	6.9%	51	3.6%	—	—%
Unallocated expenses	(19)	—	(16)	—	(6)	—
Total	1,293	100.0%	1,391	100.0%	1,550	100.0%

(1) Net sales, or operating income of Danone's subsidiaries after elimination of sales among companies within the same division, but before elimination of intra-group sales. Intragroup sales consist of sales of products between companies that are in different divisions.

(2) In 1999, Danone's fresh and frozen meals businesses were sold and contributed to net sales only for the first six months of the year. In 2000, the beer activities in France and Belgium were consolidated only for the first six months of the year; the beer activities in Spain were consolidated for the twelve months of the year.

(3) In 1999, Danone sold the majority of its interest in its glass containers business to financial investors. These activities contributed to net sales only for the first six months of the year. Starting with the second half of 1999, glass containers activities were accounted for under the equity method.

Fresh Dairy Products

With net sales of fresh dairy products in 2000 of approximately € 6.5 billion, Danone is the leading producer of fresh dairy products with nearly 15% of the world's market shares. Danone's principal products in this business line are yogurts and similar products which, together, accounted for approximately 75% of Danone's total net sales in 2000. Danone also produces Italian cheeses under the *Galbani* brand name, which accounted for approximately 15% of net sales of fresh dairy products in 2000, and infant food sold principally in France under the brand name *Blédina*.

Principal Markets and Brand Names. 23% of net sales of fresh dairy products are accounted for by sales in France, 46% by sales in the rest of the European Union and 31% by sales in the rest of the world. Danone's principal markets for fresh dairy products are France, Spain, Italy and Germany, which together accounted for nearly 60% of Danone's sales of fresh dairy products in 2000. Outside the European Union, the Group's principal markets are the United States, Mexico, Brazil and Argentina. In France, Danone is the market leader for fresh dairy products with approximately one-third of the total market. Danone markets yogurts and similar and other fresh dairy products in France principally under the *Danone* brand name, as well as infant food under the brand name *Blédina*. In Italy, Danone owns 95% of Galbani, Italy's largest cheesemaker with specialties such as *Bel Paese, Santa Lucia* and *Dolcelatte*, as well as certain delicatessen products (under the brand name *Casa Romagnoli*). Danone is also Italy's largest producer of yogurt with a market share of nearly 24%. In Spain, Danone has a

55.74% interest in Danone S.A., Spain's leading producer of fresh dairy products with a share of the Spanish market of approximately 53%. In Germany, Danone is the leader on the basis of net sales on a very segmented market. Danone also markets its products in Belgium and Portugal where it holds the number one position through locally established production subsidiaries and in the Netherlands, Denmark, the United Kingdom, Austria, Switzerland, Finland and Sweden through marketing subsidiaries and franchises handling Danone's product lines. Danone also owns a 50% interest in two large producers of fresh dairy products in Turkey and it has a 30% ownership interest in Delta Dairy's Greek subsidiary specializing in fresh dairy products.

In Central Europe, Danone is the leading producer of fresh dairy products in Poland, Hungary, the Czech Republic and Bulgaria. In each of these countries, the *Danone* brand name has one of the highest levels of brand awareness in the market. In addition, the Group has an important industrial presence in Russia and Romania and a strong marketing presence in the Ukraine, Croatia and the Baltic countries.

Danone is the leading producer of fresh dairy products, in terms of both net sales and volumes, in Latin America and the second leading producer in North America. Danone is in a leading market position in Brazil, Mexico, Argentina and Canada, and is the number two leader in the United States.

In Asia Pacific, Danone is present in China and in other countries such as Australia and Japan through licenses or joint ventures. In 2000, in exchange for a minority interest ownership in Shanghai Bright Dairy, leader in dairy products in China, Danone decided to entrust the company with the management of its current activities, with the goal of accelerating its development in China.

Danone also has minority interests in major producers of dairy products in Morocco, Tunisia and Israel. In South Africa, Danone has majority interests in Danone Clover and a 26.15% minority interest in Clover SA.

New Products. Danone is involved on a continuing basis in introducing new products and lines while guaranteeing a worldwide development as large and rapid as possible of the promising concepts. At the same time, Danone has focused on the renewal or relaunching of some key products in certain local product lines in order to better respond to consumers' expectations, in terms of recipes, formats or formulae.

In 1995, Danone introduced *Actimel* dairy product, using newly developed ferments, which is now sold in 14 countries and continues to enjoy a very strong growth. In 2000, net sales of *Actimel* increased 52.8% to € 251 million. A low-calorie version was launched in Belgium, Germany, the United Kingdom, Ireland and Austria, and will be introduced in other countries as well. Actimel was introduced on certain test markets in the United States in 2000.

Danone has continued to develop its line of drinkable yogurts, particularly adapted to new "nomad" and "snacking" consumer trends. Products launched in Central and Southern Europe (*Bio Drink* in Spain, for example) have seen successful results, as has *Danimals Drinkable*, a drinkable yogurt for children, in the United States, while the drinkable *Petit Gervais aux Fruits* was introduced in Mexico, the Netherlands and Germany. *Jockey Petit Encas/Danio*, a promising new product, was launched with excellent results in France, Poland, Austria, Spain and Russia, and *Vitalinea*, the very promising line of low-calorie products was successfully launched in Germany and Ireland.

Market Trends. Overall, the market for dairy products in developed countries has grown relatively steadily over the past years. This market has shown a marked acceleration in the United States in 2000, making it one of the most dynamic in the food industry in the country. In emerging countries, markets have generally enjoyed favorable conditions that have at times been affected by temporary economic difficulties. Management believes that the introduction of new products, particularly health-oriented products, desserts, drinkable yogurts and infant foods, will help Danone continue to improve its market position. In addition, Management believes that premiums often associated with innovative products

will help raise the total value of the market for fresh dairy products. Demand in the cheese market in Italy is expected to remain relatively stable overall, and Galbani is increasing its efforts to expand its presence in cheese markets in Europe outside Italy. Danone expects to see significant growth in demand for infant food in France, despite relatively low birth rates. Management believes that growth will be driven by the trends toward an increased consumption of convenience foods and the success of new and innovative product lines.

Beverages

Danone's beverage activities regroup packaged water, the remaining portion of beer operations after the divestiture of its activities in Europe in 2000 and other non-alcoholic beverages. In 2000, net sales of beverages were € 4.1 billion, of which 27% are accounted for by sales in France, 23% by sales in the rest of the European Union and 50% by sales in the rest of the world.

With 8.8 billion liters of packaged water sold and consolidated net sales of € 2.6 billion, Danone is the second leading producer of packaged water in the world and manufactures three of the four leading brands of bottled water in the world: *Evian*, *Wahaha* (China) and *Volvic*. Danone is also the second leading producer in Europe and in the United States, and the leading producer in Asia Pacific. In volume, the Group has a global market share of approximately 10% (taking into account the activities of Aqua, an Indonesian company 40% controlled by Danone whose net sales are not consolidated).

Principal Markets and Brand Names—Packaged Water. The Group maintains strong market shares in the European Union, where there is a long tradition of consumption of still and sparkling bottled water. Danone's principal market for bottled water is France, where Danone has approximately 24% of the national market in terms of volume, mainly through its *Evian, Volvic*, *Badoit*, *Salvetat* and *Arvie* brands. Danone is also the leading supplier of bottled water in Spain, with approximately 36% of the Spanish market through its *Lanjarón, Font Vella* and *Fonter* brands. In Italy, Danone is the leading supplier of sparkling water, through its Italaquae S.p.A. subsidiary, which markets the *Ferrarelle* (sparkling water) and *Boario* (still and sparkling water) brands. The Group is a main producer of still water with its *Evian* and *Volvic* brands in Germany and the United Kingdom, where the markets experience rapid growth. Danone also has a significant ownership interest in an important producer of bottled water in Turkey.

On the dynamic and rapidly growing U.S. market, the Group holds different solid and complementary positions making it the second supplier of packaged water in the country. Following the acquisition of McKesson Water Products Company at the beginning of 2000, the Group enjoys a significant presence in the home delivery market for large water containers. McKesson Water, especially strong on the West Coast of the United States, realizes a major portion of its profits from its *Sparkletts* brand products. Danone also markets *Evian*, a leader in the premium water sector and, in order to respond to a strong development of "core market" water, the Group launched bottled water under the brand name *Sparkletts* as well as the *Dannon* brand natural spring bottled water in 1996, which is today a leading brand of water in U.S. supermarkets. In Canada, the Group owns the Aquaterra Corporation, with the *Crystal Springs* and *Labrador* brands. In 2000, the Group also bought certain assets, including the brand name, from Naya, a key player on the Canadian market. Following this transaction, the Group controls approximately 30% of the Canadian market of packaged water and holds a solid number one position on this market.

In Latin America, Danone owns 100% of Bonafont, the leading Mexican producer of bottled water. Following the acquisition in 1999 of minority interests in Aguas Minerales and 100% of Termas Villavicencio, the Group now has a leading position in bottled water in Argentina. In 2000, the Group also acquired 57.34% of Salus, the market leader in water in Uruguay.

In Asia, Danone has an absolute leading position in packaged water, with a share of the total market of more than 20% in terms of volume (taking into account the activities of Aqua). In China, the Group has nearly 50% of the bottled water market following the acquisitions of Wahaha and Robust and, in 2000, sold almost 2 billion liters of water in this country. In 1996, the Group acquired a major interest in the leading Chinese producer of dairy drinks, marketed under the *Wahaha* brand name, which in 1997 began production and sales of bottled water. Due to the dynamism of the Chinese market and the popularity of its brand name and network distribution, Wahaha is currently the number one leader on the Chinese market of bottled water. With 1.1 billion liters of water sold, Wahaha became the second selling bottled water brand in the world. This company is also a major leader in dairy drinks and controls a significant share of the cola market. In 2000, the Group markedly reinforced its position in China by acquiring 92% of Robust, the number two leader in bottled water and dairy drinks. The Group also announced an agreement to acquire 50% of Acquarius Water, the leader in home sales of large quantity water supplies in Shanghai.

In addition, the Group owns a 40% participation in Aqua (accounted for under the equity method), the leader in the bottled water market in Indonesia, with a market share of 50%. In 2000, it sold 1.8 billion liters, of which approximately 70% in large containers. Starting at the beginning of 2000, Aqua markets its products under the brand name *Aqua Danone*.

In 2000, the Group completed its first transaction in water in Central Europe by creating a joint venture with San Benedetto, to enter the Polish market, one of the principal markets in this region.

New Products—Packaged Water. In 2000, the Group demonstrated innovative ideas by internationally launching a new 0.75 liter Evian "Nomad" bottle to meet new trends of consumption outside the home. Volvic was the first brand of French mineral water to market a family-size 5-liter bottle (integrating a spout). Different flavors of Volvic were introduced in the United Kingdom, a country where water consumption is rapidly growing, in order to satisfy the preoccupation of health/well-being at any time of the day. The Group also launched in different European countries bottled water under the *Danone* brand name, the first experiment of this kind in this region. Danone's *Taillefine/Vitasnella* water was marketed in France and Italy as dietetic waters, while a new concept of water enriched in minerals was launched in France, Belgium and the United Kingdom under the brand name *Danon Activ'*. These Danone waters meet a growing demand by consumers for products with specific functionalities. Furthermore, Danone signed a license agreement in 2000 with the group Johnson & Johnson pursuant to which Johnson & Johnson will launch a line of cosmetic products under the brand name *Evian Affinity*.

Market Trends—Packaged Water. Packaged water is one of the most dynamic segments of the world's food market due to consumption trends favoring safe and healthy food. Despite already relatively high levels of per capita consumption, the European Union market, the largest in the world, experiences steady growth. Outside the European Union, the global trend in consumption of bottled water has shown a regular progression. Certain countries, including the United States, China or Indonesia, are experiencing significant growth.

Biscuits

With net sales in 2000 of approximately € 3.3 billion, representing over 1.2 million metric tons, Danone is the world's second leading producer of biscuits. Danone's biscuit products include cookies and sweet snack products, which represent more than half of biscuit net sales, savory snacks, crispbreads and crackers, and packaged cakes and confectionery products.

Principal Markets and Brand Names. 34% of biscuit net sales are accounted for by sales in France, 28% by sales in the rest of the European Union and 38% by sales in the rest of the world. Danone's principal market for biscuits is France, where Danone was the leader with more than one-third of the

market in 2000. Danone's main product lines are marketed under the *LU* brand name and, with respect to crispbreads, the *Heudebert* brand name. Danone also has significant biscuit sales in the United Kingdom, where Danone markets its products under the *Jacob's* brand name. Danone is the market leader in Belgium, Ireland, the Netherlands and Greece and the second largest producer of biscuits in Italy.

In Central Europe, Danone is the market leader with a strong presence in Russia, the Czech Republic, Slovakia and Poland. Danone strongly reinforced its presence in Poland through its acquisition of the operations of United Biscuits. It also became a leader on the Hungarian market where it previously only had a limited presence.

In Latin America, Danone is the largest biscuit producer with a presence in Brazil, Argentina and Colombia. The Brazilian biscuit market is the fourth largest in the world based on volume, estimated at 900,000 tons and the largest market in Latin America. Danone, present with the brands *Danone* and *Triumpho*, reinforced its position in 2000 with the acquisition of 100% of Aymore, a large Brazilian producer of biscuits, therefore closely trailing behind the number one leader in the country. In Argentina, Bagley S.A. is one of the largest biscuit producers. In 1999, Danone also entered the Colombian market by acquiring 20% of the market leader Galletas Noel, with a market share of more than 50%.

In the Asia Pacific region, Danone is the market leader in terms of volume. In China, the second largest biscuit market in the world, Danone is the market leader in terms of volume and has registered sustained internal growth. Together with an Indian partner, Danone controls Britannia Industries Ltd, the leading producer of biscuits in India, the third largest market in the world in terms of volume. Danone is also the leading producer of biscuits in New Zealand, with over 60% of the market. In Malaysia, Danone is an important player and has reinforced its position by acquiring United Biscuits' operations. In Indonesia, it has a company that markets its products under the *Danone* brand name, and continues to grow steadily.

New Products. Danone's strategy for marketing and selling of new products tends to emphasize the nutritional qualities of biscuits as well as the geographic expansion of products with a high commercial potential. Danone has continued to introduce its range of low-calorie products (first introduced in 1997 in the Netherlands and Belgium) in various countries, using brands that are already familiar for fresh low-calorie dairy products in each country: *Taillefine* in France, *Vitasnella* in Italy, *Vitalinea* in other European markets and *Ser* in Argentina. This product line is now sold in 10 countries, including France, Spain, Italy, the United Kingdom, the Czech Republic and Argentina. More products have been added to this product line, such as light salted snacks or cereal bars introduced in France under the *Taillefine* brand name. The Group has also actively been marketing breakfast products for which it believes that biscuits have a high success potential. Product lines have been introduced in France under the brand names *LU Petit Dej'* and *Prince de LU*. In Central Europe, *LU Breakfast* was launched in Poland as well as *Opavia Bebe* in the Czech Republic. The *Tiger* biscuit products, targeted at the large number of consumers with limited budgets, continue to be successful in India and have been expanded to Indonesia, Malaysia and China.

Other Food Businesses

Net sales of grocery products in 2000 were approximately € 378 million. These products are mainly comprised of sauces such as *HP Sauce* in the United Kingdom, *Lea & Perrins* in the United States and *Amoy* in China. Danone also markets Asian-style grocery products under the *Amoy* brand name, which are exported to the European Union from Hong Kong.

Market Trends. While the market for traditional sauces has increased moderately over the last few years in developed countries the market for imported exotic sauces has continued to grow noticeably, and the market for sauces in Asia, and especially in China has shown strong growth.

Research and Development

Danone's overall research and development objective is to contribute to the Group's profitable growth by:

- insuring uncompromising food safety;
- contributing to the development of products to better respond to consumers' expectations in terms of nutritional value, taste or practicality; and
- designing innovative production processes in line with the Group's cost reduction policy.

Danone's research and development policy was significantly revised in 2000 in order to make it a major competitive advantage of the Group. To increase horizontality, efficiency and speed, the research and development teams will be regrouped in one global multidisciplinary center incorporating the three main activities, and research will be focused on a limited number of strategic projects. This center located in the Paris area close to a scientific and university environment is expected to be operational in 2002 and Management expects that it will employ approximately 600 people.

In order to conduct basic research related to nutrition, taste, and food processing and preservation, Danone regularly collaborates with outside groups such as universities and specialized public research centers. Danone has also established an international prize for research in nutrition or contribution to public health. Product development and improvement is the responsibility of research and development teams within Danone, which apply the results of both internal and outside research.

Danone spent € 125 million, € 122 million and € 120 million on research and development in 2000, 1999 and 1998, respectively, representing, for 2000, approximately 1.0% of total revenues. Danone's research and development staff is located principally in the European Union.

Purchasing

Raw Materials

Danone's principal raw material needs consist primarily of (i) materials needed to produce Danone's food and beverage products, including primarily fresh milk, flour, fruits, sugar, cocoa and fats or, collectively, food raw materials; and (ii) materials needed for packaging its products, including primarily plastics and light cardboard for cartons and glass containers or, collectively, packaging raw materials. Energy supplies represent only a small portion of the Group's purchasing. Management does not believe that the termination of its relationship with any one of its major suppliers of food or packaging raw materials would have a material adverse affect on its business. The Group's results of operation could be adversely affected by price increases or shortages of food and packaging raw materials. See "Item 3. Key Information—Risk Factors." The risk, however significant, is mitigated by the diversity of raw materials that it purchases and the broad geographical base of its major suppliers.

Food Raw Materials. Fresh milk represents the most important food raw material for the Group, in terms of cost. In each country where Danone requires fresh milk for the production of its dairy products, Danone's operating subsidiaries generally enter into contracts with individual local milk producers or dairy cooperatives.

In Europe, Danone purchases most of its milk at prices essentially set by the European Union or maintained by various national governments through quotas and duties. As a result, only a small proportion is purchased at fluctuating world prices. Increasing milk prices in Europe at the end of the first semester in 2000 were due to increased demand for powdered milk in Asia, which, because of the relative weakness of the euro, has led to bulk purchases on the European market. Purchasing for other food raw materials is managed through global or regional purchasing programs, allowing for synergies in terms of volumes and skills. Purchases take into account fluctuations in supply and demand, climatic

conditions and various controls exercised by public authorities regulating the markets in which the Group operates. Purchases of sugar and cocoa are handled with particular attention because the markets for these materials are highly concentrated, with a small number of intermediaries controlling a substantial portion of total supply.

Packaging Raw Materials. The Group also manages its purchases of packaging raw materials through global or regional programs. Pricing of packaging materials is influenced by international and regional supply and demand, installed production capacities and, more generally, by economic cycles and the price of oil. PET and rigid plastics represent nearly one third of the Group's total purchases of packaging materials. In 2000, the cost of PET and rigid plastics has increased due to the increase in oil prices and saturation of available industrial capacity.

CPGmarket.com

In 2000, Danone collaborated with Nestlé, Henkel and SAP to create the first European procurement Internet marketplace dedicated to the consumer products sector. This initiative, called CPGmarket.com, is expected to allow businesses to save time and money through 4 principal functions.

E-supply-chain. Uses a software system on the Internet to combine customer and supplier information systems and optimize flows.

E-requisitioning. A no-paper process, from order to delivery. The site contains an electronic products catalog, connects buyers and sellers, manages authorized spending limits and processes administrative procedures.

E-sourcing. This function covers the stages leading to the negotiation of the contract. Auctions are a type of sub-category of e-sourcing.

E-intelligence. Gathers all the information accessible on the marketplace (external information, reports on raw material prices, for example, or internal information).

CPGmarket.com, initially tried on a few test markets in July 2000, has been operational for Danone since October 2000 and will be used, as a first step, for the Group's purchases in Europe.

Brand Names and Promotional Strategy

Protection of Brand Names and Other Intellectual and Industrial Property

The Group has registered and non-registered trademarks and brand names throughout the world. The Group's brand names whose coverage extends internationally are registered in all relevant jurisdictions while others are registered only in accordance with their geographic coverage. The Group has established a chart of its intellectual property and regularly updates and revises its portfolio of products and brand names with each of its subsidiaries in order to monitor the protection of its brand names.

The Group is also the owner of patents, licenses and proprietary recipes, as well as substantial know-how and technologies related to its products and the processes for their production, the packages used for its products and the design and exploitation of various processes and equipment used in its business. Such trademarks, brand names, licenses, patents, proprietary recipes and know-how, which are held by the Company and several operational entities throughout the Group, represent major commercial assets for Danone. Danone is committed to taking appropriate legal steps to protect and exploit such intellectual and industrial property. See "Item 3. Key Information—Risk Factors." Danone's activities do not materially depend on the use of licenses or patents owned by third parties.

Advertising

The Group's advertising and promotional strategy constitutes a key element in the success of its overall strategy based on innovation, brand recognition and leadership. The Group dedicates significant resources to ensure the success of its advertising and promotional strategy and Management expects advertising costs, in relation to net sales, to remain at least at the same level in the future.

For several years, the Group has been following a policy of resource optimization by focusing on a few brands in order to maximize efficiency. Accordingly, more and more products have been introduced under leading brand names such as *Danone* or *Taillefine/Vitasnella*, currently used for fresh dairy products, water and biscuits. In addition, each subsidiary of the Group conducts an annual segmentation of its brand portfolio using internal methods in order to optimize the allocation of advertising budgets.

Danone's operating companies in each business line and geographic market are responsible for developing their own advertising, promotional and sales strategies adapted to local consumption patterns. The Group intends to maintain a decentralized marketing and sales structure in order to provide its operating companies with the proximity and flexibility necessary to respond and adapt to a broad and changing variety of market conditions. However, the Group has established a department of commercial strategies and marketing structures across product lines and geographic areas to ensure comprehensiveness of strategies, exchange marketing know-how and optimize costs.

The Group believes that direct marketing will continue to develop rapidly and has already concluded several projects with promising results, such as a consumer database in France. This centralized database, which contains nearly three million households, all consumers of Danone's products, allows the Group to regularly communicate with its customers through personalized mailing campaigns including Danoé, the Group's consumer magazine, and through selective promotions reserved for readers, including the annual promotional operation "*Bingo des Marques*" aiming at presenting the Group's different brands. The Group is also currently experimenting at an international level different ways of using the Internet as a prime vector for direct links with customers. In 2000, Danone established a centralized organization to develop and coordinate its worldwide Internet policy.

Customers and Distribution

Customers

While the final consumers of Danone products are individual retail customers, a significant share of Danone's sales are to major retail and grocery chains. The retail industry has become increasingly concentrated over the past several years and in many national markets such as France, Spain, Germany and Belgium, the Group's three largest clients represent together more than 50% of total net sales. This concentration, particularly advanced in Europe, is expected to increase in North America and emerging countries. Danone's largest customers in terms of net sales are located in France and Spain. In 2000, the Group's 15 largest customers worldwide accounted in the aggregate for approximately 37% of total consolidated net sales and included, in particular, five French retail chains. Danone's largest client, Carrefour, accounted for 11% of consolidated net sales in 2000.

The Group negotiates framework contracts with major retailers governing their global relations in the medium term. These contracts typically contain provisions concerning geographic expansion policy, logistical collaboration or management of food safety. However, they typically exclude pricing terms which remain within the domain of the Group's subsidiaries.

In recent years, certain European retail chains have rapidly expanded internationally. The Group benefits from this expansion by using existing commercial ties to introduce its products in certain international markets and therefore accelerates its own geographic expansion as well as the international development of its brands. In these new areas, most large retail chains seek to develop the marketing of brand name quality products, as their means of growth and profitability.

In emerging countries, particularly in Asia and Latin America, and at Galbani, a large portion of Danone's sales occur on traditional market outlets, through smaller distribution networks most often controlled by the Group. Following the acquisition of McKesson, a market leader in home and office delivery of packaged water in the United States, the Group has become a key player in direct sales of beverages.

Distribution

Although distribution policies vary in different countries due to local characteristics, the Group's policies regarding distribution is two-fold: the flow of merchandise designated for mass distribution and the flow designated for traditional market vendors.

The Group follows an active policy of rationalization of its distribution facilities in order to increase the quality of service while reducing its costs. This policy is based on an ongoing assessment of the Group's organizational models and the solutions that have been implemented. In this context, the Group has experimented with outsourcing for its distribution in certain countries in collaboration with specialized distributors.

The Group has undertaken several initiatives to work with its mass distributors to accelerate the development of product categories, to optimize the flow of merchandise and the inventory levels of its customers. These include efficient consumer response, or ECR, to achieve stock management, automatic stock replenishments and just-in-time delivery using electronic data interchange, or EDI, to coordinate stock levels in stores and at Danone's warehouses. ECR is also used to work with distributors to better manage consumer demand and expectations. Danone also works with its customers to develop marketing concepts to enhance its customers' sales, such as joint promotions for specific occasions or events.

Euro

The introduction of the euro could lead to greater transparency for the price of products and purchasing conditions and could change consumer's perception of prices, including psychological price thresholds. In Europe, in the Group's business lines, local customs have a strong influence on consumption habits, leading to variations in product presentations from country to country (product mix, portion sizes, packaging). While this situation should evolve over time, it is likely to do so slowly. Pricing differences from country to country for the same type of product are generally linked to objective, structural differences, such as labor costs, legal or fiscal regulations such as consumption taxes, V.A.T. and other specific taxes, or differences in logistical costs. Finally, price levels are also linked to marketing choices made in certain countries, even for the same product, or sales choices made by retail and grocery chains themselves in the context of local competition.

Food Safety and Quality Management

Food safety

Food safety is a paramount consideration. The Group has implemented a voluntarist policy of risk identification and control. Danone has created a food safety unit at its *Centre de Recherche Vitapole* that works to identify and analyze any microbiological, chemical or physical risks that may threaten the safety of the Group's products at any stage. This unit is supported by a scientific advisory board, comprised of ten internationally renowned experts, that advises the Group on emerging risks (such as antibioresistance) and provides additional analyses on currently known risks. For certain risks, such as pesticides and heavy metals, the Group has implemented certain monitoring programs while for others, such as allergic risks, the Group imposes preventive measures for all its subsidiaries that go beyond regulatory requirements. Danone's policy also includes the implementation of rigorous procedures for crisis management in order to guarantee consumer safety while maintaining the reputation of its brand

as well as the use of effective tracing tools to identify the origin of raw materials used, the procedures followed, the controls carried out and the customers to whom the products were sold.

Beyond risks that are scientifically established, the Group remains committed to keeping up-to-date on risks perceived by the consumer, such as genetically modified organisms. To this end, the Group has developed a network of privileged advisors, including consumer associations, that discuss and attempt to clarify, through various formal and informal forums, topics that are of common concern.

Quality Management

Quality management teams oversee quality systems and their implementation at each of Danone's subsidiaries. They are specifically concerned with: (i) the development of new products through organoleptic tests performed internally and by consumers, allowing for a clear vision of the products on the market as well as responding to consumers' needs; (ii) teaching skills to employees in quality control departments through specific training programs allowing for experience sharing and transfers of better practice between different subsidiaries; and (iii) developing quality control systems in each subsidiary. At December 31, 2000, two-thirds of Danone's industrial sites had been certified ISO 9000.

Regulatory and Environmental Matters

Regulatory Matters

In terms of production standards, ingredient and product quality and finished product labeling and sale, each of Danone's operational facilities is subject to applicable laws and regulations concerning prepared foods and beverages, in addition to Danone's own quality standards. Compliance with these laws and regulations is ensured internally by specialized personnel who provide expertise and advice to the subsidiaries that ultimately are responsible for complying with applicable standards. Furthermore, the regulation department represents the Group before parliamentary commissions and other governmental instances during the elaboration of public policy and drafting of regulatory texts.

Environmental Policy

Danone's environmental approach is based on a long-term strategy whose goal is to respond to consumer needs which are becoming increasingly concerned with the impact of industrial plants and production on the environment. In 1996, the Group's management established the basic principles of the Group's commitment to environmental protection through the adoption of an environmental charter which applies to each of Danone's facilities and divisions (research and development, purchases, marketing, industrial, headquarters) in all the countries where the Group operates. In 1991, the Group established the environmental services department to define and coordinate a general environmental policy in collaboration with a network of local correspondents. This policy focuses on three issues: industrial activity, packaging and agriculture-related issues.

Industrial Activity. In addition to ensuring that plants conform with local regulations, the Group is committed to reducing water and energy consumption and waste production through its "*Usines sobres*" project which entails closely monitoring performance indicators and includes a program of regular environmental audits of the plants by a specialized firm. At December 31, 2000, 39 plants were audited and the Company believes that the results indicate no major risks. At December 31, 2000, 25 industrial plants, three business headquarters and one research center were certified ISO 14001.

Danone's production facilities are subject to stringent laws and regulations concerning the protection of the environment. In certain cases, Danone sells products which may be, or become, the object of specific environmental legislation, most frequently regarding packaging. Possible changes in regulations regarding product packaging pose the most significant issue with respect to market access and may, in certain cases, require additional production costs or the temporary cessation of sales to particular markets in order to adjust packaging methods to meet the new standards.

Packaging. Management believes that the packaging of the Group's products can play a large role in the protection of the environment. Since 1992, Danone has been involved in the creation of "*Eco-Emballages*" targeted at improving the collection and recycling of packaging in France. In Europe, Danone has actively participated in decreasing waste packaging through "*Point Vert*" type organizations. Danone also strives to reduce waste by slightly lightening its packaging materials and by informing and educating various interested parties of product developments, in particular, through the publication of a manual on ecological packaging.

Agriculture. Most of the Group's raw materials are agricultural products. In order to preserve the environment without diminishing the quality of its products, the Group encourages farmers to adopt farming methods that are more environmentally friendly than traditional methods. Danone would like to gradually implement these techniques for its cereal and dairy farm suppliers whereby the use of fertilizer, phytosanitary products and water would be limited without negatively affecting profitability.

The Group's capital expenditures for environmental protection totaled approximately € 15 million in 2000. Management does not expect such expenditures to have a material impact on Danone's financial condition in the foreseeable future, although it is not possible to determine precisely the costs of complying with evolving environmental regulations. In addition, capital expenditures which may become necessary to reduce the environmental impact of certain operations, such as installing modernized production equipment with lower emission levels, frequently also result in lower-cost and more efficient production, thus offsetting a portion of the initial cost of such investments.

Competition

Competitors in Danone's core businesses include other large international food and beverage groups, smaller companies with focused markets or product lines and food retailing chains offering generic or private label products. The food and beverage sector is highly competitive due to the large number of national and international competitors. Management believes that Danone's strategy to maintain and improve its profitability is based on the quality, convenience, and innovative aspects of Danone's products and its image associated with health and food safety. Management believes that success in this industry is achieved through strong local market positions and therefore seeks to be the market leader in each country where it operates. This strategy allows for a long-lasting, balanced and constructive relationship with major distribution networks, by marketing key products yielding growth and profitability.

Because Danone's markets in the European Union tend to be relatively mature, competition for market share is particularly intense. Danone's strategy, complemented by a strong publicity campaign focusing on certain brands, is to differentiate itself from its competitors by marketing innovative, value-added products, responding to a growing demand among consumers for health-oriented/well-being food products.

Despite the generally mature food and beverage market in North America and intense competition, the Group has competitively penetrated this market through rapidly growing products (packaged water and fresh dairy products). In competition with other large food and beverage groups, Danone has based its strategy on its experience of managing value-added health-oriented products, locally marketing its diverse global product line and its past relations with major distribution networks.

In the rest of the world, essentially in emerging countries, competition in the Group's three business lines is high. This is due to the presence of local competitors who usually market products at very low prices, but is also due to the efforts of international competitors to penetrate or increase their profits in these markets. Danone's strategy has consisted in targeting these areas by marketing quality products that emphasize health and safety and are accessible to the greatest number of consumers.

Organizational Structure

The table below presents a list of the Company's principal operational subsidiaries by business line, including name, country of incorporation or residence, proportion of Danone's direct and indirect ownership interest and voting interest, if different, at December 31, 2000.

FRESH DAIRY PRODUCTS

EUROPE

Subsidiary	Interest
GERMANY	
Danone GmbH	99.92%
AUSTRIA	
Danone Ges.mbH	99.92%
BELGIUM	
Galbani Belgique	95%
N.V. Danone S.A.	100%
Stenval Belgique	97.08%
BULGARIA	
Danone Serdika	69.64%
DENMARK	
Danone A/S	100%
SPAIN	
Danone S.A.	55.74%
Danone Canaries (Iltesa)	43.87%
FINLAND	
Danone	100%
FRANCE	
Blédina	100%
Danone	100%
Galbani France	100%
UNITED KINGDOM	
Danone Ltd	100%
Galbani UK	95%
GREECE	
Delta Dairy	30.04%
HUNGARY	
Danone Kft	100%
IRELAND	
Danone Ltd	100%
ITALY	
Danone SpA	99.86%
Galbani	95%
THE NETHERLANDS	
Danone Nederland B.V.	100%
POLAND	
Bakoma	52.43%
(The Company only has 18.15% voting rights in Bakoma)	
Danone Sp zoo	100%
PORTUGAL	
Danone Portugal S.A.	53.82%
CZECH REPUBLIC	
Danone a.s.	97.81%
RUSSIA	
Danone Industria	99.99%
Danone Volga	88.28%
Mos Danone	51%
SLOVAKIA	
Danone Spol s.r.o	100%
SWITZERLAND	
Galbani Suisse	95%

AMERICAS

Subsidiary	Interest
ARGENTINA	
Danone S.A.	99.50%
Logistica Serenissima	50.84%
BRAZIL	
Danone S.A.	100%
CANADA	
Danone Inc.	100%
MEXICO	
Danone de Mexico	100%
UNITED STATES	
The Dannon Co.	93.79%

AFRICA AND THE MIDDLE EAST

Subsidiary	Interest
SOUTH AFRICA	
Danone Clover	66.77%
Clover SA Ltd	26.15%
ISRAEL	
Strauss Dairy	20%
MOROCCO	
Centrale Laitière du Maroc	20%
TUNISIA	
Stial-Socoges	50%
TURKEY	
Danonesa Tikvesli	50%

ASIA

Subsidiary	Interest
JAPAN	
Calpis Ajinomoto Danone	50%

BEVERAGES

EUROPE

Subsidiary	Interest
GERMANY	
Danone Waters Deutschland GmbH	100%
SPAIN	
Aguas de Lanjarón	78.52%
Font Vella	77.79%
Mahou	33.34%
FRANCE	
Evian	100%
Volvic	100%
Seat	100%
Smda	100%
UNITED KINGDOM	
Danone Waters (UK & Ireland)	100%
ITALY	
Italaquae	91.84%
POLAND	
Polska Woda	50%

AMERICAS

Subsidiary	Interest
ARGENTINA	
Aguas Danone de Argentina	100%
Villa Alpina	85%
CANADA	
Danone Waters of North America Inc.	100%
Naya Waters of Canada	100%
UNITED STATES	
Great Brands of Europe	100%
Danone Waters of North America, Inc.	93.79%
MEXICO	
Bonafont	100%
URUGUAY	
Salus	42.30%

MIDDLE EAST

Subsidiary	Interest
TURKEY	
Danonesa Danone Sabanci	50%

ASIA

Subsidiary	Interest
CHINA	
Hangzhou Wahaha group	41.01%
Robust group	79.79%
Haomen Brewery	63.24%
Shenzhen Health Drinks	54.20%
Wuhan Euro Dongxihu Brewery	54.20%
INDONESIA	
Aqua	36.14%

BISCUITS

EUROPE

Subsidiary	Interest
GERMANY	
Lu Snack Foods (Fonzie)	100%
Griesson De Beukelaer	39.97%
BELGIUM	
Lu Belgique	100%
DENMARK	
Lu Nordic	100%
SPAIN	
Lu Biscuits	100%
FRANCE	
Lu	100%
Heudebert	100%
Danone International Brands Paris	100%
UNITED KINGDOM	
The Jacob's Bakery	100%
GREECE	
Papadopoulos	60%
IRELAND	
Irish Biscuits	100%
ITALY	
Saiwa	100%
HUNGARY	
Györi Kelsz	100%
NORWAY	
Lu Norge	100%
THE NETHERLANDS	
Lu Nederland	100%
POLAND	
Lu Polska	75%
CZECH REPUBLIC	
Opavia Lu	99.54%
RUSSIA	
Bolshevik	73.43%
SWEDEN	
Lu Sverige	100%

AMERICAS

Subsidiary	Interest
ARGENTINA	
Bagley	91.28%
BRAZIL	
Danone S.A.	100%
COLUMBIA	
Galletas Noel	20%

AFRICA AND THE MIDDLE EAST

Subsidiary	Interest
MOROCCO	
Bimo	50%
TUNISIA	
Société Tunisienne de Biscuiterie	20%

ASIA

Subsidiary	Interest
CHINA	
Jiangmen Danone Biscuits	90.34%
Shanghai Danone Biscuits Foods Co. Ltd	54.20%
INDIA	
Britannia Industries Ltd.	18.39%
INDONESIA	
PT Danone Biscuits	90.34%
MALAYSIA	
Britannia Brands Malaysia	90.34%
Evercrisp Manufacturing (Keebler)	90.34%
NEW ZEALAND	
Griffin's Foods	90.34%
PAKISTAN	
Continental Biscuits Ltd	44.71%

OTHER

FOOD ACTIVITIES

Subsidiary	Interest
UNITED STATES	
Lea & Perrins	100%
UNITED KINGDOM	
HP Foods	100%
CHINA	
Amoy	90.34%
Shanghaï Amoy Foods	60.53%

GLASS CONTAINERS

Subsidiary	Interest
FRANCE	
BSN Glasspack	44%
ITALY	
Bormioli rocco e Figlio S.p.A.	16.3%

Property, Plants and Equipment

Danone operates production facilities located around the world in its principal markets. At December 31, 2000, Danone had 170 production sites, with approximately 41% of its sites in Europe (16% in France, 13% in Italy and Spain and 12% elsewhere in Europe); 25% in Asia and the Pacific Rim, including China, Hong Kong, New Zealand, India and elsewhere in East and Southeast Asia; and 24% in North and South America, including plants in the United States, Canada, Argentina, Brazil and Mexico. The table below sets forth the total number of Danone's facilities and total production by main business line at December 31, 2000.

Business line	Number of plants	Total Production in 2000 (thousands of tons or millions of liters)
Fresh Dairy Products	49	3,058
Beverages	62	8,236
Biscuits	51	970
Other Food Businesses	8	128

Although Danone's production facilities are numerous and widely dispersed, certain facilities are particularly important centers of production. Danone's three largest fresh dairy products facilities are located in the United States and France, with the two U.S. facilities accounting for approximately 54% and 32% of Danone's capacity for producing yogurt in the United States and the French facility accounting for approximately 28% of Danone's production capacity for fresh dairy products in France. Danone's two largest sources of bottled water, both located in France, account for approximately 19% and 12% of Danone's total production capacity for bottled water, and its third largest source, located in Italy, accounts for approximately 9%.

Danone's general policy is to own its production facilities. Danone's central management conducts periodic reviews of its production sites to consider possibilities for improving efficiency and safety, and on the basis of such reviews, establishes plans for the expansion, specialization, upgrading and modernization or closing of specific sites. In 1998, 1999 and 2000, Danone spent a total of € 711 million, € 703 million and € 798 million, respectively, mainly on plant expansions, modifications or upgrades. Danone believes that its production facilities are well maintained according to international standards in the food industry and generally adequate in terms of production capacity and quality standards to meet Danone's needs for the foreseeable future.

For a discussion of Danone's restructuring plan for its biscuit operations in Europe, and the impact of this plan on European biscuit plants, see "Item 5. Operating and Financial Review and Prospects—Recent Events—Reorganization of the Biscuit Business."

Item 5. Operating and Financial Review and Prospects

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

The Company provides on a regular basis certain period-to-period comparisons calculated on a comparable basis to eliminate the effects of changes in exchange rates between the euro and other currencies and the Group's scope of consolidation. In such context, comparable basis means that the Group recalculates the financial information with respect to the earlier period (for purposes of the comparison) to give effect to:

- the exchange rates applied in the later period to convert foreign currency amounts into French francs which in turn are converted into euros ("constant exchange rates"); and
- changes in the Group's scope of consolidation resulting from acquisitions and dispositions which, on a historical basis, first took effect in the later period.

In the event that a change in the scope of consolidation is applicable to only a portion of the later period, the financial information for the earlier period is recalculated to give effect to such change for the corresponding portion of such earlier period. Also, for purposes of such recalculation, financial information with respect to acquired companies for the period preceding their acquisition by the Group is generally based on financial information for the relevant period prepared by such acquired companies prior to their acquisition by Danone. Period-to-period comparisons made herein in "constant currency terms" reflect changes in the euro value of the relevant financial information using constant exchange rates for both the earlier and the later periods.

Overview

Refocusing Strategy

Consistent with its strategy to focus on its three core business lines (fresh dairy products, beverages and biscuits), between 1998 and 2000, the Group sold its grocery activities, excluding sauces, that it still owned at the end of 1997, 56% of its glass containers business, and a majority of its beer activities.

In the beginning of 1998, the Group sold its Spanish pasta business, its French fresh pasta activities, its New Zealand sauce business and Stoeffler, a company specialized in Alsatian delicatessen. At the end of 1998, the Group sold all pasta and canned ready-to-serve dish activities conducted by Birkel Sonnen Bassermann in Germany and the clinical nutrition operations of Blédina.

In 1999, Danone sold its Spanish frozen dishes activities, its French ready-to-serve frozen and fresh dishes activities marketed under the *Marie* brand name, its adult dietary activities in France (principally sold under the *Gayelord Hauser* and *Athlon* brand names), as well as its ownership interest in the Italian grocery company Star, for a total of € 581 million. In addition, in July 1999, Danone sold 56% of its ownership interest in the company holding its glass containers business to a group of financial investors for € 451 million.

During the first half of 2000, Danone sold its Australian ready-to-eat dishes activities and during the second half of the year, the Group completed its withdrawal from European beer activities previously announced in March 2000. The Group sold all the assets of its subsidiary Kronenbourg (with the exception of the *Kronenbourg* brand name), its financing and distribution subsidiaries and its Belgian subsidiary Alken Maes, to the British brewer company Scottish & Newcastle in exchange for

various securities of Scottish & Newcastle, including 24,063,213 ordinary shares, representing approximately 4% of the total share capital of Scottish and Newcastle plc. The Group has the option to sell its remaining assets for approximately € 2.4 billion or to transfer them to the Scottish & Newcastle beer business in exchange for a minority ownership interest therein. In addition, the Group sold its 69% ownership interest in San Miguel to Mahou (33% of which is owned by the Group) as well as its ownership interest in Birra Perroni SA. In total, the activities sold in 2000 represented approximately € 1.5 billion in net sales on a full year basis. For additional information about these transactions, see "Item 10. Additional Information—Material Contracts."

Under its agreement with Scottish & Newcastle, the Group may be exposed to certain liabilities relating to the European Commission's investigation concerning alleged anti-competitive practices in France and Belgium in contravention to Article 81 of the Treaty of Rome. On September 29, 2000, the European Commission served five companies, including Alken Maes, with a statement of objection concerning the Belgian market, in which the Commission alleges that between 1993 and 1998, Alken Maes was involved in practices that did not comply with EC competition rules. Since October 1999, when the investigation was launched, Alken Maes has willingly ended the exchange of information between brewers relating to sales, thus putting an end to the last such practice in this matter. Alken Maes has fully cooperated with the Commission and requested leniency as provided for in the EC regulations and typically granted in similar situations where the investigated company cooperates with the Commission. The investigation initiated in January 2000 in France, to which Brasseries Kronenbourg is subject, is still in process, and the Group believes it will be a few months before the Commission can issue a notice of grievances. Pursuant to the terms of an indemnification agreement, the Group must indemnify Scottish & Newcastle for any and all fines imposed by the Commission with respect to Alken Maes and Kronenbourg. The Group has also agreed to indemnify Scottish & Newcastle for any direct loss incurred as a result of third party legal proceedings based on the matters that the Commission is investigating. Management cannot predict with certainty the outcome or the financial consequences of the proceedings. However, based on its assessment of the situation, Management does not believe that its potential liability could have a significant negative impact on its financial condition, especially in light of the Group's potential cash payment of approximately € 2.4 billion if it exercises its put option on Scottish & Newcastle.

Acquisitions and Investments

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

The Group's principal financial investments during the first half of 2000 were:

- the acquisition of McKesson Water Products Company, the third largest supplier of water in the United States and the leader on the U.S. West Coast;
- the acquisition of Robust, a leader in water and other beverages in China;
- the acquisition of Flora Su, specialized in home- and office-water delivery in Turkey;
- the acquisition of certain of United Biscuits assets in England, Scandinavia, Hungary, Italy, Malaysia and Singapore;
- the acquisition of a large portion of assets of the Canadian water company Naya;
- the repurchase of minority shareholders' interests in the Brazilian biscuit company Aymore;

- the formation of a joint-venture with San Benedetto with the objective of penetrating the water market in Poland; and
- the acquisition of a minority stake in the Japanese company Yakult, specializing in probiotic foods.

During the second half of 2000, the Group continued to expand internationally with several acquisitions, including:

- the acquisition of a 51% ownership interest in the Argentinian distribution company Logistica Serenissima;
- the acquisition of a 57.34% ownership interest in Salus, leader in the mineral water market in Uruguay and number two in the beer market, through a holding company in which the Group owns 73.75%; and
- the acquisition of a newly-created Brazilian company, which includes the brand *Paulista* and the fresh dairy product activities and long-life milk of Cooperativa Central de Laticinios of the Sao Paulo state.

Also in 2000, the Group concluded a strategic alliance with Shanghai Bright Dairy, leader of fresh dairy products in China, with a view to integrating its own activities (Shanghai Danone Dairy and Guangzhou Danone Yogurt). Concurrently, the Group took a 5% ownership interest in Shanghai Bright Dairy's capital.

In 1999, financial investments consisted primarily of the acquisition of Termas Villavicencio, the leader in Argentina for bottled water and the acquisition of the remaining equity interests in Aguas Minerales and Bagley, as well as equity investments in dairy products companies in Poland and Turkey, and in biscuit companies in Morocco and Tunisia.

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

In 2000, total acquisitions costs amounted to € 2,531 million and increases in ownership interest amounted to € 318 million. Danone generally finances its acquisitions with cash from its operations or debt, or a combination of both. See below "—Liquidity and Capital Resources". In 1999 and 1998 total acquisition costs amounted to approximately € 426 million and € 238 million, respectively, and total equity investments amounted to approximately € 359 million and € 157 million, respectively.

These foregoing acquisitions or investments, in the aggregate, had a considerable impact on Danone's consolidated financial statements and the Group's operating income.

Changes in Scope of Consolidation

In 2000 and 1999, the consolidation of newly acquired businesses did not compensate for the loss of net sales resulting from divestitures, which had a significant impact on the scope of consolidation. The impact, in terms of lost net sales, amounted to approximately € 511 million in 2000 compared to 1999, and approximately € 360 million in 1999 compared 1998, taking into consideration the dates these operations were realized.

In 2000, Danone consolidated for the first time certain beverage activities in the United States, Canada and China, Logistica Serenissima in Argentina, as well as the activities acquired from United Biscuits. Aymore, a Brazilian biscuit company, which previously had been accounted for under the equity method, was fully consolidated in 2000. In addition, in 2000, Danone accounted for under the

equity method its biscuit companies Bimo (Morocco), Sotubi (Tunisia) and Galletas Noel (Colombia), its water company Flora Su (Turkey) and its fresh dairy products company Bakoma (Poland).

For more information on changes in the scope of consolidation for 2000 and 1999, please see Note 5 to the Consolidated Financial Statements included elsewhere in this annual report.

Seasonality

Seasonal consumption cycles affect certain of Danone's product markets, which can have an impact on Danone's quarterly and annual results. In particular, packaged water experiences peak demand during the second and third quarters, and demand for biscuits is generally the strongest during the fourth quarter of each year. As a result, Danone usually records its lowest quarterly net sales during the first quarter of each year. In addition, in years with relatively cool summer temperatures, sales of packaged water, as well as total net sales for the year, may be adversely affected. Conversely, warmer temperatures can stimulate demand and thus favorably impact net sales, as happened in the first half of 1998.

Other factors

Inflation has not had a material impact on the Group's consolidated results of operations in the last three years, since the rate of inflation in the Group's principal markets during such period has on an overall basis been relatively low. Other factors affecting Danone's business activities and results of operations include raw materials prices, competition, economic conditions and consumer spending power in countries where the Group operates, fluctuations of exchange and interest rates and certain government actions.

Transition to the Year 2000

The transition to the year 2000 for the Group's computer software and electronic equipment did not have any material effect on the Group's business.

The Euro

In 1997 and 1998, the Group studied the impact of the introduction of the euro on its operations and, in 1999, entered into the transition period which is to last until the end of 2001. Beginning in 1999, the euro is the currency used for intra-group billings as well as for all cash operations. Since 1998, the Group prepares its financial statements in euros and provides French francs convenience translations for certain principal items.

In 2000, the Group's companies in the euro zone prepared for the transition to the euro in their internal accounting, financial and payroll systems in order to complete the transition during the first quarter of 2001. The euro became the Group's internal currency starting in 2001.

The use of the euro was introduced to the Group's customers on a trials basis in 1999 and continued in 2000 with several large distributors, particularly in France, Belgium and starting in 2001, in Ireland, Spain and Germany. In these cases, all billing and payment operations are completed in euros. In addition, the Group's companies in the euro zone have adopted the euro for their dealings with their principal suppliers. In 2001, the transition to the euro will be extended to the Group's other customers and suppliers, including small and medium-sized businesses.

Consumers are likely to be affected by the introduction of euro coins and bills due to enter circulation on January 1, 2002. During the second half of 2001, communication campaigns by public authorities as well as initiatives of banks and large retailers will aid in facilitating this shift for the period during which the euro will co-exist along each country's national currency. The double circulation period is due to end in February 2002. In order to help consumers adjust to the new

reference system in euro, Danone, in partnership with its distributors, has agreed not to change the price of its products between November 1, 2001 and March 1, 2002, absent exceptional circumstances.

Recent Events

Recent Acquisitions

In January 2001, the Group entered into an agreement with the Group Al-Faisaliah regarding certain activities of Al Safi, one of the principal leaders for fresh dairy products in Saudi Arabia, including the creation of a new entity called Al Safi-Danone, 50.1% owned by Danone. For the activities covered by the agreement, Al Safi had net sales of € 165 million and has more than 450 refrigerated trucks that deliver to 18,000 selling points each day.

In March 2001, the Group entered into an agreement giving it an option to increase its participation in the Group Aqua from 40% to 74%. Aqua is the market leader for packaged water in Indonesia, one the most dynamic markets in the world and experienced strong growth due to a successful partnership between Danone and other shareholders since 1998.

In April 2001, Danone announced that it had entered into a partnership agreement with the shareholders of Zywiec Zdroj for the acquisition of a 50% interest in the company. Zywiec Zdroj is the market leader in bottled water in Poland, with a market share of approximately 15%. In 2000, it had turnover of € 35 million, three factories and employed 280 people. The consummation of the transaction is subject to the approval of the Polish antitrust authorities.

In early May 2001, the Group announced the acquisition of 50% of Pureza AGA, the second largest supplier of packaged water on the Mexican home and office delivery market. Pureza bottles and distributes purified water to residential and commercial outlets in Mexico City and in other large cities of Mexico. Pureza has 10 plants and employs more than 3,800 people. Mexico is the largest home and office delivery market and the second packaged water market in the world with more than 13 billion liters sold in 2000. The brand *Pureza AGA* was launched in 1950 and holds the number two position in the country. It is also the fifth largest brand of packaged water in the world. The combination of Pureza AGA's strong position in the home and office delivery market with the Group's leadership position in the retail bottled water market with the *Bonafont* brand, gives the Group overall leadership, in terms of value, of the packaged water market in Mexico.

In addition, from January 12 to January 25, 2001, the Group made a public takeover offer for the remaining shares of Mecaniver, a Belgium company that controls the Group's principal subsidiaries in the United States, and which is already 89% owned by Danone. The price of the offer was € 631 per share, for an aggregate purchase price of approximately € 123 million. Following the close of the public takeover offer, 2,000 shares, representing 0.11% of the total outstanding share capital of Mecaniver, had not been tendered. From February 2 to February 22, the Group made a squeeze-out offer for these shares under the same conditions as the public takeover offer and at the conclusion of this offer, Danone owned 100% of Mecaniver's share capital.

Reorganization of the Biscuit Business

In March 2001, Danone presented its plan to reorganize its European biscuit business to employee representatives. The reorganization project is intended to enhance the competitiveness of the biscuit division on a European scale by developing large capacity factories coupled with a network of smaller specialized factories. Management believes that this reorganization, based on specific commitments of the Group and principles of industrial organization, is necessary for maintaining the competitiveness of its European manufacturing capability.

The Group has articulated its plan along specific guidelines to minimize the adverse impact on its employees and the communities in which they live by (i) favoring the maintenance of volume produced

in each country and by favoring in-house production over subcontracting, and (ii) implementing the project over two to three years in order to facilitate the re-qualifying or re-employment of employees concerned as well as the re-industrialization of sites concerned.

The Group's plan also reflect the following principles of industrial organization: (i) to develop sites which can increase volume and which have the most favorable cost structure; (ii) to rationalize the production through a specialization at each site which in turn will result in a higher utilization of production lines; and (iii) to rely on a network of smaller, specialized sites, for which transfer of production to other units would not have contributed significantly to reducing costs.

As a result of the reorganization, of the 36 existing biscuit factories in Europe:

- Five sites would be developed without major structural investment in view of their ability to significantly increase volume of production and their competitive cost structures. These sites would therefore be specialized on a limited number of technologies and would see a significant increase in production volume and workforce;
- Twenty sites of smaller capacity that respond to local demand or have specific technologies not justifying a transfer to more effective costs, would not be affected by this project and would continue their activities;
- Five sites would be reorganized with limited reductions in workforce to maintain their industrial competitiveness; and
- Six sites in five countries that cannot be developed at competitive cost would be closed permanently. Production from these sites would be transferred to sites in the same country.

Management expects to record a provision of € 250 million in 2001 in connection with the plant closures.

Unaudited First Quarter Sales

On April 12, 2001, the Group announced its unaudited first quarter net sales as set forth in the table below.

	Three months ended March 31,		
	2000	**2001**	**% change**
	(€ in millions)		
By Business Line			
Fresh Dairy Products	1,578	1,692	7.2%
Beverages	933	860	(7.8)%
Biscuits	727	786	8.1%
Other food businesses	90	89	(1.1)%
Intra-group sales	(3)	(4)	—
Total	3,325	3,423	3.0%
By Geographic Area			
France	1,122	998	(11.0)%
European Union (excluding France)	1,204	1,190	(1.2)%
Rest of World	1,193	1,453	21.8%
Intra-zone sales	(194)	(218)	—
Total	3,325	3,423	3.0%

Consolidated net sales for the three-month period ended March 31, 2001 amounted to €3,423 million, an increase of 3.0% compared to the same period in 2000. On a comparable basis, consolidated net sales for the three-month period ended March 31, 2001 increased by approximately 6.6% compared to the same period in 2000 as acquisitions and divestitures reduced sales by 5.0% (deconsolidation of the European beer business sold in 2000 has not been offset by newly consolidated subsidiaries) and exchange rates fluctuations led to a 1.4% increase.

Consolidated Results of Operations

The tables below present (i) the principal components of Danone's net income in euros and as a percentage of net sales and (ii) the Group's net sales, operating income and operating margin by main business line and geographic area for each of the years ended December 31, 1998, 1999 and 2000. The information below should be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included elsewhere in this annual report.

	Year ended December 31,					
	1998		1999		2000	
	(€ in millions, except percentages)					
Net sales[1]	12,935	100.0%	13,293	100.0%	14,287	100.0%
Cost of goods sold	(6,807)	52.6%	(6,663)	50.1%	(6,973)	48.8%
Selling expenses	(3,650)	28.2%	(3,964)	29.8%	(4,453)	31.2%
General and administrative expenses	(852)	6.6%	(913)	6.9%	(950)	6.6%
Research and development expenses	(120)	0.9%	(122)	0.9%	(125)	0.9%
Other income and expense	(213)	1.6%	(240)	1.8%	(236)	1.7%
Operating income	1,293	10.0%	1,391	10.5%	1,550	10.8%
Non-recurring items	(44)	0.3%	2	—	23	0.2%
Interest expense	(146)	1.1%	(131)	1.0%	(193)	1.4%
Provision for income taxes	(433)	3.4%	(499)	3.8%	(562)	3.9%
Minority interests	(97)	0.7%	(110)	0.8%	(130)	0.9%
Net earnings of equity method companies	25	0.2%	29	0.2%	33	0.2%
Net income	598	4.6%	682	5.1%	721	5.0%

(1) Net sales are stated net of excise taxes and discounts, except for one-time promotional discounts which are treated as selling expenses.

	Net Sales			Operating Income			Operating Margin[1]		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
	(€ in millions, except percentages)								
By Business Line									
Fresh Dairy Products	5,665	5,981	6,530	621	655	712	11.0%	11.0%	10.9%
Beverages[2]	3,004	3,565	4,141	368	440	513	12.3%	12.3%	12.4%
Biscuits	2,607	2,822	3,255	203	222	282	7.8%	7.9%	8.7%
Other food businesses[2]	905	527	378	29	39	49	3.2%	7.4%	13.0%
Glass containers[2]	932	501	—	91	51	—	9.7%	10.2%	—
Intragroup sales[3]	(178)	(103)	(17)						
Unallocated expenses				(19)	(16)	(6)			
Total	12,935	13,293	14,287	1,293	1,391	1,550	10.0%	10.5%	10.8%
By Geographic Area									
France	5,042	4,963	4,298	589	587	526	11.7%	11.8%	12.2%
Rest of European Union	5,267	5,084	5,273	475	501	541	9.0%	9.9%	10.3%
Rest of the World	3,303	3,960	5,512	248	319	489	7.5%	8.1%	8.9%
Intragroup sales	(677)	(714)	(796)						
Unallocated expenses				(19)	(16)	(6)			
Total	12,935	13,293	14,287	1,293	1,391	1,550	10.0%	10.5%	10.8%

(1) Operating income as a percentage of net sales.

(2) In 1998, 1999 and 2000, the Company sold its pasta, ready-to-serve dishes, sauces businesses, the majority of its ownership in its glass containers business and its European brewery activities.

(3) Intra-group sales principally include sales of products between companies that are in different divisions (principally sales of glass containers to the beverage business in 1998 and 1999).

Results of Operations for the Years ended December 31, 1999 and 2000

Net Sales. Net sales are stated net of excise taxes and discounts, except for one-off promotional discounts which are treated as selling expenses. Net sales increased by 7.5% to € 14,287 million in 2000 from € 13,293 million in 1999. This increase in net sales is due to a 7.0% internal growth and the positive impact of currency conversion rates (4.6%) partly offset by a net negative effect (4.1%) of changes in the consolidation of the Group's activities. The impact on consolidation results from a loss in net sales (related to activities sold in 1999 and 2000) greater than net sales generated from new acquisitions. The currency conversion effect is mainly due to the strong rise of the American dollar and the Chinese yuan.

On a comparable basis, consolidated net sales increased 7.0% in 2000 over 1999, compared to 5.7% in 1999 over 1998. Danone showed its best performance in the past ten years, constituting one of the highest levels experienced by a large international food and beverage industry group in 2000. This increase in consolidated net sales is due to a strong increase in volumes (5.1%), particularly in beverage volumes other than beer (11.7%), and a better valuation of products sold.

The Group's four leading brands: *Danone*, *Evian*, *LU* and *Wahaha* contributed by more than 75% to internal growth. Compared to 1999, these brands showed a 11.4% growth with the brand *Danone* alone accounting for 12.2% of this figure, thus representing more than a third of the Group's consolidated net sales.

Geographically, internal growth in net sales was 5.6% in the European Union. France accounted for 5.2% of 2000 growth in net sales and the rest of the world for 9.4%. The increase in net sales outside the European Union was principally driven by Central European countries and Asia.

Growth rates varied throughout the year, as shown below:

1st Quarter	8.1%
2nd Quarter	8.2%
3rd Quarter	6.3%
4th Quarter	5.4%

Net sales in the second half of 2000 suffered because of unfavorable weather conditions which had a negative effect on sales of packaged water in Western Europe and the East Coast of the United States.

Cost of Goods Sold. Costs of goods sold correspond to production costs, including costs of raw materials (food and packaging), labor costs and depreciation. Costs of goods sold increased 4.6% from € 6,663 million in 1999 to € 6,973 million in 2000. However, costs of goods sold decreased 130 basis points, from 50.1% to 48.8% of net sales. This decrease is primarily due to the Group's continued efforts to increase productivity, which partly offset the negative impact of higher prices of food raw materials (such as milk) and packaging raw materials (plastics, in particular). These efforts focused on industrial performance, the improvement of the supply chain and the international program of optimizing purchases, resulting in cost savings of more than € 100 million in 2000. Furthermore, the Group now benefits from synergies resulting from the critical size reached by a number of subsidiaries in emerging countries.

Selling, General and Administrative Expenses. Selling expenses correspond to advertising and promotional expenses, distribution costs and structural costs relating to sales force. Selling expenses increased from € 3.964 million in 1999 to € 4.453 million in 2000. As a percentage of net sales, these expenses increased from 29.8% to 31.2%, due primarily to distribution costs in connection with the integration of the packaged water home-delivery activities acquired in 2000 and a 7.9% increase in advertising costs, on a comparable basis. At the same time, costs related to product promotions have slightly increased, reflecting the Group's strategy of reinvesting productivity gains in advertising to strengthen core brand recognition and as well as its shift away from price cuts and promotions.

General and administrative expenses increased slightly in 2000, due to the growth of the Group, to € 950 million, or 6.7% of net sales, from € 913 million or 6.9% of net sales in 1999.

Research and Development Expenses. Research and development expenses increased 2.2% from € 122 million in 1999 to € 125 million in 2000. As a percentage of net sales, however, these expenses remained relatively stable for both periods at 0.9%.

Other Income and Expense. Other income and expense primarily includes employee profit sharing and goodwill amortization. Other income and expense decreased from € 240 million in 1999 to € 236 million in 2000. This decrease is a result of (i) an increase in goodwill amortization costs from € 93 million in 1999 to € 124 million in 2000 related to various acquisitions during the year, and (ii) royalties of € 37 million received from Scottish & Newcastle for its use of the *Kronenbourg* brand. Legally required employee profit sharing remained stable at € 122 million compared to € 125 million in 1999.

Operating Income. Operating income increased 11.4% from € 1,391 million in 1999 to € 1,550 million in 2000. On a comparable basis, this increase of more than 13.0%, substantially higher than the increase in net sales, reflects an improvement in the operating margin (from 10.5% in 1999 to 10.8% in 2000), despite the worldwide price increase in plastic raw materials and in milk in Europe.

The 30 basis points increase in the operating margin reflects a 20 basis points decrease due to the changes in the Group's consolidation which was largely offset by an increase of 50 basis points in

profitability of the operating activity driven by an increase in volume, in particular of value-added products, which largely offset the increase in advertising expenses.

Non-Recurring Items. In 2000, non-recurring items resulted in a € 23 million increase in consolidated income before tax and minority interest. These non-recurring items correspond to (i) € 156 million capital gains associated with the disposal of beer activities in Europe, (ii) € 92 million in assets impairment (including € 69 million for impairment of the brand *Bagley* in Argentina), and (iii) € 41 million in restructuring costs. Restructuring costs correspond mainly to the completion of the logistics externalization project of Danone Spain and the concentration of its industrial production capacity.

Interest Expense. Net interest expense increased from € 131 million in 1999 to € 193 million in 2000. This increase was primarily due to significant financial investments and shares bought back by the Company, pursuant to its share buy-back program.

Provision for Income Taxes. The Group's provision for income taxes increased 12.7% from € 499 million in 1999 to € 562 million in 2000 and includes a charge of € 68 million for capital gains associated with disposals. The Group's effective tax rate was 40.75% in 2000 compared to 39.5% in 1999. The amortization of goodwill, which is generally non-deductible, impacts the effective tax rate of the Group by approximately 3 points; the impairment of the brand which is also non-deductible also impacts the effective tax rate. Capital gains and losses associated with disposals were specifically taxed. Excluding capital gains and losses and impairment charges, the effective tax rate decreases from 39.9% in 1999 to 37.5% in 2000, in particular due to dividends received on the shares and other securities of Scottish & Newcastle, which are taxed at a reduced rate.

Minority Interests. Minority interests increased from € 110 million in 1999 to € 130 million in 2000. This increase resulted from the improved operating results of companies in which Danone holds significant minority interests (primarily in China, India and Spain).

Net Earnings of Equity Method Companies. Net earnings of equity method companies increased from € 29 million in 1999 to € 33 million in 2000. This increase was principally due to the € 5 million net positive effect of variations in the Group's consolidation (the addition of Bimo, Sotubi, Galletas Noel and Bakoma, increased participation in Calpis Ajinomoto Danone, the termination of the Minute Maid operations and the disposal of Star and Delta Dairy's non-fresh dairy product activities).

Net Income. In 2000, the Group's net income amounted to € 721 million, compared to € 682 million in 1999. This figure takes into account a net balance of capital gains and losses resulting from disposals and non-recurring assets impairment of € 1 million after taxes and minority interests (or € 64 million before tax and minority interests), compared to a positive net balance of € 29 million after taxes and minority interests (€ 39 million before deductions) in 1999. Excluding these non-recurring items, net profit increased by 10%.

Net Income per Share. Following the two-for-one stock split which occurred on June 5, 2000, the diluted net income per share increased by 8.7% from € 4.69 per share in 1999 to € 5.10 per share in 2000. This increase results from the combined positive effect of the increase in net income and the Company's share buy-back program. Excluding net capital gains and losses and non-recurring assets impairment, net profit per share is € 5.09, an increase of 13.2%.

Net sales, Operating Income and Operating Margin by Main Business Line

Fresh Dairy Products. Net sales of fresh dairy products increased 9.2% from € 5,981 million in 1999 to € 6,530 million in 2000, with a negative consolidation impact of 0.9% and a positive currency conversion effect of 3.4%. On a comparable basis, net sales of fresh dairy products increased 6.7%, a marked acceleration from the 5.4% increase in 1999. Net sales of yogurt and similar products recorded

the highest growth with an increase of 8.8%. Almost all of the Group's companies experienced net sales increases, along in many cases, with an improvement in local market share.

Operating income improved 8.7% from € 655 million in 1999 to € 712 million in 2000 while operating margin remained relatively stable at 10.9%. This improvement is due to the positive impact of newly introduced and innovative products such as the line of drinkable yogurt products for adults and children, the growth of products with strong margins such as *Actimel*, increased advertising and improvement in productivity. Together, these elements minimized the negative impact of higher raw material costs, mainly plastics and milk. This business line has continued to benefit from its innovative potential and an organization that allows the exchange of best practices amongst its subsidiaries.

Beverages. Net sales of beverages increased 16.2% from € 3,565 million in 1999 to € 4,141 million in 2000, with a 0.7% impact of consolidation and a currency conversion effect of 7.1%. On a comparable basis, net sales of beverages increased 8.4%, including an increase of 0.9% for beer activities and 10. 7% for other activities. In Europe, net sales increased by 11.4%, which represents a progression greater than the market average due to the strength of its brands and favorable product mix. Outside of Europe, net sales increased by 22.8% in Latin America, despite difficult economic conditions in Argentina, and by 15.5.% in Asia.

Operating income for beverages increased 16.5% from € 440 million in 1999 to € 513 million in 2000 while operating margin remained relatively stable at 12.4%. While the increase in operating income is due in part to the consolidation of recently acquired activities (specifically McKesson and Robust), the stability of the operating margin results from a 8.7% volume increase. This increase in volume, combined with price increases for the Group's products in some countries, have compensated the negative impact associated with the increase in PET prices and the integration of activities which, after goodwill amortization, have a lower profitability than the average of the beverage business line.

Biscuits. Net sales of biscuits increased 15.3% from € 2,822 million in 1999 to € 3,255 million in 2000, with a consolidation impact of 4.7% impact and a 4.2% conversion effect. On a comparable basis, net sales of biscuits increased 6.4% in 2000, compared to 3.4% in 1999. This increase results from the Group's strategy of promoting innovative products while emphasizing the nutritional benefits of biscuits through a sustained advertising campaign. The concentration of activities on the leading brands and international brands has resulted in particularly strong growth in France and Spain as well as in certain Central European countries (such as Russia and Poland) and Asia.

Operating income for biscuits increased 26.9% from € 222 million in 1999 to € 282 million in 2000, partly due to the consolidation of recently acquired activities. Operating margin increased from 7.9% in 1999 to 8.7% in 2000. This increase reflects the quality of the product mix related to the success of value-added products as well as the improvement in the profitability of subsidiaries located outside the European Union.

Other Food Businesses. Net sales of other food businesses decreased by 28.1% from € 527 million in 1999 to € 378 million in 2000, with a 37.7% negative consolidation impact reflecting the disposal of the prepared and frozen foods activities in 1999, and a 6.4% positive conversion effect. On a comparable basis, net sales of other food businesses increased 3.2%.

Operating income for these activities increased 26.7% from € 39 million in 1999 to € 49 million in 2000. Operating margin increased to 13.0% in 2000 from 7.4% in 1999, reflecting the disposal of less lucrative activities.

Glass Containers. In 2000, packaging activities were no longer consolidated. They contributed to the Group's net income through the accounting of BSN Glasspack under the equity method.

Results of Operations for the Years ended December 31, 1998 and 1999

Net Sales. Net sales are stated net of excise taxes and discounts, except for one-off promotional discounts which are treated as selling expenses. Net sales increased by 2.8% to € 13,293 million in 1999 from € 12,935 million for 1998. This increase in net sales is due to an internal growth rate of 5.7% partly offset by a 2.8% impact of divestitures that occurred in 1999. Fluctuations in currency exchange rates only slightly impacted the Group's net sales.

On a comparable basis, consolidated net sales increased 5.7% in 1999 over 1998, compared to 4.6% in 1998 over 1997. Internal growth in the Group's core business lines was 6.2% in 1999 and 1.2% in grocery activities while glass containers decreased by 1.0%. Volume growth was positive in all of the Group's core business lines, in particular in beverages, with volume in bottled water increasing by 9.0% compared to 1998.

Geographically, internal growth in net sales was 3.8% in Europe, compared to 3.0% in 1998. France accounted for 4.2% of 1999 growth in net sales and the rest of the world for 10.6%, compared to 10.0% in 1998. The increase in net sales outside the European Union was led by China and, in particular, by Wahaha in beverage activities.

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

1st Quarter	6.4%
2nd Quarter	3.1%
3rd Quarter	7.5%
4th Quarter	6.6%

Compared to the second quarter of 1999, net sales in the second quarter of 1998 benefited from the effect of the World Cup. Third quarter net sales in 1999 benefited from favorable weather conditions, particularly positive for beverage sales, compared to the third quarter of 1998 that suffered from unfavorable weather conditions.

Cost of Goods Sold. Costs of goods sold correspond to production costs, including costs of raw materials (food and packaging), labor costs and depreciation. Costs of goods sold decreased 2.1% from € 6,807 million in 1998 to € 6,663 million in 1999. Cost of goods sold also decreased as a percentage of net sales from 52.6% to 50.1%, essentially due to the positive effect of divestitures of certain less lucrative activities, restructuring programs, improved purchasing synergies and higher value-added products mix.

Selling, General and Administrative Expenses. Selling expenses correspond to advertising and promotional expenses, distribution costs and structural costs relating to sales force. Selling expenses increased from € 3,650 million in 1998 to € 3,964 million in 1999. Selling expenses increased as a percentage of net sales from 28.2% to 29.8%, due primarily to higher advertising expenses (which increased by approximately 13% on a comparable basis), while costs related to product promotions remained relatively stable, reflecting the Group's strategy of reinvesting productivity gains in advertising to strengthen core brand recognition and its shift from price cuts and promotions.

General and administrative expenses increased slightly in 1999, due to the growth of the Group, to € 913 million, or 6.9% of net sales, from € 852 million or 6.6% of net sales in 1998.

Research and Development Expenses. Expenses for research and development increased 1.7% from € 120 million in 1998 to € 122 million in 1999. Research and development expenses as a percentage of net sales were, however, relatively stable for both periods at 0.9%.

Other Income and Expense. Other income and expense primarily include employee profit sharing and goodwill amortization. Other income and expense increased, with net charges to income of € 213 million in 1998 compared to € 240 million in 1999, due to the effects of the first consolidation of

beer distribution activities. Legally required employee profit sharing remained stable at € 125 million and goodwill amortization slightly increased to € 93 million in 1999 from € 90 million in 1998.

Operating Income. Operating income increased 7.6% from € 1,293 million in 1998 to € 1,391 million in 1999. This progression masked a progression on a comparable basis of more than 11.4%, substantially higher than the increase in net sales, which reflects an improvement in the operating margin (10.5% in 1999 against 10.0% in 1998).

The increase of 50 basis points in the operating margin is principally due to operating activities. Changes in the scope of consolidation offset each other: the positive impact of the divestiture of a part of Other Food Businesses, whose operating margins were inferior to the Group's average, was mainly offset by the full consolidation of the Russian activities as well as those of Elidis.

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

Non-Recurring Items. Non-recurring events for the year 1999 correspond in part to the net positive amount of € 39 million in capital gains and losses resulting from divestitures in 1999 and from the market valuation of certain assets and in addition, to costs of € 37 million due to the restructuring of fresh dairy products in Spain and in Italy and in the biscuit business in the United Kingdom. Restructuring costs in Spain include exceptional amortization of a plant to be closed at the end of the year 2000. The capital gains or losses from divestitures include € 56 million of capital gains resulting from the divestiture of 56% of the glass bottle packaging business, which was determined after taking into account the entirety of restructuring costs foreseen by BSN Glasspack.

Interest Expense. Net interest expense decreased 10% from € 146 million in 1998 to € 131 million in 1999. This decrease was primarily due to the decrease in interest rates, cash-flows from divestitures and the conversion of the 6.60% 1990 bonds. Conversely, financial investments and share buy-back options had a negative impact in this area.

Provision for Income Taxes. The Group's provision for income taxes increased 15.2% from € 433 million in 1998 to € 499 million in 1999. The Group's effective tax rate is 39.5% in 1999 compared to 39.3% in 1998. The amortization of goodwill, which is not generally deductible, impacts the effective tax rate of the Group by approximately 3 points.

Minority Interests. Minority interests increased from € 97 million in 1998 to € 110 million in 1999. This increase resulted from the improved operating results of companies in which Danone holds significant minority interests (*i.e.*, Spain, China and India), which offsets the effects of the additional interests purchased in 1999.

Net Earnings of Equity Method Companies. Net earnings of equity method companies increased from € 25 million in 1998 to € 29 million in 1999. This increase was principally due to the fact that packaging business was accounted for under the equity method starting with the second half of 1999.

Net Income. Net income increased 14% from € 598 million in 1998 to € 682 million in 1999, in part due to non-recurring items of € 12 million. Excluding capital gains and losses resulting from divestitures, net income increased by 9.1%, which reflects a noticeable progression in the Group's operating margin.

Net Income per Share. Net income per share was € 9.38 in 1999 compared to € 8.15 in 1998. The increase in net income per share resulted on one hand from the increase in net income, and on the other hand, from the repurchase of shares by the Company pursuant to its share buy-back program. Excluding capital gains and losses associated with disposals, net income per share was € 9.0, representing a 10.0% increase compared to 1998.

Net Sales, Operating Income and Operating Margin by Main Business Line

Fresh Dairy Products. Net sales of fresh dairy products increased 5.6% from € 5,665 million in 1998 to € 5,981 million in 1999. On a comparable basis, net sales of fresh dairy products increased 5.4%, in line with an increase in volume of 4.7%. The activities of the *Danone* brand name experienced the strongest growth, with an increase in net sales of 7.4%. Almost all companies experienced growth, particularly in France, Spain and Argentina, as a result of strong demand.

Operating income improved 5.5% from € 621 million in 1998 to € 655 million in 1999. The operating margin remained stable at 11%. This improvement is due to the positive impact of newly introduced and innovative products with higher margins such as *Actimel*, increased productivity in many European countries, and the establishment of coordinated horizontal purchasing and marketing, aimed at developing synergies between the Group's companies while increasing advertising. Conversely, activities of fresh dairy products in Russia, which were consolidated for the first time in 1999, had a negative impact on the operating margin, as well as the disruptions generated by the dioxin crisis in Europe in the first half of 1999.

Beverages. Net sales of beverages increased 18.7% from € 3,004 million in 1998 to € 3,565 million in 1999. On a comparable basis, net sales of beverages increased 9.4% and volume increased by 12.3%. Net sales growth continued in Europe, mainly in bottled water, but occurred mostly outside of Europe, where organic growth was 18%, in particular in China where the Wahaha company has experienced significant development and in the United States where Danone water continued its market implantation.

Net sales for beer progressed by 1.9% on a comparable basis, mainly reflecting strong sales in the first six months of 1999 and good performance in China.

Operating income for beverages increased 19.6% from € 368 million in 1998 to € 440 million in 1999. Operating margin remained stable at 12.3%. This stability is, on the one hand, due to the positive effect of growth in volumes with raw material costs remaining stable, and on the other hand, to the negative effect of the consolidation of beer activities distribution in France, which began in 1999.

Biscuits. Net sales of biscuits increased 8.2% from € 2,607 million in 1998 to € 2,822 million in 1999. On a comparable basis, net sales of biscuits increased 3.4%, with volumes decreasing by 1.3%, a product mix increase of 4.7%. This trend reflected the success of a newly introduced low-fat line of biscuits in ten countries and the Group's strategy aimed at strengthening the number of *LU* brand named products.

Operating income for biscuits increased 9.4% from € 203 million in 1998 to € 222 million in 1999. Operating margin increased to 7.9% in 1999 from 7.8% in 1998. The operating margin increased in each of the Group's geographic zones, including France, where biscuits activities achieved their best margins. Improvement in productivity was, however, strongest internationally, resulting, in particular, from performance improvements by Bagley in Argentina, Danone in Indonesia and companies in China and India.

The performance of the biscuits business line reflected the quality of the product mix which benefits from an increased emphasis on differentiated products with high value-added, as well as sustained price levels. Gains were recorded in industrial production capacity, logistics and purchasing (as a result of favorable negotiations with suppliers) and product revampings, which were used, in part, to strengthen advertising expenses in strategic countries.

Other Food Businesses. Net sales of other food businesses decreased 41.8% from € 905 million in 1998 to € 527 million in 1999 following divestitures which occurred in 1999. Net sales increased 1.2% on a comparable basis with volumes increasing 1%.

Operating income for grocery products increased 34.5% from € 29 million in 1998 to € 39 million in 1999. Operating margin increased from 3.2% in 1998 to 7.4% in 1999, which reflects the divestitures of less lucrative activities during the course of 1999.

Glass Containers. Net sales of glass containers decreased from € 932 million in 1998 to € 501 million in 1999. On a comparable basis, net sales of glass containers dropped 1% with a slight decrease in volumes and a decrease in price levels due to market pressures. The first six months of 1999, in which the glass container activities were fully consolidated, were characterized by an increase in volumes, in particular in the wine sector, driven by a significant decrease in price levels resulting from over capacity in certain European countries, particularly in Spain.

Operating results decreased from € 91 million in 1998 to € 51 million in 1999. Over a six-month period, the operating margin improved from 9.7% to 10.2%. This increase in operating margin in 1999's first semester is identical to the increase observed during this period in 1998.

Liquidity and Capital Resources

Consolidated Cash Flows

At December 31, 2000, Danone had available cash, cash equivalents and marketable securities totaling € 783 million, compared to € 951 million at December 31, 1999. Danone has historically generated sufficient amounts of cash from its operations to finance its operating expenses, capital investment needs, debt service and dividend payments. The table below presents information related to the consolidated cash flows for Danone for the years ended December 31, 1998, 1999 and 2000.

	Year ended December 31,		
	1998	1999	2000
	(€ in millions)		
Cash flows provided by operations	1,327	1,423	1,558
Net change in current working capital	31	(98)	(136)
Cash flows from operating activities	1,358	1,325	1,422
Capital expenditures	(711)	(703)	(798)
Free cash flow[1]	647	622	624
Net divestitures (acquisitions)	(247)	351	(2,137)
Dividends paid	(253)	(350)	(366)
Share repurchases	(358)	(1,724)	(169)
Other financing[2]	139	1,161	2,120
Effect of exchange rate changes on cash and cash equivalents	(16)	33	12
Increase (decrease) in cash and cash equivalents	(88)	93	84

(1) Free cash flow represents the cash remaining from operating activities after satisfying capital expenditures.

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

Cash Flows Provided by Operating Activities. Cash flows provided by operating activities reflects cash generated from operations and net change in current working capital. In general, cash flows is lower in the first half of any year compared to the second half of that year because of higher working capital needs in the first half of the year due to (i) increased production in preparation for reduced plant activity and temporary plant closures during the summer vacation months, (ii) the build-up of beer and water inventory for the stronger consumption months of July and August and (iii) outstanding accounts receivable from sales in May and June as a result of seasonal variations.

Cash flows provided by operations increased 9.5% from € 1,423 million in 1999 to € 1,558 million in 2000. Net change in working capital increased to € 136 million, mostly due to tax payments greater than taxes owed on 2000 income.

Capital Expenditures. Capital expenditures increased to € 798 million in 2000 compared to € 703 million in 1999 and € 711 million in 1998, representing 5.6% and 5.3% and 5.5% of net sales, respectively. Industrial investments in 2000 include, in particular, capacity investments in China and in particular in the Group's companies in the beverage activities (Wahaha, Robust) to respond to a very strong demand for packaged water. The Company expects to invest approximately 5.5% of its net sales in capital expenditures in 2001, excluding capital expenditures relating to acquisitions.

Financial Investments. Acquisitions and financial investments in other companies totaled € 2,849 million in 2000 compared to € 934 million in 1999 and € 485 million in 1998. In furtherance of its strategy of internationalization, the Group has followed an active policy of development of its principal business lines internationally. The Group has also disposed of its European beer activities. For additional information on the Group's acquisitions and divestitures, see above "—Overview—Acquisitions and Divestitures."

In addition, the Company has entered into agreements to purchase interests held by third-party shareholders in certain subsidiaries, should these shareholders wish to sell their interests. These agreements are not subject to any specific deadline and, in any event, the potential cost of purchasing these shares will be dependent upon the rate of return and the financial situation of the subsidiary in question. No material investment under these agreements is planned for 2001. The Company is unable to predict when, or if, such investments will be required. Also, the Company entered into an agreement to purchase the remaining 5% interests of Galbani and will pursue its strategy of international development whenever opportunities will present themselves.

Share Buy-Back. In 2000, the amount of Groupe Danone shares that the Company repurchased pursuant to its share buy-back programs decreased compared to 1999. In 2000, the Company repurchased 1,570,590 shares, for a total amount of € 169 million, compared to € 1,724 million in 1999. The Company expects that its shareholders will renew their approval to implement a share buy-back program. See "Item 9. The Offer and Listing—Trading in the Company's Own Shares." Pursuant to the program currently in effect, the Company could, during a period of 18 months following the May 2001 general shareholders meeting, purchase up to 9,000,000 shares, representing an aggregate purchase maximum price of € 1,800 million, assuming a purchase price per share between € 120 and € 200.

Other Financing

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

Starting January 1, 1999, the Company has been redeeming any outstanding 1990 Convertible Bonds at a redemption price of FF 900 per bond. In accordance with the indenture governing the 1990 Convertible Bonds, a holder of a bond called for redemption remained entitled, until the date which was three months after the date fixed for redemption (*i.e.*, until April 1, 1999) to elect to convert any bond into shares, at the conversion rate of 1.1 share per bond, instead of receiving the redemption price. 99% of the 1990 Convertible Bonds outstanding as of December 31, 1998 were converted in 1999.

Starting January 1, 2000, the Company has been redeeming any outstanding 1993 Convertible Bonds at a redemption price of FF 1,175 per bond. In accordance with the indenture governing the 1993 Convertible Bonds, a holder of a bond called for redemption remained entitled, until the date which was three months after the date fixed for redemption (*i.e.*, until April 3, 2000) to elect to convert

any bond into shares, at the conversion rate of one share per bond. 99% of the 1993 Convertible Bonds outstanding as of December 31, 1999 were converted in 2000.

Financial condition

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

Danone maintains bank credit lines to ensure the availability of funding on an as-needed basis. At December 31, 2000 and 1999, Danone had credit lines totaling € 2,725 million and € 2,463 million, respectively, of which it had utilized € 1,505 million at December 31, 2000 (€ 1,492 million in 1999). Also at December 31, 2000, the Group had funds of € 783 million (compared to € 951 million at December 31, 1999) to meet working capital needs and to take advantage of expansion opportunities. Danone's consolidated net debt (defined as short-term debt and overdrafts, long-term debt and convertible bonds less cash, cash equivalents and marketable securities) amounted to € 4,401 million and € 3,119 million at December 31, 2000 and 1999, respectively, corresponding to ratios of net debt to shareholders equity of 55% in 2000 and 45% in 1999**.**

At the May 29, 2001 general meeting, the authorization granted in 1999 to the Company's board of directors to issue debt, equity and/or hybrid securities with a maximum aggregate principal amount of € 2 billion will be renewed. This authorization is granted for 5 years starting from May 29, 2001. The Company has in the past and may in the future, depending on market conditions, issue such securities pursuant to these authorizations.

Return on Invested Capital and Value Creation

For the fourth consecutive year, the Group recorded an increase on returns on invested capital from 8.8% in 1999 to 9.0% in 2000, due primarily to the Group's on-going efforts to reduce invested capital which have compensated for the dilutive effects resulting from certain strategic acquisition in their first year of consolidation (McKesson, for example). Similarly, the contribution to shareholders' value increased nearly 8% from € 139 million in 1999 to € 150 million in 2000, based on a weighted average cost of resources of 7.75% over 7.5% in 1999.

The return on invested capital is equal to the operating result after taxes and before goodwill amortization (including a portion of companies accounted for under the equity method) on the average of invested capital before goodwill amortization. The contribution to shareholders' value represents the rate differential between the returns on invested capital and the weighted average cost of resources, applied to the average capital invested.

The average yearly return on investments for shareholders (''TSR'') (taking into account the increase in share price and dividends, including the *avoir fiscal* tax credit) was 26% between 1998 and 2000.

Impact of Changes in Exchange Rates

The Group publishes its consolidated financial statements in euros. In 2000, approximately 55% of the Company's subsidiaries' net sales and 65% of their operating income were realized in euro-zone currencies. However, a substantial portion of the Group's assets, liabilities, sales and earnings are denominated in currencies other than the euro or euro-zone currencies, particularly the U.S. dollar and U.S. dollar-influenced currencies, such as certain South American currencies, the British pound, the Chinese yuan or the Polish zloty. As a result, Danone is exposed to fluctuations in the values of such currencies against the euro with respect to the translation into euros of amounts to be reflected in its consolidated financial statements. In particular, the appreciation of the euro in relation to other currencies decreases the euro value of the contribution to Danone's consolidated results and financial condition of subsidiaries which maintain their financial accounts in such other currencies.

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

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

In accordance with the Group's accounting policies, differences resulting from translation into euros of the financial statements of foreign subsidiaries are accounted for under shareholders' equity until such time as the foreign investments to which such differences relate are sold or liquidated. At December 31, 2000, the negative difference relating to translation of euro/zone currencies amounted to € 334 million compared to 382 millions at December 31, 1999, due to the various divestitures which occurred during the year.

Trend information

Following the Company's announcement of its plan to reorganize its European biscuit business on March 29, 2001 (see "Item 5. Operating and Financial Review and Prospects—Recent Events—Reorganization of the Biscuit Business"), there have been several instances of work disruptions and calls by large French labor organizations and certain political parties for a boycott of Danone's products. A limited number of city councils of small French cities have implemented boycotting measures in local school boards' establishments. In addition, there have been numerous critical press articles in France. Although there can be no guarantee, Management does not believe that the boycotts will last or expand, nor that the negative publicity campaign will intensify, and as a result, that these events will have a material adverse effect on its net sales in the second quarter, or in general.

Item 6. Directors, Senior Management and Employees

Directors and Senior Management

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

Board of Directors

Pursuant to the Company's articles of association, or *statuts*, the Board of Directors consists of between three and 24 directors. The Company's Board of Directors currently consists of 15 directors. The Company's *statuts* provide that each director is elected by the shareholders at an ordinary general meeting of shareholders for a three-year term and is eligible for reelection upon expiration of such term. In 2000, directors were paid a total of € 0.24 million in attendance fees for their attendance at Board meetings. Directors who are officers of the Company do not receive such fees. Directors must own at least 1,000 shares. In 2000, the Board of Directors of the Company held seven meetings.

The *statuts* provide that directors cannot be appointed if they are over 70 years old unless (i) they are or were Chairman of the Board and (ii) the number of directors over 70 years old does not exceed one fourth of the total number of directors. The term of such director will automatically terminate at the ordinary general meeting held in the year during which the director has reached the age of eighty.

The French Commercial Code (*Code de Commerce*) strictly forbids loans by the Company to a director. Nor may any company provide overdrafts for directors or guarantee any director's obligations. This prohibition also applies to specified executive officers (*directeurs généraux*), permanent representatives of companies on the Board of Directors, spouses or heirs of such persons, and other intermediaries.

The French Commercial Code requires directors who are considering, either directly or indirectly, personally or through an intermediary, entering into an agreement with the Company to inform the Company's Board of Directors as well as its auditors before the transaction is consummated. French law also requires such an agreement to be authorized by the Board of Directors and the director in question may not vote on the issue. French law further requires such an agreement to be submitted to an ordinary general meeting for approval once entered into, upon presentation of a special report from the Company's auditors. Any agreement entered into in violation of these requirements may be voided by the Commercial Court at the request of the Company or of any shareholder, if such agreement has caused damages to the Company.

The following table sets forth the names and ages of the directors of the Company, their principal occupation or employment, the dates of their initial election as directors and the years of expiration of their terms:

Name	Age	Principal Occupation or Employment	Director Since	Term Expires
Franck Riboud(1)	45	Chairman and Chief Executive Officer; Director, Scottish & Newcastle Plc, Renault, ONA	1992	2004*
Michel David-Weill(1)(2)	68	Chairman, General Partner, Lazard Frères & Cie; Chairman, Lazard Partners Ltd. Partnership, Lazard Frères & Co. LLC; Chairman, Eurafrance; Member of the Supervisory Board, Publicis; Director, ITT Industries Inc., IFIL S.p.A.	1970	2002
Jacques Vincent(1)	54	Senior Executive Vice-President	1997	2002
Umberto Agnelli(1)	66	Chairman, IFIL S.p.A.; Vice Chairman, Managing Director, IFI S.p.A; Vice Chairman, Giovanni Agnelli EC Sapaz; Member of the Supervisory Board and Strategy Committee, Worms & Cie	1987	2002
Dominique Auburtin	49	Chairman, Worms & Cie; Chairman of the Supervisory Board, Saint-Louis Sucre SA; Director, CAR SA, Cabinet de courtage, d'assuranceset de réassurance, Les Petites Affiches, Permal Group	1998	2004*
Yves Boël(1)(2)	73	Chairman, SA Sofina; Chairman, Managing Director, SA Union Financière Boël; Vice Chairman, SA Tractebel; Director, Eurafrance, SA Mecaniver	1972	2002
Yves Cannac(3)	65	Advisor to the Group Cegos; Chairman of the Strategy Committee and Director, Caisse des Dépôts-Développement (C3D); Director, Société Générale, AGF	1985	2003
Luca Fossati(1)	43	Chairman, AMERFINDIM Holding S.A., FINDIM Investments SA, Suisse Star Stabilimento Alimentare S.p.A.; Director, IFIL, S.p.A.	1996	2002
Jean Gandois(1)(2)(3)	70	President of the Supervisory Board of Suez Lyonnaise des Eaux; Member of the Supervisory Board of Siemens AG, Akzo Nobel; Director, Institut Curie	1981	2002

Name	Age	Principal Occupation or Employment	Director Since	Term Expires
Jean-Claude Haas[3]	74	General Partner, Lazard Frères SAS; Director, Eurafrance; Managing Director, Lazard Brothers & Co. Ltd.	1991	2003
Christian Laubie[1][3]	62	Chairman, Alfabanque; Director, BSN Glasspack	1985	2003
Philippe Lenain	64	Director, Eco-Emballage, Nord Est	1991	2003
Jacques Nahmias	53	Chairman and CEO, Propétrol SA; Chief Operating Officer and Director, Petrofrance SA; Director, Danone SA	1981	2002
Edouard de Royère[1]	68	Honorary Chairman, Director, L'Air Liquide SA; Chairman, ANSA; Director, L'Oréal, Sodexho, Solvay	1987	2002
Jérôme Seydoux[1]	66	Chairman, Pathé; Deputy Chairman and Director, Chargeurs; Member of the Supervisory Board, Accor	1970	2003

* Assuming reelection at the shareholders' meeting on May 29, 2001.

(1) Member of the Strategy and Nomination Advisory Committee.

(2) Member of the Compensation Committee.

(3) Member of the Audit Committee.

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

Executive Officers

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

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

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

Name	Age	Position	Executive Officer Since
Franck Riboud	45	Chairman and Chief Executive Officer	1996
Jacques Vincent	54	Senior Executive Vice-President	1998
Jan Bennink	44	Senior Vice-President; Dairy Products Worldwide	1997
Jean-René Buisson	52	Senior Vice-President; Human Resources	1996
Georges Casala	59	Senior Vice-President; Internationalization Strategy	2000
Emmanuel Faber	36	Senior Vice-President; Chief Financial Officer	2000
Jean-Louis Gourbin	53	Senior Vice-President; Biscuits Worldwide	1999
Simon Israel	47	Senior Vice-President; Asia/Pacific	1997
Pedro Medina	41	Senior Vice-President; Water Worldwide	1999

Franck Riboud, 45, has been Chairman and Chief Executive Officer since 1996. Mr. Riboud joined the Group in 1981 and has held several positions, including General Manager of Evian in 1990, and General Manager of Corporate Business Development in 1994 when he was responsible particularly for the internationalization of the Group. Prior to being appointed to his current position, he was Vice-President and General Manager and Member of the Board of Directors from 1994. Mr. Riboud holds a degree in engineering from *Ecole Polytechnique* in Lausanne.

Jacques Vincent, 54, was appointed Senior Executive Vice-President in 1998. Prior to this, he was a Vice-President—Dairy Products. Having spent most of his career with the Group, he occupied various positions as general manager of certain of its subsidiaries in France, Germany, Italy and the United States in the water and dairy businesses. Mr. Vincent holds a Master of Science from Stanford University, an engineering degree from the *Ecole Centrale de Paris* and a degree in economics.

Jan Bennink, 44, a Dutch national, has been Senior Vice-President—Dairy Products Worldwide since 1995. Previously, he held managing and directorship positions with Joil. A. Benckiser GmbH as well as Procter & Gamble. Mr. Bennink holds a Masters in Urban and Environmental Planning and degrees in English and geography from the University of Groningen in the Netherlands.

Jean-René Buisson, 52, was appointed Senior Vice-President—Human Resources in 1996. He joined the Group in 1979 and occupied various positions as human resources manager and general manager of certain subsidiaries in France and Italy. Mr. Buisson holds degrees in private law and labor law.

Georges Casala, 59, has been Senior Vice-President—Internationalization Strategy since 2000. He began his career in General Foods and joined Danone in 1973. Since then, he has held such positions as President and Chief Executive Office of the Dannon Company in the United States from 1982-1989, Vice President of Danone France since 1989 and Senior Vice President—Northern Europe since 1995. Mr. Casala is a graduate of the *Ecole Supérieure de Commerce de Paris* and holds a degree in economics.

Emmanuel Faber, 36, is Senior Vice-President and Chief Financial Officer. He joined the Group in 1997 as Director of Development and Strategy and has held his current position since 1999. He began his career as a consultant with Bain & Co. then worked for Banque Baring Brothers in 1988. Subsequently, he became financial director and head of strategy of the Legris Industries Group in 1993 and later a member of the Board of Directors in 1994 and Managing Director of the Group in 1997. Mr. Faber is a graduate of the *Ecole des Hautes Etudes Commerciales*.

Jean-Louis Gourbin, 53, is Senior Vice-President—Biscuits Worldwide. He joined the Danone Group in May 1999 as President of the Biscuit Division. Before joining Danone, he held a series of senior positions with Kellogg, serving as Marketing & Sales Director, Managing Director, and subsequently President and CEO of various subsidiaries. He was Executive Vice-President of the Kellogg Company during his last four years with Kellogg. Mr. Gourbin holds a post-graduate degree in economics from the University of Paris-Sorbonne.

Simon Israel, 47, a New Zealand national, has served as Senior Vice-President—Asia/Pacific since 1999. Prior to joining the Company, he was President Asia Pacific for Sara Lee and held several managing and executive positions with Sara Lee in Indonesia, the Philippines and Japan.

Pedro Medina, 41, a Venezuelan national, has been Senior Vice-President—Water Worldwide since 1999. Prior to being appointed to his current position, he held President and Vice-President positions for Frito Lay PepsiCo as well as managing positions with Procter and Gamble. Mr. Medina holds a nuclear engineering degree from Arizona University.

Compensation

In 2000, the aggregate amount of compensation paid by Danone to its executive officers and directors as a group (22 persons in all) for services in all capacities was € 9.2 million, including € 8.2 million to executive officers, including € 4.2 million as bonus compensation ("Bonus Compensation"). The aggregate amount paid by Danone to provide pension, retirement or similar benefits for the same executive officers and directors as a group in respect of the 2000 fiscal year was € 0.9 million.

Committees of the Board of Directors

Strategy and Nomination Advisory Committee

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

Compensation Committee

The Compensation Committee makes recommendations to the Board of Directors with respect to compensation paid and options granted to executive officers and held two meetings in 2000. Members are paid FF 10,000 per year, with the Chairman receiving double that amount. Mr. Michel David-Weill is the current Chairman.

Audit Committee

The Audit Committee reviews and comments on the Company's statutory and consolidated financial statements prior to their submission to the Board of Directors, makes sure of the accounting principles' soundness and permanence, reviews internal and external audit activities, and performs specific assignments as requested by the Board of Directors. In 2000, the Audit Committee held three meetings. Mr. Jean-Claude Haas is the current Chairman. Members are paid FF 25,000 per year, with the Chairman receiving double that amount.

Share ownership

As of December 31, 2000, the total number of shares owned by the Company's directors and executive officers as a group (22 persons) was 232,497 or 0.15% of the outstanding shares, not including 17,429,286 shares held by the Eurafrance, Worms and FINDIM, in which Messrs. Michel David-Weill and Jean-Claude Haas, Mr. Umberto Agnelli and Mr. Luca Fossati respectively have direct and indirect interests. None of the Company's directors or executive officers owns more than 1% of the Company's outstanding shares.

Options

As of March 31, 2001, a total of 2,780,860 options to purchase existing shares were outstanding (2,046,210 at December 31, 2000), of which 696,000 were held by the executive officers (456,000 at December 31), and a total of 398,640 options to subscribe newly issued shares were outstanding (473,440 at December 31), of which 71,000 were held by the executive officers (71,000 at December 31). These options were issued by the Board of Directors pursuant to employee stock option plans adopted at general meetings of the shareholders in May 1992, May 1995, May 1997 and May 1999. Pursuant to each option plan, the Board was authorized to issue options exercisable in the aggregate for up to 1.0% of the Company's outstanding share capital at the date of issuance (plans adopted in May 1992, May 1995 and May 1997) or up to two million shares at the date of issuance (plan adopted in May 1999), including all options already outstanding under the current and previous plans. Since March 1999, the exercise price for the options has been based on the average price quoted for the shares on Euronext Paris during a period of 20 business days prior to the date of issuance.

None of the Company's directors or executive officers owns options that would, taking into account their current shareholding, entitle them to own more than 1% of the Company's outstanding shares.

The following table sets out certain information relating to the various option plans as of December 31, 2000. Numbers prior to June 2000 were restated to give effect to the 2 for 1 stock split effected by the Company on June 5, 2000.

Option Plan	Options issuable	Meetings of the Board of Directos and Issue dates[1]	Options Issued	Expiration Date	Options Exercise Price per Ordinary Share	Number of Ordinary Shares subscribed or purchased by December 31, 2000	Balance of Ordinary Shares to be subscribed or purchased	Of which: Ordinary Shares Issuable to members of the Executive Committee	Of which: Number of Members of the Executive Committee who can exercise the Options
5/21/1992	907,400[2][3]		907,400			828,000	71,000		
		3/17/1994	34,000	3/17/2000	€ 55.87	25,600			
		7/7/1994	30,000	7/7/2000	€ 49.24	30,000			
		8/26/1994	150,000	8/26/2000	€ 51.45	150,000			
		1/24/1995	678,400	1/24/2001	€ 45.73	608,600	69,800		
		3/23/1995	15,000	3/23/2001	€ 46.34	13,800	1,200		
5/11/1995	1,073,000[4]		1,073,000			670,560	402,440	71,000	5
		9/5/1995	179,000	9/5/2001	€ 59.38	159,350	19,650		
		1/31/1996	90,000	1/31/2002	€ 55.11	55,200	34,800		
		3/19/1996	25,000	3/19/2002	€ 53.66	9,000	16,000	10,000	
		5/2/1996	300,000	5/2/2002	€ 53.66	189,000	111,000	60,000	
		9/4/1996	223,000	9/4/2002	€ 49.55	137,000	86,000		
		12/11/1996	109,000	12/11/2002	€ 50.84	56,210	52,790	1,000	
		3/17/1997	147,000	3/17/2005	€ 64.10	64,800	82,200		
5/14/1997	1,340,020[5][6]		1,340,020			243,350	1,096,670	229,000	9
		9/9/1997	320,000	9/9/2005	€ 66.77	124,500	195,500	30,000	
		1/28/1998	80,000	1,28,2006	€ 77.98		80,000	70,000	
		3/18/1998	389,000	3/18/2006	€ 88.50	104,350	284,650	89,000	
		5/19/1998	5,000	5/19/2006	€ 102.14		5,000		
		9/15/1998	137,000	9/15/2006	€ 116.17	14,500	122,500		
		1/26/1999	139,600	1/26/2007	€ 111.51		139,600		
		3/17/1999	80,400	3/17/2007	€ 113.51		80,400	20,000	
		5/19/1999	189,020	5/19/2007	€ 123.97		189,020	20,000	
5/19/1999	2,000,000		949,540				954,540	227,000	7
		6/15/1999	207,000	6/15/2007	€ 128.38		207,000		
		9/14/1999	19,700	9/14/2007	€ 120.31		19,700		
		1/26/2000	333,340	1/26/2008	€ 116.18		333,340	222,000	
		3/15/2000	224,800	3/15/2008	€ 103.06		224,800	5,000	
		5/22/2000	41,600	5/22/2008	€ 127.01		41,600		
		9/13/2000	120,700	9/13/2008	€ 155.82		120,700		
		10/17/2000	2,400	10/17/2008	€ 153.80		2,400		
Total			4,269,960			1,741,910	2,519,650	527,000	9

(1) The options can be exercised as soon as they are issued by annual tranches, for the May 1992, and May 1995 Plans. Since the May 1997 Plan, options may not be exercised until the second anniversary of the issue date, subject to certain exceptions.

(2) Of a total of 1,393,704 options issuable under the May 1992 Option Plan, 486,304 options were not issued and ceased to be issuable in May 1997, five years after adoption of the plan.

(3) Of a total of 907,400 options issued, 828,000 options have been exercised and 8,400 may not be exercised as they ceased to be exercisable on March 17, 2000.

(4) Of a total of 1,452,782 options issuable under the May 1995 Option Plan, 379,782 options were not issued and ceased to be issuable in May 1997.

(5) Starting with the May 1997 Option Plan, the Company will grant options to purchase shares only.

(6) Of a total of 1,549,170 options issuable under the May 1997 Option Plan, 209,150 options were not issued and ceased to be issuable on May 19, 1999.

Employees

At December 31, 2000, Danone had a total of 86,657 employees worldwide. The table below sets forth the total number of employees at year-end and the percentage of such employees by geographical market from 1998 through 2000.

	1998	1999	2000
Total number of employees	78,945	75,965	86,657
By geographical area:			
France	25.8%	20.8%	13.5%
Italy	8.2%	7.9%	6.7%
Spain and Portugal	7.5%	6.1%	4.1%
Rest of Europe	11.9%	9.7%	8.0%
Central Europe	3.2%	9.4%	8.6%
Asia-Pacific	29.9%	31.9%	39.0%
North and South America	13.5%	14.2%	20.1%
Total	100.0%	100.0%	100.0%

Danone's strong conviction is that the Group's economic performance is directly linked to the attention given to employees and people in general. From this conviction follows a policy of social responsibility and a complete involvement in all operating decisions.

Danone's involvement in operating decisions has two objectives. The first objective consists of (i) attracting qualified candidates, with a dynamic and audacious recruitment policy, taking advantage of new technologies (e-Recruitment), favoring profiles that are geared toward internationalization and offer strong values; (ii) developing skills, with a resource management policy that is individualized and integrated with a constant view of evolving organizations (training plays an important role, as each profession requires specific training session, which are constantly updated); and (iii) valuing talents, with 80% of the positions to be filled internally. The second objective is to reinforce the Group's strategy to acquire new companies as well as projects to increase their competitiveness on the market. Thus, the Human Resources Department has created a "New Business" structure in January 2000 dedicated to the integration of acquired entities. This structure intervenes early in the acquisition process and transfers its responsibilities to local Human Resources departments once the transaction is completed. Danone reaffirms its conviction that human resources are a key element in its economic success.

In terms of conducting business, Danone has established certain principles and attitudes, the "Danone Way", which managers are expected to follow. In order to assist them in doing so, certain self evaluation materials are made available to them. Likewise, the process of the "360°" evaluation step of descending to other levels of the management starting from the Group's Executive Committee is in line with a modern and open management style. Finally, emphasis is placed on the importance of internal communication for the broad distribution of information, especially through the Intranet. Aside from this, the Group's strong, rapid growth entails a solid integration which can be achieved by reinforcing its cohesion through systematically developing its horizontality rather than by uniformity.

Internally, in line with its social responsibility policy, the Group encourages employee participation and social dialogue. The Group is devoted to maintaining healthy and safe working conditions, particularly when it expands to developing markets. In addition, in most subsidiaries of the Group, employees are given an interest in operational results through profit-sharing programs.

In 1999 and earlier, all of the Group's French subsidiaries have implemented the law which mandates a reduction of the working week to 35 hours for workers and non-management employees. Management believes that this implementation did not result in a material adverse effect on the Group's operations or financial condition.

In respect to the restructuring of its operations, certain of Danone's subsidiaries have effected staff reductions through early retirement incentives and voluntary and involuntary severance programs. In order to help relieve employee difficulties related to the restructuring program, Danone has set up special programs to provide employees with assistance and help develop alternative employment opportunities in affected regions.

To implement its strategy, Danone has reshaped its management structure so that its human resources reflect its strategic priorities. Danone has thus enlarged its Executive Committee to include core executive officers of various nationalities representing each of the Group's core business lines and the Asia/Pacific Rim market, given its strategic importance. Danone has also established an International Committee which serves as a discussion forum between members of the Executive Committee and the principal representatives of large development and implementation zones in order to provide the Group with a more accurate perspective on the evolution of its markets.

Most of Danone's non-managerial staff in the European Union is represented by the major national labor unions. In general, each operating subsidiary negotiates and establishes collective employment agreements with the appropriate unions on an annual basis. Annual meetings between the representatives of Danone and the International Union of Food Industry Employees, or IUF, have led to joint programs, decided upon in six agreements since 1988, relating to gender equality on the workplace, access to information, recognition of union rights and business matters affecting employment levels or working conditions.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The following table sets forth, to the best of the Company's knowledge, certain information with respect to the beneficial ownership of shares and voting rights by principal shareholders, as of March 31, 2001. To the best of the Company's knowledge there are no other shareholders whose beneficial ownership represents 5% or more of the Company's share capital and voting rights.

Name	Number of Shares Beneficially Owned	Percentage of Shares Owned	Number of Voting Rights	Percentage of Voting Rights[5]
Eurafrance[1]	6,112,090	4.10%	12,029,742	7.45%
Worms & Cie ("Worms")[2]	6,326,328	4.24%	12,652,656	7.84%
FINDIM Investments S.A. ("FINDIM")[3] and its subsidiary AMERFINDIM	2,180,000	1.46%	2,860,000	1.77%
FCPE "Fonds GROUPE DANONE"	1,120,274	0.75%	1,740,548	1.08%
Public	125,119,844	83.92%	132,160,265	81.86%
The Company and its subsidiaries[4]	8,242,472	5.53%	—	—
Total	149,101,008	100.00%	161,443,211	100.00%

(1) On April 25, 2001, the shareholders of Eurafrance and Azeo approved the merger of the two companies. The combined entity will be called Eurazeo.

(2) On April 11, 2001, Worms held directly or indirectly 3.94% of the capital and 7.28% of the Group's voting rights.

(3) FINDIM is an investment vehicle owned and controlled by the Fossati family, from whom the Company acquired interest in certain entities. Nearly all such interest was paid for with shares of the Company.

(4) Including 1,441,030 shares (*i.e.* 0.96% of the capital) indirectly held by the Company.

(5) Two voting rights have been granted for each share fully subscribed, paid for, and beneficially owned by the same individual or entity for at least two years.

As of December 31, 2000, the Group owned, directly or indirectly through its 55.74% owned Spanish subsidiary, Danone SA, 8,105,872 shares of Groupe Danone, representing 5.44% of its share capital.

For a description of the Company's shares buy-back program, see "Item 10. Additional Information—Purchase by the Company of its Shares."

Significant Changes

Worms & Cie, having exceeded 5% of Danone's capital on April 9, 1999, held 4.24% of the capital and 7.84% of the Group's voting rights at December 31, 2000. On April 11, 2001, Worms held directly or indirectly 3.94% of the capital and 7.28% of voting rights. FINDIM and its subsidiary AMERFINDIM, which held 2.25% of the capital and 4.10% of voting rights at December 31, 1999, held 1.46% of the capital and 1.77% of voting rights at December 31, 2000.

To the Company's knowledge, there were no other significant shareholding changes during the past three years.

Shareholders' Agreements

IFIL/Worms Shareholders' Agreement. Because of certain cross-shareholdings between IFIL and Worms, IFIL and Worms have agreed to act in concert with respect to their holdings in the Company. To that end, IFIL, Worms and the Company entered into a Shareholders' Agreement on October 12, 1994 (the "IFIL/Worms Shareholders' Agreement") in which the parties agreed that the holdings of IFIL and Worms, taken together, will not exceed 5.80% of the Company's capital. Following various transactions, the Company's shares previously held by IFIL or Worms, are held by Worms & Cie., itself a majority-owned subsidiary of Group IFIL. The IFIL/Worms Shareholders' Agreement expires on December 31, 2001, with automatic renewal absent notice of termination for two-year periods.

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

FINDIM Agreement. In connection with the acquisition of interests in Star and Starlux in March 1989 and certain other agreements entered into in November 1994, FINDIM agreed with Groupe Danone that the Fossati family and the entities controlled by it will at no time hold more than 5% of the outstanding shares of Groupe Danone (such percentage may be increased to 6% under certain circumstances). Groupe Danone also acquired a right of first refusal on any voting securities of Groupe Danone transferred from time to time by FINDIM.

Shares Held in the United States

For information on shares held in the United States, see "Item 9. The Offer and Listing—Price History of Shares."

Related Party Transactions

The Group has, from time to time and in the normal course of its business, entered into intra-group arrangements with its subsidiaries and affiliated companies, regarding, generally, sales and purchases of products and the provision of corporate services financed by management fee agreements, including treasury and financing services (including financial guarantees), research and development activities, etc. These arrangements are entered into on an arm's length basis in accordance with the Company's business practices.

In June 1998, the Company, Sofina, its wholly owned subsidiary Interamerican Finance and Danasia Participations, an affiliate of Sofina, entered into a memorandum of understanding regarding their respective ownership interests in Danone Asia Pte Ltd, a holding company for Groupe Danone's investments in the Asia/Pacific region. At December 31, 2000, Groupe Danone owned 90.34% of Danone Asia Pte Ltd. Under the terms of the memorandum of understanding, Sofina, Interamerican and Danasia have an option to sell to the Company, and the Company has an option to buy from them, their entire ownership interest in Danone Asia Pte Ltd. These options are exercisable until December 31, 2007 at a price to be determined based on an agreed upon formulae, taking into account the then current market value of the shares, and a pre-fixed floor and ceiling price. Mr. Yves Boël, one of the Company's directors, is the Chairman of Sofina. See "Item 6. Directors, Senior Management and Employees—Board of Directors."

In June 2000, the Company acquired from Finanziara di Partecipazioni S.p.A, or IFIL, an additional 5% interest in Edigio Galbani S.p.A, Italy's largest cheesemaker, for a total cash consideration of approximately € 169 million, bringing the Company's total interest in Galbani to 95%. The parties have also entered into another agreement with respect to the purchase by the Company in June 2001 of the remaining 5% interest in Galbani. IFIL is a majority shareholder in Worms & Cie, one of Groupe Danone's principal shareholder. Also, some of the Company's directors are also directors and/or executive officers of IFIL and Worms & Cie. See "—Major Shareholders" above and "Item 6. Directors, Senior Management and Employees—Board of Directors."

In February 2001, the Company successfully completed a public takeover offer for the 11% shares of Mecaniver that it did not already owned. See "Item 5. Operating and Financial Review and Prospects Directors—Recent Events—Recent Acquisitions." Mr. Yves Boël, one of the Company's directors, is also a director of Mecaniver. See "Item 6. Directors, Senior Management and Employees—Board of Directors."

Affiliates of Lazard Frères & Co. LLC and Lazard Frères & Cie regularly engage in financial and other transactions with and on behalf of Danone and its affiliates for which they receive arm's-length negotiated compensation. Some of the Company's directors are also partners of Lazard Frères & Cie and other affiliated entities, and several partners of Lazard Frères & Cie are directors of Eurafrance, one of Groupe Danone's principal shareholders. See "—Major Shareholders" above and "Item 6. Directors, Senior Management and Employees—Board of Directors."

Each of the above-referenced transactions was entered into on an arm's length basis according to the Company's normal business practices.

At December 31, 2000, the Group had no outstanding loans to directors or executive officers.

Item 8. Financial Information

Consolidated Statements and Other Financial Information

See "Item 18. Financial Statements," for a list of the financial statements filed with this annual report.

Dividends Policy

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

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

the shareholders of the Company as dividends, subject to other applicable requirements of French law and the Company's *statuts.*

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

Dividends paid to holders of shares or ADSs who are not residents of France generally will be subject to French withholding tax at a rate of 25%. Under the Treaty between France and the United States for Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital signed on August 31, 1994, and subject to certain procedures and exceptions, such withholding tax may be reduced to 15% for holders who are resident of the United States. French residents are entitled to a tax credit known as the *avoir fiscal*, the amount of which depends of the recipient of the dividends. Under certain tax treaties entered into between France and other countries, including the United States, such *avoir fiscal* may, in certain circumstances, be paid, net of withholding tax, to non-French residents. See "Item 10. Additional Information—Taxation—French Taxation—Taxation of Dividends" and "—Taxation of U.S. Investors—Taxation of Dividends."

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

The following table sets forth the total dividends paid per share and per ADS for each year indicated, with and without the French *avoir fiscal* and before deduction of any French withholding tax, taking into account the 2 for 1 stock split effected by the Company on June 5, 2000.

	Dividend Per Share		Dividend Per Share Including Avoir Fiscal[2]		Dividend Per ADS	Dividend Per ADS Including Avoir Fiscal[2]
Year to Which Dividend Relates[1]	**(FF)**	**(€)[5]**	**(FF)**	**(€)[5]**	**($)[3][4]**	**($)[3][4]**
1995	8.00	1.22	12.00	1.83	0.31	0.47
1996	8.50	1.30	12.75	1.95	0.30	0.45
1997	9.25	1.41	13.88	2.12	0.31	0.46
1998	9.84	1.50	14.76	2.25	0.36	0.53
1999	11.48	1.75	17.22	2.63	0.35	0.52
2000[6]	12.46	1.90	18.69	2.85	0.36	0.54

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

(2) Any payment equivalent to the French avoir fiscal or tax credit, less applicable French withholding tax, will be made only following receipt by the French Tax Administration of a claim for such payment, and is generally not expected to be paid before 12 months of the filing of such claim, and after the close of the calendar year in which the respective dividends are paid. Certain holders of ADSs will not be entitled to payments of *avoir fiscal*. See "Item 10. Taxation—French Taxation" and "—Taxation of U.S. Investors."

(3) For periods prior to 2000, translated solely for convenience from French francs into dollars at the Noon Buying Rates on the respective dividend payment dates, or on the following business day if such date was not a business day in France or the United States. For convenience only, avoir fiscal amounts have been translated into dollars at the Noon Buying Rates on such dates although such amounts are paid subsequent to such payment dates. The Noon Buying Rate may differ from the rate that may be used by the Depositary to convert French francs to dollars for purposes of making payments to holders of ADSs. For 2000, translated solely for convenience at the Noon Buying Rate on December 31, 2000 of € 1.07 per $ 1.00.

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

(5) For periods prior to 1998, translated solely for convenience from French francs to euros at the legal rate of conversion fixed on January 1, 1999 of FF 6.55957 per € 1.00. Dividends with respect to 1998, 1999 and 2000 have been declared in euros.

(6) Dividends to be proposed at the shareholders' meeting to be held on May 29, 2001.

Legal Proceedings

Danone is involved in various routine legal proceedings incidental to the ordinary course of its business. Management believes that the outcome of all pending legal proceedings, either individually or in the aggregate, will not have a material adverse effect on Danone's consolidated financial condition or results of operations, with the exception of the potential consequences of the proceedings described in "Item 5. Operating and Financial Review and Prospects—Overview."

Significant Changes

For information on the Company's unaudited sales for the three month period ended March 31, 2001, see "Item 5. Operating and Financial Review and Prospects—Recent Events."

Item 9. The Offer and Listing

Price History of Shares

The principal trading market for the shares is the Euronext Paris SA, or Euronext Paris, the French integrated national dealing system through which trading in all French listed securities occurs. The shares are traded on the *Premier Marché* and were among the first to be included in the CAC 40 Index, the principal stock exchange index published by Euronext Paris, the market entreprise, which manages and operates the French stock exchange markets. Since September 25, 2000, the shares are eligible to deferred settlement service. The shares are included in the Eurostoxx 50 index and Dow Jones Sustainability Group Index since September and October, 2000, respectively. The shares are also traded on the London, Brussels and Swiss stock exchanges.

Since December 1990, the Company has a sponsored American Depositary Receipts, or ADRs program in the United States with Citibank, N.A., as depositary. The American Depositary Shares or ADSs issued pursuant to such program have been registered with the Securities and Exchange Commission under a Registration Statement on Form F-6. Each such ADS represents one-fifth of one share. As of November 20, 1997, the ADSs have been listed on the New York Stock Exchange under the symbol "DA."

As of December 31, 2000, 11,436,150 ADSs were outstanding, representing approximately 1.5% of the Company's outstanding shares and there were 149 holders of record of ADSs. As of December 31, 2000, there were also fewer than 10 holders of record in the United States of the Company's shares.

The table below sets forth the reported high and low sales prices and average daily trading volume for the shares reported by Euronext Paris and for the ADSs on the New York Stock Exchange for the periods indicated.

Calendar Period	Price per Share		Price per ADS	
	High	Low	High	Low
	(in €)		(in U.S. dollars)	
1998				
First Quarter	115.3	78.4	24.3	17.1
Second Quarter	125.0	101.2	28.8	22.1
Third Quarter	143.7	107.5	30.6	25.4
Fourth Quarter	133.1	98.7	29.8	23.8
1999				
First Quarter	127.4	102.9	29.4	24.0
Second Quarter	128.1	113.1	27.1	24.7
Third Quarter	128.7	113.3	26.7	24.1
Fourth Quarter	124.0	108.0	26.1	21.7
2000				
First Quarter	123.5	90.2	24.6	17.7
Second Quarter	141.6	112.9	27.1	22.3
Third Quarter	164.5	137.1	30.6	26.1
Fourth Quarter	173.0	138.3	30.7	24.8
2001				
First Quarter	163.3	132.1	30.2	24.1

On April 30, 2001 the last reported sales price of the Company's shares on Euronext Paris was €146.5 per share and the last reported sales price of the Company's ADSs on the New York Stock Exchange was $26.0 per ADS.

Plan of Distribution

Not applicable.

Nature of Trading Market

General

On September 22, 2000, upon successful completion of an exchange offer, the Paris Bourse SBF SA, or the SBF, the Amsterdam Stock Exchanges and the Brussels Stock Exchanges merged to create Euronext, the first pan-European exchange. Through the exchange offer, all the shareholders of SBF, the Amsterdam Stock Exchange and the Brussels Stock Exchanges contributed their shares to Euronext N.V., a Dutch holding company. Following the creation of Euronext, the SBF changed its name to Euronext Paris. Securities quoted on exchanges participating in Euronext will be traded over a common Euronext platform, with central clearinghouse, settlement and custody structures. However, these securities will remain listed on their local exchanges. As part of Euronext, Euronext Paris retains responsibility for the admission of shares to Euronext Paris' trading markets as well as the regulation of those markets.

Euronext Paris

Securities approved for listing on Euronext Paris are traded on one of three regulated markets: *Premier Marché*, *Second Marché* and *Nouveau Marché*. The securities of most large public companies, including the Company, are listed on the *Premier Marché*, with the *Second Marché* available for small and medium-sized companies. Trading on the *Nouveau Marché* was introduced in March 1996 to allow

companies seeking development to access the stock market. In addition, securities of certain other companies are traded on a non-regulated over-the-counter market, the *Marché Libre OTC,* which is also operated by Euronext Paris. Securities listed on Euronext Paris are placed in one of three categories depending on the volume of transactions. As of April 23, 2001, the *Continu* A and B will be suppressed for the *Continu*. As of this date, the Company's shares will be listed in the category known as *Continu*, which includes the most actively traded securities. As of April 23, 2001, the minimum yearly trading volume required for a security to be placed in *Continu* will be 2,500 trades.

Official trading of listed securities on the *Premier Marché* is transacted through authorized financial institutions that are members of Euronext Paris. As of April 23, 2001, trading on the *Premier Marché* and the *Second Marché* takes place continuously on each business day from 9:00 a.m. to 5:25 p.m. (Paris time), with a pre-opening session from 7:15 a.m. to 9:00 a.m. and a pre-closing session from 5:25 p.m. to 5:30 p.m. during which transactions are recorded but not executed and a closing auction at 5:30 p.m. Any trade of security effected after the close of a stock exchange session is recorded on the next Euronext Paris trading day with reference to the closing price for the relevant security at the end of the previous session's closing price for that security. Euronext Paris publishes a daily official price list that includes price information concerning listed securities. Euronext Paris has introduced continuous trading during trading hours by computer for most listed securities.

Trading in the listed securities of an issuer may be suspended by Euronext Paris if quoted prices exceed certain price limits defined by the regulations of Euronext Paris. In particular, as of April 23, 2001, if the initial quoted price of a *Continu* security varies by a static threshold of 10% plus or minus from the previous day's closing price or once trading has begun, if trades are bound to breach this 10% threshold assessed by reference to the opening auction price where appropriate, trading may be suspended for up to four minutes. Euronext Paris also reserves trading for a four minute period if trades are bound to breach the so-called "dynamic" thresholds, set at 2% plus or minus the last trade price. Within a given continuous trading session, a share's price may not vary by more than the total fluctuation involved by the successive breach of two static thresholds in the same direction.

Euronext Paris may also suspend trading of a listed security in certain other circumstances, including, for example, the occurrence of unusual trading activity in such security. In addition, in exceptional cases, the *Conseil des Marchés Financiers* may also suspend trading.

Since September 25, 2000, all trading on the *Premier Marché* is performed on a cash-settlement basis. However, a deferred settlement service (*Service à Règlement Différé* or SRD) allows investors who elect this service to benefit from leverage and other special features of the monthly settlement market. The service is reserved for stocks which are either SBF 120 components or have both a total market capitalization of at least € 1 billion and represent a minimum daily trading value of € 1 million. The Company's shares are eligible to the deferred settlement service. Investors who opt for SRD get billed by the financial intermediary holding these shares. Only bearer shares can be traded using SRD. Investors can elect on the determination date (*date de liquidation*), which is the fifth trading day before the end of the month, either to settle the trade by the last trading day of the month or to pay an additional fee and postpone the settlement decision to the determination date of the following month.

Equities traded on a deferred settlement basis are considered to have been transferred only after they have been registered in the purchaser's account. Under French securities regulations, any sale of security traded on a deferred settlement basis during the month a dividend is deemed to occur after the dividend has been paid. If the sale takes place before, but during the month of, a dividend payment date, the purchaser's account will be debited by the same amount.

Selling Shareholders

Not applicable.

Dilution

Not applicable.

Expenses of the Issue

Not applicable.

Item 10. Additional Information

Share capital

Not applicable.

Memorandum and Articles of Association

For the Company's registry and number, please see "Item 4. Information on Groupe Danone—History and Development" and for the Company's corporate purpose, refer to Article 2 of the Company's *statuts*. An unofficial English translation of the *statuts* is included as an exhibit to this annual report.

The section below is a summary of the material information concerning the Company's share capital, together with material provisions of applicable French law and the Company's *statuts*. Such description of the Company's share capital and information does not purport to be complete and is qualified in its entirety by reference to the Company's *statuts*. You may obtain copies of the Company's *statuts* in French from the *Greffe du Registre du Commerce et des Sociétés de Paris*, France. Please refer to those full additional details.

Board of Directors

For a complete description of directors' powers under French law and Danone's *statuts*, see "Item 6. Directors, Senior Management and Employees—Directors and Senior Management—Board of Directors."

Share Capital

As of March 31, 2001, the Company share capital amounts to € 149,101,008 divided into 149,101,008 outstanding shares with a nominal value of € 1.0 per share. All the outstanding shares are fully paid. The Company's *statuts* provide that shares may be held in registered or bearer form, at the option of the shareholder.

Shareholders' Meetings and Voting Rights

General

In accordance with French law, there are two types of shareholders' general meetings, ordinary and extraordinary.

Ordinary general meetings are required for matters such as:

- electing, replacing and removing directors,
- allocating fees to the Board of Directors,
- appointing statutory auditors,
- approving the annual financial statements,
- declaring dividends and authorizing dividends to be paid in shares, and

- issuing debt securities.

Extraordinary general meetings are required for the approval of matters such as:

- changing the Company's *statuts*,
- approving mergers in which the Company is not the surviving entity or in which the Company is the surviving entity but in connection with which the Company is issuing a portion of its share capital to the acquired entity,
- increasing or decreasing the company's share capital,
- creating a new class of equity securities,
- authorizing the issuance of investment certificates or convertible or exchangeable securities,
- the voluntary liquidation of the Company prior to the end of its statutory term, and
- the change of the corporate purpose and/or the name of the Company.

Special meetings of shareholders of a certain category of shares are required for any modification of the rights derived from such category of shares. The resolutions of the shareholders' general meeting affecting these rights are effective only after the approval by the relevant special meeting.

Annual Ordinary Meetings

The French law requires the Board of Directors to convene an annual ordinary general meeting of shareholders to approve the annual financial statements. This meeting must be held within six months of the end of the Company's fiscal year. This period may be extended by an order of the President of the *Tribunal de Commerce*. The Board of Directors may also convene an ordinary or extraordinary general meeting of shareholders upon proper notice at any time during the year. If the Board of Directors fails to call such a meeting, the Company's statutory auditors may call the meeting. In case of a bankruptcy, the liquidator or the court-appointed agent may also call a shareholders' meeting in some instances. Any of the following may request the court to appoint an agent:

- one or several shareholders holding at least 10% of the Company's share capital,
- any interested party in cases of urgency, and
- certain duly qualified associations of shareholders who hold their shares for at least two years and who together hold 1% of the voting rights of the Company.

Notice of Shareholders' Meetings

The Company must announce general meetings at least 30 days in advance by means of a preliminary notice which is published in France in the *Bulletin des annonces légales obligatoires*, or BALO. This preliminary notice must be sent to the *Commission des Opérations de Bourse*, or COB. It must contain, among other things, the time, date and place of the meeting, the agenda of the meeting and a draft of the resolutions to be submitted to the shareholders, a description of the procedures which holders of bearer shares must follow to attend the meeting and the procedure for voting by mail.

At least 15 days prior to the date set for a general meeting on first call, and at least six days before any second call, the Company must send a final notice (*avis de convocation*) containing the final agenda and other information for the meeting. This notice must be sent by mail to all holders of registered shares who have held such shares for more than one month prior to the issuance of the notice and published in a newspaper authorized to publish legal announcements in the local administrative department in which the Company is registered, as well as in the BALO, with prior notice having been given to the COB.

In regard, shareholders can only take action at shareholders' meeting. In exception to this rule, shareholders may take action with respect to the dismissal of directors.

Additional resolutions to be submitted for approval by the shareholders at such meeting may be proposed to the Board of Directors within 10 days of the publication of the preliminary notice in the BALO by:

- one or several shareholders holding a specified percentage of shares (determined on the basis of a formula relating to capitalization), or
- a duly qualified association of shareholders holding a specified percentage of voting rights.

The Board of Directors must submit these resolutions to a vote of the shareholders.

During the fifteen days preceding a shareholders' meeting, any shareholder may submit to the Board of Directors written questions relating to the agenda for the meeting. The Board of Directors must respond to these questions.

Attendance and Voting at Shareholders' Meetings

Attendance and exercise of voting rights at ordinary general meetings and extraordinary general meetings of shareholders are subject to certain conditions specified in French law and in the Company's *statuts*. There is no requirement that a shareholder have a minimum number of shares in order to attend or to be represented at an ordinary or extraordinary general meeting.

In order to participate in any general meeting, a holder of shares held in the registered form, must have its shares registered in its name in a shareholder account maintained by or on behalf of the Company by an agent appointed by the Company at least five days prior to the date set for the meeting.

A holder of shares in bearer form must obtain a certificate from the accredited financial intermediary (*intermédiaire financier habilité*) with whom such holder has deposited its shares. This certificate must indicate the number of bearer shares owned by such holder and must state that such shares are not transferable until the time fixed for the meeting. The holder must deposit this certificate at the place specified in the notice of the meeting at least five days before the meeting.

Proxies and Votes by Mail

In general, all shareholders who have properly registered their shares or duly presented a certificate from their accredited financial intermediary, have the right to participate in general meetings. Shareholders may participate either in person or by proxy. Shareholders may vote either by proxy or by mail.

Proxies will be sent to any shareholder on request. In order to be counted, such proxies must be received at the Company's registered office or at such other address indicated on the notice convening the meeting prior to the date of the meeting. A shareholder may grant proxies to his or her spouse or to another shareholder. A shareholder that is a corporation may grant proxies to a legal representative. Alternatively, the shareholder may send us a blank proxy without nominating any representative. In this case, the Chairman of the meeting will vote the blank proxies in favor of all resolutions proposed by the Board of Directors and against all others.

With respect to votes by mail, the Company must send shareholders a voting form. Votes by mail must be received at such address at least three days prior to the date of the meeting.

Subject to the limitations described below, each share confers on the shareholder the right to one vote. Under French law, shares of a company held by entities controlled directly or indirectly by that company are not entitled to voting rights and are not counted for quorum or majority purposes.

The *statuts* provide that each registered share held in the same name for at least two years shall entitle the holder thereof to two votes at a meeting of shareholders. The *statuts* also provide that no one shareholder shall be able to exercise, directly or indirectly, more than 6% of the total number of voting rights represented by the outstanding shares of the Company as of the date of the meeting; provided that, a shareholder may exercise more than 6%, and subject to certain conditions, up to 12%, of the total number of voting rights to the extent such voting rights result from double voting rights attached to such shareholder's shares as described in the previous sentence. The foregoing limitations on voting rights shall no longer apply in the event any person or persons acting in concert acquire more than two-thirds of the shares in a public tender offer for the totality of the shares.

Quorum

French company law requires that shareholders having at least 25% of the shares entitled to voting rights must be present in person or voting by mail or by proxy to fulfill the quorum requirement for:

- an ordinary general meeting, and
- an extraordinary general meeting where an increase in the Company's share capital is proposed through incorporation of reserves, profits or share premium.

The quorum requirement is 33⅓% of the shares entitled to voting rights, on the same basis, for any other extraordinary general meeting.

If a quorum is not present at a meeting, the meeting is adjourned. When an adjourned ordinary meeting is resumed, there is no quorum requirement. No quorum is required when an adjourned extraordinary general meeting is resumed only to approve an increase in our share capital through incorporation of reserves, profits or share premium. In the case of any other resumed extraordinary general meeting, shareholders having at least 25% of outstanding voting rights must be present in person or voting by mail or by proxy for a quorum. If a quorum is not present, the reconvened meeting may be adjourned for a maximum of two months. No deliberation by the shareholders may take place without a quorum. However, only questions which were on the agenda of the adjourned meeting may be discussed and voted upon.

Majority

At an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by incorporation of reserves, a simple majority of the votes cast is required to pass a resolution. At any other extraordinary general meeting, a two-thirds majority of the votes cast is required.

However, a unanimous shareholders vote is required to increase liabilities of shareholders.

Abstention from voting by those present or represented by proxy but not voting is viewed as a vote against the resolution submitted to a shareholder vote.

Financial Statements and Other Communications with Shareholders

In connection with any shareholders' meeting, the Company is required to provide to any shareholder who so requests a set of documents, including the Company's annual report and a summary of the results of the five previous fiscal years.

Dividends

The Company's unconsolidated statutory net income in each fiscal year, as increased or reduced, as the case may be, by any profit or loss of the Company carried forward from prior years, and as reduced

by the legal reserve fund allocation described below, is available for distribution to the shareholders of the Company as dividends, subject to the requirements of French law and the Company's *statuts*.

Legal Reserve

French law provides that French *sociétés anonymes* are each required to allocate 5% of their unconsolidated statutory net profits in each fiscal year to a legal reserve fund before dividends may be paid with respect to that year. Funds must be allocated until the amount in such reserve fund is equal to 10% of the aggregate nominal amount of the issued and outstanding share capital. The legal reserve is distributable only upon liquidation of the relevant entity.

Approval of Dividends

According to French law, the Board of Directors may propose a dividend for approval by the shareholders at the annual general meeting of shareholders. The *statuts* provide that, to the extent the distributable profits are sufficient, an initial dividend will be paid to the shareholders each year equivalent, subject to certain adjustments, to 6% of the paid-in capital of the Company. If the Company has earned distributable profits since the end of the preceding fiscal year as reflected in an interim income statement certified by the Company's auditors, the Board of Directors may distribute interim dividends to the extent of the distributable profits for the period covered by the interim income statement. The Board of Directors may declare such dividends, subject to French law, and may do so, for interim dividends paid in cash, without obtaining shareholder approval. For interim dividends paid in shares, prior authorization by a shareholders' meeting is required.

Distribution of Dividends

Dividends are distributed to shareholders *pro rata* according to their respective holdings of shares. Dividends are payable to holders of shares outstanding on the date of the shareholders' meeting approving the distribution of dividends. In the case of interim dividends, distributions are made to shareholders on the date of the Board of Directors' meeting approving the distribution of interim dividends. The actual dividend payment date is decided by the shareholders in an ordinary general meeting or by the Board of Directors in the absence of such a decision by the shareholders. The *statuts* provide that the shareholders' meeting may decide to give each shareholder the option of receiving its dividend in the form of cash or of shares.

Timing of Payment

According to French law, the Company must pay any dividends within nine months of the end of the Company's fiscal year, unless otherwise authorized by a court order. Dividends not claimed within five years of the date of payment revert to the French State.

Changes in Share Capital

Increases in Share Capital

Pursuant to French law, the share capital of the Company may be increased only with the approval of the shareholders at an extraordinary general meeting. Increases in the Company's share capital may be effected by:

- issuing additional shares,
- issuing a new class of equity securities, or
- increasing the nominal value of the existing shares.

Increases in share capital by issuing additional securities may be effected by issuing such securities:

- for cash,
- for assets contributed in kind,
- by conversion of debt securities previously issued,
- by capitalization of profits, reserves or shares premiums,
- subject to various conditions, in satisfaction of debt incurred by the company, or
- any combination of the above.

Decisions to increase the share capital through the capitalization of reserves, profits and/or share premiums require the approval of an extraordinary general meeting, acting under the quorum and majority requirements applicable to shareholders' meetings. Increases effected by an increase in the nominal value of shares require unanimous approval of the shareholders, unless effected by capitalization of reserves, profits or share premiums. All other capital increases require the approval of an extraordinary general meeting. See "—Shareholders' Meeting and Voting Rights."

The shareholders may delegate the right to carry out any increase in share capital to the Board of Directors, provided that the increase has been previously authorized by the shareholders. The Board of Directors may further delegate this right to the Chairman and Chief Executive Officer.

Decreases in Share Capital

According to French law, the share capital of the Company may be decreased only with the approval of the shareholders at an extraordinary general meeting. In the case of a capital reduction, other than a reduction to absorb losses or a reduction as part of a program to purchase the Company's shares, all holders of shares must be offered the possibility to participate in such a reduction. The Company's share capital may be reduced either by decreasing the nominal value of the shares or by reducing the number of outstanding shares. The number of outstanding shares may be reduced either by an exchange of shares or by the repurchase and cancellation of shares. Holders of each class of shares must be treated equally unless affected shareholders agree otherwise.

Preemptive Subscription Rights

According to French company law, if the Company issues specific kinds of additional securities, current shareholders will have preemptive subscription rights to these securities on a pro rata basis. These preemptive rights require the Company to give priority treatment to those shareholders. The rights entitle the individual or entity that holds them to subscribe to an issue of any securities that may increase the share capital of the Company by means of a cash payment or a settling of cash debts. Preemptive subscription rights are transferable during the subscription period relating to a particular offering. These rights may also be listed on the Euronext Paris.

A two-thirds majority of the shares entitled to vote at an extraordinary general meeting may vote to waive preemptive subscription rights with respect to any particular offering. French law requires that the Board of Directors and the Company's independent auditors present reports that specifically address any proposal to waive preemptive subscription rights. In the event of a waiver, the issue of securities must be completed within the period prescribed by law. The shareholders may also decide at an extraordinary general meeting to give the existing shareholders a non transferable priority right to subscribe to the new securities, during a limited period of time. A two-thirds majority of the shares entitled to vote at an extraordinary general meeting also may grant to existing shareholders a non transferable form of preemptive rights to subscribe to any new securities that may affect the share

capital. Shareholders also may notify the Company that they wish to waive their own preemptive subscription rights with respect to any particular offering if they so choose.

Form, Holding and Transfer of Shares

Form of Shares

The Company's *statuts* provide that the shares must be held in registered or bearer form.

Holding of Shares

In accordance with French law concerning dematerialization of securities, shareholders' ownership rights are not represented by share certificates but by book entries.

The Company maintains a share account with Euroclear France, or Euroclear, with respect to all shares in registered form (the "Company Share Account"), which in France is administered by Lazard Frères et Cie acting on behalf of the Company as its agent. In addition, Lazard Frères et Cie on behalf of the Company, maintains separate accounts in the name of each shareholder (a "Shareholder Account") either directly or, at a shareholder's request, through the shareholder's accredited intermediary. Each Shareholder Account shows the name of the holder and his shareholdings and, in the case of shares held through an accredited intermediary, shows that they are so held. Lazard Frères et Cie, as a matter of course, issues confirmations as to the shares registered in the Shareholder Accounts, but these confirmations do not constitute documents of title.

Shares held in bearer form are held on the shareholder's behalf in an accredited intermediary and are registered in an account maintained by such accredited intermediary with Euroclear. Each accredited intermediary maintains a record of shares held through it and will issue certificates of registration in respect thereof. Transfers of shares held in bearer form may only be effected through accredited intermediaries and Euroclear.

The Company's *statuts* allow the Company to request that Euroclear provide the Company at any time with identity of holders of securities conferring immediate or eventual voting rights at its shareholders' meetings along with the number of securities held by each of them and, if applicable, the restrictions relating to the said securities.

Transfer of Shares

The Company's *statuts* do not contain any restrictions relating to the transfer of the shares.

Registered shares must be converted into bearer form before being transferred on Euronext Paris and accordingly, must be registered in an account maintained by an accredited intermediary. A shareholder may initiate a transfer by giving instructions to the relevant accredited intermediary.

Dealings in shares are initiated by the owner giving instructions (through his agent, if appropriate) to the relevant accredited intermediary. For dealings on Euronext Paris, an *impôt sur les opérations de bourse,* tax assessed on the price at which the securities were traded, is payable at the rate of 0.3% on transactions up to FF 1,000,000 and at a rate of 0.15% thereafter. The tax is subject to a rebate of FF 150 per transaction and a maximum assessment of FF 4,000 per transaction. However, persons who are non-residents of France are not subject to the payment of such *impôt sur les opérations de bourse.*

A fee or commission is payable to the broker involved in the transaction, regardless of whether the transaction occurs within or outside France. No registration duty is normally payable in France, unless a transfer instrument has been executed in France.

Liquidation Rights

In the event that the Company is liquidated, the assets of the Company remaining after payment of its debts, liquidation expenses and all of its remaining obligations, if any, will be distributed first to repay in full the nominal value of the shares. Any surplus will be distributed pro rata among the holders of shares in proportion to the nominal value of their shareholdings.

Requirements for Holdings Exceeding Certain Percentages

French law provides that any individual or entity, acting alone or in concert with others, that acquires, directly or indirectly, more than one-twentieth, one-tenth, one-fifth, one-third, one-half or two-thirds of the share capital or the voting rights of any French company listed on the Euronext Paris, or whose holdings fall below any such level, must notify such company within 15 calendar days of exceeding or falling below such level. The individual or the entity must also notify the *Conseil des Marchés Financiers*, or CMF, within five trading days of such date of the number of equity securities it holds and the voting rights attached thereto.

French law and the COB regulations impose additional reporting requirements on persons who acquire more than 10% or 20% of the outstanding shares or voting rights of a listed company. These persons must file a report with the company, the COB and the CMF within 15 days of the date they cross the threshold. In the report, the acquirer must specify its intentions for the following 12-month period, including whether or not it intends to continue its purchases, to acquire control of the company in question or to seek nomination to the board of directors. The CMF makes the notice public. The acquirer must also publish a press release stating its intentions in a financial newspaper of national circulation in France. The acquirer may amend its stated intentions, provided that it does so on the basis of significant changes in its own situation or shareholders. Upon any changes of intention, it must file a new report.

Under the CMF regulations, and subject to limited exemptions granted by the CMF, any person or persons acting in concert acquiring 33⅓% or more of the share capital or voting rights of a French listed company must initiate a public tender offer for the balance of the share capital of such company.

In addition, the Company's *statuts* provide that any person or persons acting in concert holding shares representing 0.5% or any multiple thereof of the voting rights outstanding at any time must, within 15 days of reaching such threshold, notify the Company thereof by registered mail. In the event of the failure to comply with this notification requirement, and upon the request of any holder or holders of 5% or more of the voting rights, such non-complying shareholder shall not be able to exercise any of its voting rights above the relevant threshold for a period of two years following its compliance with the notification requirements.

In order to permit shareholders to give the required notice, the Company must publish information with respect to the total number of votes available as of the date of the Company's annual general meeting in the BALO not later than 15 calendar days after such meeting. In addition, if the number of available votes changes by at least 5% between two ordinary general meetings, the Company is required to publish in the BALO, within 15 calendar days of such change, the number of votes then available and provide the CMF with a written notice. The CMF publishes the total number of voting rights so notified by all listed companies in a weekly notice (*avis*), mentioning the date each such number was last updated. In order to facilitate compliance with the notification requirements provided for under French law, a holder of ADSs may deliver any such notification to the Depositary with respect to shares represented by ADSs and the Depositary shall immediately forward such notification to the Company and the CMF.

If any person fails to comply with the legal notification requirement, the undeclared share capital interest in excess of the required notification level will be deprived of voting rights until the end of a

two-year period following the date on which the owner thereof has complied with such notification requirement. In addition, any shareholder (including a holder or beneficial owner of ADSs) who fails to comply with the above requirements may have all or part of its voting rights suspended for up to five years by the commercial court at the request of the Company's Chairman and Chief Executive Officer, any shareholder or the COB, and may be subject to a FF 120,000 fine.

Purchase by the Company of its Shares

In accordance with French law, the Company may not subscribe for its shares but it may, either directly or through a financial intermediary acting on its behalf, purchase its own shares for one of three purposes:

- to reduce its capital stock under certain circumstances with the approval of the shareholders at an extraordinary general meeting,
- to provide shares for distribution to employees under a profit-sharing or stock option plan, or
- to acquire up to 10% of its share capital if the Company's shares are listed on a regulated market (*i.e.*, on the *Premier Marché*, the *Second Marché* or the *Nouveau Marché*), subject to the filing of a note d'information that has received the approval (*visa*) of the COB and after obtaining approval from the shareholders at an ordinary general meeting.

In the last case, the Company may decide to (i) keep the shares acquired, (ii) sell or transfer them (including to employees under a profit-sharing plan or stock option plan) or (iii) with the approval of the shareholders at an extraordinary meeting, cancel them, subject to a maximum of 10% of the outstanding share capital over any 24-month period.

Repurchased shares held by the Company must be held in registered form. These shares must be fully paid. Such shares are deemed to be outstanding under French law but are not entitled to dividends (these are carried forward to the next fiscal year as distributable profits) or voting rights and the Company may not exercise preferential subscription rights.

The shareholders, at an extraordinary general meeting, may decide not to take such shares into account in determining the preferential subscription rights attached to the other shares. However, if the shareholders decide to take them into account, the Company must either sell the rights on the market before the end of the subscription period or distribute them to the other shareholders on a pro rata basis.

Pursuant to a resolution which will be approved by the Company's shareholders at a general meeting to be held on May 29, 2001, the Company will be authorized to purchase up to 9,000,000 of its shares with a maximum purchase price of € 200 and a minimum sale price of € 120. This authorization will void and replace the one which was granted by the general shareholders' meeting on May 22, 2000. This authorization is granted for 18 months starting from May 29, 2001. As of December 31, 2000, the Company purchased 1,570,590 of its shares between January and May 2001 at an average purchase price of € 110 per share.

At the May 29, 2001 general meeting, the Company's board of directors will be authorized to cancel the repurchased shares and reduce up to 10% of the Company's share capital over a 24-month period.

Trading by the Company in its Shares

Under *Règlement no. 90-04* of the COB, as amended, the Company may not trade in its own shares for the purpose of manipulating the market. There are three requirements for trades by a company in its own shares to be considered valid. Specifically, in order to be valid:

- trades must be executed on behalf of the company by only one intermediary or, if the issuer uses its share repurchase program in part by way of derivatives, by two intermediaries provided that the issuer is able to ensure an appropriate coordination between the intermediaries, in each trading session, except during the issue period of any securities and one month after the listing of the securities if the trades are made to ensure the success of the issuance,
- any block trades may not be made at a price above the current market price, and
- each trade must be made at a price that falls between the lowest and the highest trading price of the trading session during which it is executed.

If a company's shares are continuously quoted (*cotation en continu*), then a trade must meet the following further requirements to be considered valid:

- the trade must not influence the determination of the quoted price before the opening of trading, at the opening of the trading or session, at the first trade of the shares, at the reopening of trading following suspension, or, as applicable, in the last half-hour of any trading session or at the fixing of the closing price,
- the trade must not be carried out in order to influence the price of a derivative instrument relating to the company's shares, and
- the trade must not account for more than 25% of the average total daily trading volume on the *Premier Marché* in the shares during the 15 trading days immediately preceding the trade. This last requirement applies only to trades in shares that are traded on the immediate settlement market and are not eligible for the deferred settlement service.

If a company's shares are quoted at fixings, then a trade must meet one further requirement to be considered valid:

- the trade must not account for more than 25% of the average daily trading volume in the shares during the 15 trading days immediately preceding the trade.

However, there are two periods during which the Company is not permitted to trade in its own securities: the 15-day period before the date on which the Company makes its consolidated or annual accounts public, and the period beginning on the date at which the Company becomes aware of information that, if disclosed, would have a significant impact on the market price of its securities and ending on the date this information is made public.

After making an initial purchase of its own shares, the Company must file reports with the COB and the CMF that contain specified information about subsequent transactions. The CMF makes this information publicly available.

Material Contracts

Acquisition by Groupe Danone of McKesson Water Products Company

On February 29, 2000, Danone International Brands Corporation, Inc., a Delaware corporation wholly owned by Groupe Danone, acquired from McKesson HBOC, Inc., all the 10,000 issued and outstanding shares of its subsidiary, McKesson Water Products Company, a California corporation, for a total cash consideration of $ 1.1 billion pursuant to the terms of a stock purchase agreement dated January 10, 2000, as amended on February 29, 2000. Groupe Danone guaranteed the performance by

Danone International Brands Corporation, Inc of its obligations under the stock purchase agreement. Prior to the completion of the transaction, Danone International Brands Corporation, Inc. assigned all of its rights and obligations under the stock purchase agreement to Danone Holdings, Inc., a Delaware corporation. The parties also entered into a number of agreements regarding the provision of services during a limited transition period, the transfer of intellectual property and the license of technology as well as a € 6.0 million guarantee of McKesson Water Products Company's obligations under a loan agreement.

Sale of Groupe Danone's Beer Activities to Scottish & Newcastle plc

On May 18, 2000, the Company entered into a framework agreement with Scottish & Newcastle to combine its brewing businesses in France, Belgium and Spain, with those of Scottish & Newcastle in the United Kingdom and Ireland, to create the second largest brewer in Western Europe. The framework agreement contemplated that the combination would be implemented in two stages. At stage one, which was completed on May 18, 2000, the Company transferred 100% of its interest in Elidis, its French distribution business, and FAS, a subsidiary of the Company, transferred its 99.65% interest in BUB (which owned 98.9% of Alken Maes, the Company's beer subsidiary in Belgium) and its 100% interest in Soredis, the Company's wholesaling businesses in France to a wholly owned subsidiary of Scottish & Newcastle plc. At the same time, Brasseries Kronenbourg, a wholly owned subsidiary of Danone transferred its French brewing assets, with the exception of certain principal trademarks, to a new French limited partnership. Brasseries Kronenbourg will be a limited partner of the partnership, together with two other Groupe Danone companies, and a Scottish & Newcastle subsidiary will be the general and managing partner. Brasseries Kronenbourg also granted an exclusive worldwide license (subject to certain existing licenses) of these principal trademarks to the limited partnership.

In exchange for these contributions, the Company received an aggregate consideration of approximately FF 4.616 billion, as follows:

- FF 1.116 billion in cash, which was used by a subsidiary of FAS, together with FF 384 million of its own resources, to purchase from Scottish & Newcastle new preference shares issued by a subsidiary of Scottish & Newcastle having a nominal value equal to the sterling equivalent of FF 1.5 billion;
- 24,063,213 new ordinary shares (valued at FF 1 billion, based upon Scottish & Newcastle's average share price for the 10 business days before the announcement of the transaction of 387.35p);
- the procurement by Scottish & Newcastle of the repayment of approximately FF 2.5 billion of the Company's debt; and
- unlisted warrants for the subscription of 25 million new ordinary shares in Scottish & Newcastle at £6 per share.

During stage one, and until December 31, 2002, the Company is entitled to an agreed level of net income. This will amount to FF 596 million for the calendar year ending December 31, 2000, increasing by 5% per annum for each of the following two calendar years. This income will be met, in whole or part, through a combination of: (i) dividends from its interest in the limited partnership; (ii) royalties paid by the limited partnership and other third parties to Brasseries Kronenbourg under certain trademark licenses (iii) dividends on the preference shares and ordinary shares; and (iv) the net sale proceeds in respect of a property in Nantes. Any shortfall will be made up by Scottish & Newcastle. This income will be reduced pro rata to the extent that the Company exercises its option to sell its shares in Brasseries Kronenbourg, as described below.

During stage one, and until March 2003, the Company has a put option to sell its shares in Brasseries Kronenbourg to Scottish & Newcastle for a total of FF 13 billion, in cash, plus a premium calculated at the rate of 3%, per annum on that amount, calculated from March 17, 2000. This option may be exercised in up to four tranches of not less than FF 2.6 billion (net of premium) each from December 31, 2000. Upon full exercise of the option, the Company will be required to sell to Scottish & Newcastle its entire interest in the Company's subsidiary, FAS, for FF 1.5 billion. The consideration (net of premium) payable by Scottish & Newcastle for the shares in Brasseries Kronenbourg (FF 13 billion) together with the consideration payable by Scottish & Newcastle for the shares in FAS (FF 1.5 billion) are secured by a letter of credit issued by UBS AG.

If, by March 2003, Scottish & Newcastle has not acquired the interests of the Company in Brasseries Kronenbourg, the transaction will move to stage two. At stage two, the Company and Scottish & Newcastle will form a joint venture in the United Kingdom, in which the Company will transfer its remaining shareholding interests in Brasseries Kronenbourg. This new joint venture will be owned at 75% by Scottish & Newcastle and 25% by the Company.

San Miguel and Mahou

As contemplated in the framework agreement with Scottish & Newcastle, on May 18, 2000, the Company sold its 70% interest in San Miguel to Mahou (33% owned by Danone) for a cash consideration of FF 2.1 billion. The Company has a put option to sell to Scottish & Newcastle Danone's interests in Mahou for FF 2.9 billion under certain conditions, including, for a limited period, obtaining the agreement of Scottish & Newcastle.

Exchange Controls

Ownership of ADSs or Shares by Non-French Residents

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

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

Exchange Controls

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

Other

For other limitations affecting shareholders, see "—Form, Holding and Transfer of Shares" and "—Requirements for Holdings Exceeding Certain Percentages."

Taxation

French Taxation

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

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

Potential purchasers of shares are urged to consult their own tax advisers concerning the consequences of ownership and disposal of shares.

Taxation on Sale or Disposal of Shares

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

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

Taxation of Dividends

In France, dividends are paid out of after-tax income. French residents who receive dividends from French companies are entitled to a tax credit known as the *avoir fiscal*.

According to the budget law for 2001, the amount of the *avoir fiscal* is generally equal to:

- 50% of the dividend paid for (i) individuals and (ii) companies which own at least 5% of the capital of the French distributing company; or
- 25% of the dividend paid for the other shareholders who use the *avoir fiscal* in 2001, and 15% of the dividend paid for such other shareholders who will use the *avoir fiscal* as of January 1, 2002.

In addition, if the distribution of dividends gives rise to the *précompte*, shareholders entitled to the *avoir fiscal* at the rate of 25%, and then 15%, will generally be entitled to an additional amount of *avoir fiscal* equal to:

- 50% of the *précompte* paid in cash by the distributing company for shareholders entitled to use the *avoir fiscal* at the rate of 25%; and
- 70% of the *précompte* paid in cash by the distributing company for shareholders entitled to use the *avoir fiscal* at the rate of 15%.

As indicated below, the *précompte* is a tax which is paid by French companies when they distribute dividends out of certain profits (see paragraph below relating to the *précompte*).

Dividends paid to non-residents are normally subject to a 25% French withholding tax and, under French domestic law, non-residents are not eligible for the benefit of the *avoir fiscal*. Under most tax treaties entered into between France and other countries, such withholding tax may, subject to certain conditions, be reduced and give rise in such other country to a tax credit of the amount of the tax withheld or, in the case of certain tax treaties, be eliminated.

Furthermore, the following countries and *Territoires d'Outre-Mer* and other territories have entered into treaties with France whereby tax residents of such countries and territories may, under certain circumstances, obtain from the French tax authorities a reduction (generally reducing the withholding rate to 15%) of all or part of such withholding tax and a refund of the *avoir fiscal* (net of applicable withholding tax), or in the case of German tax residents, a tax credit in an amount equal to the aggregate of the amount of the applicable *avoir fiscal* and the amount of the applicable withholding tax.

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

Territoires d'Outre-Mer and Other:

Mayotte
New Caledonia
Saint-Pierre et Miquelon

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

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

Amounts distributed as dividends by French companies out of profits which have not been taxed at the ordinary corporate income tax rate or which have been earned and taxed more than five years before the distribution are subject to a tax known as the *précompte*. The *précompte* is paid by the distributing company to the French tax authorities and is equal to one-half of the nominal dividend distributed. When a tax treaty in force does not provide for a refund of the *avoir fiscal* or when the non-resident investor is not entitled to such refund but is otherwise entitled to the benefits of a tax treaty, such investor may obtain from the French tax authorities a refund of such *précompte* actually paid in cash by the Company, if any (net of applicable withholding tax).

Estate and Gift Tax

France imposes estate and gift tax on shares of French companies acquired by inheritance or gift from a non-resident of France. France has entered into estate and gift tax treaties with a number of countries pursuant to which, assuming certain conditions are met, residents of the treaty countries may be exempted from such tax or obtain a tax credit. Prospective investors in shares should consult their

own advisors concerning the applicability of French estate and gift tax to their shareholding in the Company and the availability of, and the conditions for claiming exemption under, such a treaty.

Wealth Tax

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

Taxation of U.S. Investors

The following is a general summary of certain U.S. federal income tax and French tax consequences to beneficial owners of one or more shares or ADSs (a) who own, directly and indirectly, less than 10% of the capital of the Company, (b) who are (i) individual citizens or residents of the United States for U.S. federal income tax purposes, (ii) a corporation or certain other entities, created or organized in or under the laws of the United States or any state thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of the trust, (c) who are entitled to the benefits of the Convention between the Government of the United States of America and the Government of the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, signed August 31, 1994 (the "Treaty") under the "Limitation on Benefits" article of that Treaty ("U.S. Holders"), (d) who hold the shares or ADSs as capital assets and (e) whose functional currency is the U.S. dollar. Certain holders (including, but not limited to, United States expatriates, insurance companies, tax-exempt organizations, financial institutions, persons subject to the alternative minimum tax, securities broker-dealers and persons holding the shares or ADSs as part of a conversion transaction) may be subject to special rules not discussed below. Because this is a general summary, investors are advised to consult their own tax advisor concerning the specific U.S. federal state and local tax consequences relating to the ownership and disposition of shares and ADSs and shares applicable in light of their particular situations, as well as any consequences arising under the laws of any other relevant taxing jurisdiction.

The statements of United States and French tax laws set forth below assume that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms and are based on United States and French laws currently in force, and on the practice of the French tax authorities, as of the date hereof, and as a consequence are subject to any changes in such laws, conventions or practice occurring after such date.

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

Taxation of Dividends

Withholding/Avoir Fiscal. In France, dividends are paid out of after-tax income. French residents who receive dividends from French companies are entitled to a tax credit known as the *avoir fiscal*.

According to the budget law for 2001, the amount of the *avoir fiscal* is generally equal to:

- 50% of the dividend paid for (i) individuals and (ii) companies which own at least 5% of the capital of the French distributing company; or
- 25% of the dividend paid for the other shareholders who use the *avoir fiscal* in 2001, and 15% of the dividend paid for such other shareholders who will use the *avoir fiscal* as of January 1, 2002.

In addition, if the distribution of dividends gives rise to the *précompte*, shareholders entitled to the *avoir fiscal* at the rate of 25%, and then 15%, will generally be entitled to an additional amount of *avoir fiscal* equal to:

- 50% of the *précompte* paid in cash by the distributing company for shareholders entitled to use the *avoir fiscal* at the rate of 25%; and
- 70% of the *précompte* paid in cash by the distributing company for shareholders entitled to use the *avoir fiscal* at the rate of 15%.

As indicated below, the *précompte* is a tax which is paid by French companies when they distribute dividends out of certain profits (see paragraph below relating to the *précompte*).

Under French domestic law, dividends paid to non-residents are normally subject to a 25% French withholding tax and, non-residents are not eligible for the benefit of the *avoir fiscal*.

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

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

In general, under the Treaty, an eligible U.S. Holder may receive a payment of the *avoir fiscal* only if such holder (or its partners, beneficiaries or grantors, if the holder is a partnership or trust) attests that it is subject to U.S. federal income taxes on the payment of the *avoir fiscal* and the related dividend. Certain entities are not entitled to the full *avoir fiscal*. Tax-exempt "U.S. Pension Funds", as discussed below, and certain other tax-exempt entities (including certain State-owned institutions, not-for-profit organizations and individuals with respect to dividends beneficially owned by such individuals and derived from an investment retirement account) ("Other Tax-Exempt Entities") that own, directly or indirectly, less than 10% of the capital of the Company, and that satisfy certain filing formalities specified in the Regulations (i) are entitled to a payment, subject to French withholding tax,

equal to 30/85 of the gross *avoir fiscal* (the "partial *avoir fiscal*") and (ii) are eligible for the reduced withholding tax rate of 15% on dividends. A "U.S. Pension Fund" includes the exempt pension funds established and managed in order to pay retirement benefits subject to the provisions of Section 401(a) (qualified retirement plans), Section 403(b) (tax deferred annuity contracts) or Section 457 (deferred compensation plans) of the Internal Revenue Code.

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

In all cases, the *avoir fiscal* or partial *avoir fiscal* is generally expected to be paid to eligible U.S. Holders, U.S. Pension Funds and Other Tax-Exempt Entities within 12 months of filing the Form, but not before January 15th following the end of the calendar year in which the related dividend is paid. Similarly, any French withholding tax refund is generally expected to be paid to U.S. Holders within 12 months of filing the Form, but not before January 15th following the end of the calendar year in which the related dividend is paid.

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

For U.S. federal income tax purposes, the gross amount of any distribution and the related *avoir fiscal* paid to a U.S. Holder, including any French withholding tax thereon, will be included in gross income as ordinary dividend income in the year each such payment is received (which, in the case of a U.S. Holder of ADSs, will be the year of receipt by the depositary) to the extent paid or deemed paid out of the Company's current or accumulated earnings and profits as calculated for U.S. federal income tax purposes. No dividends received deduction will be allowed with respect to dividends paid by the Company. Such dividends will generally constitute foreign source "passive" or (in the case of certain holders) "financial services" income for foreign tax credit purposes. The amount of any dividend paid in Euros or French francs, including the amount of any French taxes withheld therefrom, will be equal to the U.S. dollar value of the euros or French francs on the date such dividend is included in income

(which, for a U.S. Holder of ADSs, will be the date of receipt by the depositary), regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder will generally be required to recognize U.S. source ordinary income or loss upon the sale or disposition of euros or French francs. Moreover, a U.S. Holder may be required to recognize foreign currency gain or loss, which will generally be U.S. source ordinary income or loss, upon the receipt of a refund of amounts, if any, withheld from a dividend in excess of the Treaty rate of 15%.

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

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

Précompte. Amounts distributed as dividends by French companies out of profits which have not been taxed at the ordinary corporate income tax rate or which have been earned and taxed more than five years before the distribution and which give rise to the *avoir fiscal* are subject to a tax known as the *précompte*. The *précompte* is paid by the distributing company to the French tax authorities and is equal to one-half of the nominal dividend distributed by such company.

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

A U.S. Holder entitled to the refund of the *précompte* must apply for such refund by filing a French Treasury form RF1BEU-NO. 5053 before the end of the year following the year in which the dividend was paid. The form and its instructions are available from the United States Internal Revenue Service or at the *Centre des Impôts des Non Résidents* (9 rue d'Uzès, 75094 Paris Cedex 2).

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

Taxation of Capital Gains

A U.S. Holder who is a resident of the United States as defined pursuant to the provisions of the Treaty will not be subject to French tax on any capital gain from the sale or exchange of shares or ADSs unless these shares or ADSs form part of the business property of a permanent establishment or fixed base that the U.S. Holder has in France. Special rules apply to individuals who are residents of more than one country. The deposit or withdrawal of shares by a U.S. Holder under the deposit agreement will not be subject to U.S. federal income tax.

In general, for U.S. federal income tax purposes, a U.S. Holder will recognize capital gain or loss on the sale or exchange of shares or ADSs in the same manner as on the sale or exchange of any other shares held as capital assets. Such gain or loss, if any, will generally be U.S. source gain or loss. In the case of a U.S. Holder who is an individual, any capital gain generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

French Estate and Gift Taxes

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

French Wealth Tax

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

United States Information Reporting and Backup Withholding

Dividend payments made to holders, and proceeds paid from the sale, exchange, or disposal of shares or ADS may be subject to information reporting to the IRS and possible U.S. federal backup withholding at a 31% rate. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from backup withholding. Any U.S. persons required to establish their exempt status generally must file IRS Form W-9 ("Request for Taxpayer Identification Number and Certification"). Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status in connection with payments received in the United States or through certain U.S.-related financial intermediaries. Finalized Treasury regulations have generally expanded the circumstances under which U.S. information reporting and backup withholding may apply.

Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

Dividends and Paying Agents

Not applicable.

Statements by Experts

Not applicable.

Documents on Display

The documents referred to in this annual report can be read at the U.S. Securities and Exchange Commission's public reference facilities at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at their regional offices located at 7 World Trade Center, 13th Floor, New York, New York 10048 and at the Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511.

Subsidiary Information.

Not applicable.

Item 11. Quantitative And Qualitative Disclosures About Market Risk

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

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

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

Sensitivity to interest rate fluctuations

The main instruments used to reduce interest rate exposure are interest rate swaps, caps, floors and swaptions contracts negotiated with major financial institutions. See Note 25 to the Consolidated Financial Statements for the nominal amount, maturation date and market value information of these instruments at December 31, 1999 and 2000. Information about the weighted average interest rate of debt is disclosed in Note 16 to the Consolidated Financial Statements.

The tables below provide an indication of the estimated future and significant cash-flows from (i) market risk sensitive instruments exposed to changes in interest rates held by Danone at December 31, 2000, and (ii) the related hedged assets and liabilities (*i.e.*, the Group's consolidated net debt) existing as of December 31, 2000. Such estimated cash flows are calculated based on the interest rates (TAM: 4.28%, T4M: 4.85%, EURIBOR 1 month: 4.86% or EURIBOR 3 months: 4.86%) and currency exchange rates at December 31, 2000.

Expected cash flows from the existing interest rate instruments at December 31, 2000 are shown below by maturity dates:

	2001	2002	2003	2004	2005	Subsequent to 2005
			(€ in millions)			
Interest rate swaps						
euros:						
• fixed rates:						
— payable (average rate: 6.64%)	(17)	(10)	(5)	—	—	—
— receivable (average rate: 5.79%)	52	26	16	10	—	—
• variable rates:						
— payable (TAM rate)	(41)	(20)	(12)	(7)	—	—
— receivable (TAM rate)	11	6	3	—	—	—
Interest rate options *(with variable reference rates at TAM, T4M or EURIBOR 3 months)*						
• floors	—	—	—	—	—	—
• flexicaps	1	—	—	—	—	—
• caps	1	—	—	—	—	—
• swaptions	—	—	—	—	—	—

Expected interest cash-flows from the assets and liabilities existing at December 31, 2000 and hedged by the above-mentioned instruments are shown below by maturity dates. Expected net debt repayments and proceeds from the sales of marketable securities are not reported below.

	2001	2002	2003	2004	2005	Subsequent to 2005
			(€ in millions)			
Long-term debt						
• fixed rates (average rate: 5.91%)	(64)	(63)	(62)	(22)	(1)	—
• variable rate (EURIBOR 3 months)	(55)	(33)	(20)	(12)	(10)	(7)
• variable rate (EURIBOR 1 month)	(74)	(72)	(62)	(30)	(5)	—
Cash and cash equivalents, net of short-term debt and bank overdrafts *(variable rate EURIBOR 1 month)*	11	—	—	—	—	—
Marketable securities *(variable rate EURIBOR 1 month)*	11	11	9	5	1	—

Sensitivity to currency fluctuations

The Group's policy with respect to fluctuations in exchange rates is to calculate periodically its net foreign currency exposure based on the combined firm and budgeted operating transactions of all its subsidiaries and to use derivatives to reduce this exposure. The main instruments are forward exchange contracts entered into with major financial institutions. See Note 25 to the Consolidated Financial Statements for the nominal amount and market value information of these instruments at December 31, 1999 and 2000.

The table below provides an indication of the estimated future cash flows from the existing currency hedging instruments at December 31, 2000, shown by maturity dates, and by nature of the hedged transactions, whether financial (local "cash pooling") or anticipated commercial transactions. These cash flows are determined based on the applicable currency rates.

	2001	2002	After 2002
	(€ in millions)		
Anticipated commercial transactions *(with a net position different from zero)*			
Forward purchases of:			
• U.S. dollar	(18)	—	—
• Hong Kong dollar	(17)	(3)	—
• Polish zloty	(9)	—	—
• Canadian dollar	(4)	—	—
• Other currencies	(7)	—	—
Forward sales of:			
• British sterling	125	176	—
• U.S. dollar	99	2	—
• Japanese yen	77	9	—
• Mexican peso	50	2	—
• Swiss franc	37	3	—
• Czech crown	22	—	—
• Other currencies	33	2	—
Financial transactions:			
Forward purchases of:			
• Canadian dollar	(48)	—	—
• Czech crown	(43)	—	—
• Japanese yen	(8)	—	—
• British sterling	(5)	—	—
• Other currencies	(6)	—	—
Forward sales of:			
• U.S. dollar	421	—	—
• British sterling	126	—	—
• Canadian dollar	107	—	—
• Singapore dollar	42	—	—
• Mexican peso	32	—	—
• Other currencies	6	—	—

The Group had no currency options at December 31, 2000.

Item 12. Description of Securities to be Registered

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

To Danone's knowledge, there has been no material default in the payment of principal or interest or any other material default not cured within 30 days relating to indebtedness of Groupe Danone or any of its subsidiaries.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

On January 26, 2000, the Company's Board of Directors, acting within the scope of the authorization granted to it at the May 19, 1999 general meeting of shareholders, converted the Company's share capital into euros. This conversion gave rise to an increase in share capital through the incorporation of FF 231,239,278 of reserves resulting from an increase in the nominal value of outstanding shares immediately after the conversion. On January 26, 2000, after the conversion, the Company's share capital increased to € 148,271,176, consisting of 74,135,588 shares of € 2.0 nominal value each. The shares are fully subscribed and fully paid.

On June 5, 2000, the Company's Board of Directors decided a two-for-one stock split. After the split, the Company's share capital consisted of 148,813,428 shares of € 1.0 nominal value each.

PART III

Item 15. [Reserved.]

Item 16. [Reserved.]

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

Independent Auditors' Report F-1

Consolidated Statements of Income for the Years Ended December 31, 1998, 1999 and 2000 F-2

Consolidated Balance Sheets as of December 31, 1999 and 2000 . . . . F-3

Consolidated Statement of Cash Flows for the Years Ended December 31, 1998, 1999 and 2000 . . . . F-4

Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 1998, 1999 and 2000 . . . . F-5

Notes to the Consolidated Financial Statements F-6

Item 19. Exhibits

1.1 *Statuts*, as amended, of Groupe Danone.

2.1 Stock Purchase Agreement dated January 10, 2000, among McKesson HBOC, Inc., Danone International Brands, Inc. and Groupe Danone.

2.2 Amendment No. 1 to the Stock Purchase Agreement, dated February 28, 2000, among McKesson HBOC, Inc., Danone International Brands, Inc. and Groupe Danone.

2.3 Framework Agreement dated May 18, 2000, between Groupe Danone and Scottish & Newcastle plc.

2.4 Warranty Agreement dated May 18, 2000 between Groupe Danone and Scottish & Newcastle plc.

2.5 Put Option Agreement dated May 18, 2000 between Groupe Danone and Scottish & Newcastle plc.

2.6 Agreement Relating to Danone's Interest in San Miguel and Mahou, dated May 18, 2000 between Groupe Danone and Scottish & Newcastle plc.

8.0 Subsidiaries of Groupe Danone (see Note 29 to the Consolidated Financial Statements).

SIGNATURES

The registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: May 4, 2001

GROUPE DANONE

By: /s/ EMMANUEL FABER

Name: Emmanuel Faber
Title: Senior Vice-President;
Chief Financial Officer

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of GROUPE DANONE

We have audited the accompanying consolidated balance sheets of GROUPE DANONE and its subsidiaries (together, the "Group") as of December 31, 2000 and 1999 and the related consolidated statements of income, of cash flows and of changes in stockholders' equity for each of the three years in the period ended December 31, 2000, all expressed in euros. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of the Group as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in France.

Accounting principles generally accepted in France vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of the consolidated net income expressed in euros for each of the three years in the period ended December 31, 2000 and the determination of consolidated stockholders' equity at December 31, 2000, 1999 and 1998 to the extent summarized in Note 2 to the consolidated financial statements.

PricewaterhouseCoopers

Paris, March 14, 2001, except for Note 30 for which the date is April 6, 2001

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

		Euros (millions)			French francs (millions)
		Year ended December 31,			
	Notes	1998	1999	2000	2000
Net sales		12,935	13,293	14,287	93,719
Cost of goods sold		(6,807)	(6,663)	(6,973)	(45,741)
Selling expenses		(3,650)	(3,964)	(4,453)	(29,209)
General and administrative expenses		852)	(913)	(950)	(6,235)
Research and development expenses		(120)	(122)	(125)	(819)
Other expense and income	22	(213)	(240)	(236)	(1,550)
Operating income		1,293	1,391	1,550	10,165
Non-recurring items	3	(44)	2	23	152
Interest expense, net	23	(146)	(131)	(193)	(1,267)
Income before provision for income taxes and minority interests		1,103	1,262	1,380	9,050
Provision for income taxes	24	(433)	(499)	(562)	(3,688)
Income before minority interests		670	763	818	5,362
Minority interests		(97)	(110)	(130)	(851)
Net earnings of equity method companies		25	29	33	221
Net income		598	682	721	4,732

PER SHARE INFORMATION(1)

	amounts in euros (except number of shares)			in French francs
Number of shares used in calculating:				
—basic earnings per share	141,078,170	139,877,348	140,662,272	140,662,272
—diluted earnings per share	157,115,154	148,990,002	141,373,721	141,373,721
Basic earnings per share	4.24	4.88	5.13	33.64
Diluted earnings per share	4.08	4.69	5.10	33.47

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

The notes on pages F-6 to F-51 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

		Euros (millions)		French francs (millions)
		At December 31,		
ASSETS	Notes	1999	2000	2000
Property, plant and equipment	6	8,413	8,044	52,765
Less: accumulated depreciation		(4,692)	(4,080)	(26,764)
		3,721	3,964	26,001
Brand names	7	1,850	1,652	10,835
Other intangible assets (net)		303	121	797
Goodwill	7	3,367	4,948	32,454
		5,520	6,721	44,086
Long-term loans		266	286	1,877
Long-term investments	8	583	571	3,748
Equity method companies	9	289	408	2,676
Other	10	198	981	6,434
		1,336	2,246	14,735
Non-current assets		10,577	12,931	84,822
Inventories	11	752	728	4,776
Trade accounts and notes receivable	12	1,864	1,784	11,701
Other accounts receivable and prepaid expenses	12	748	841	5,515
Short-term loans		123	166	1,087
Marketable securities		487	235	1,545
Cash and cash equivalents		464	548	3,594
Current assets		4,438	4,302	28,218
Total assets		15,015	17,233	113,040
LIABILITIES AND STOCKHOLDERS' EQUITY				
Capital stock (par value € 1 per share; shares issued 2000: 149,086,208; 1999: 148,271,176)(1)		113	149	978
Capital surplus		2,422	2,191	14,376
Retained earnings	13	5,209	5,696	37,361
Translation adjustments		(173)	(63)	(413)
Treasury stock		(1,425)	(784)	(5,147)
Stockholders' equity		6,146	7,189	47,155
Minority interests		721	830	5,447
Convertible bonds	15	513	—	—
Long-term debt	16	2,994	4,171	27,359
Retirement indemnities, pensions and post-retirement healthcare benefits	17	325	319	2,090
Provisions and long-term liabilities	18	356	387	2,543
Stockholders' equity and non-current liabilities		11,055	12,896	84,594
Trade accounts and notes payable	19	1,798	1,719	11,279
Accrued expenses and other current liabilities	19	1,599	1,605	10,524
Short-term debt and bank overdrafts		563	1,013	6,643
Current liabilities		3,960	4,337	28,446
Total liabilities and stockholders' equity		15,015	17,233	113,040

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

The notes on pages F-6 to F-51 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Euros (millions)			French francs (millions)
	Year ended December 31,			
	1998	1999	2000	2000
Net income	598	682	721	4,732
Minority interests in net income of consolidated subsidiaries	97	110	130	851
Net earnings of equity method companies	(25)	(29)	(33)	(221)
Depreciation and amortization	702	758	757	4,966
Other	(45)	(98)	(17)	(109)
Cash flows provided by operations	1,327	1,423	1,558	10,219
Decrease in inventories	18	(23)	(32)	(209)
Net variation in trade accounts and other accounts receivable	(48)	(260)	(344)	(2,256)
Net variation in trade accounts and other accounts payable	68	208	224	1,468
Other variations	(7)	(23)	16	106
Net change in current working capital	31	(98)[1]	(136)	(891)
Cash flows provided by operating activities	1,358	1,325	1,422	9,328
Additions to property, plant and equipment	(711)	(703)	(798)	(5,238)
Investment in subsidiaries and equity method companies	(485)	(934)	(2,849)	(18,686)
Proceeds from the sales of businesses and other investments	238	1,285	712	4,670
Cash flows used in investing activities	(958)	(352)	(2,935)	(19,254)
Increase in capital and capital surplus	106	608	554	3,632
Purchases of treasury stock	(358)	(1,724)	(169)	(1,111)
Dividends	(253)	(350)	(366)	(2,399)
Issuances of bonds	21	13	712	4,671
Repayments of bonds	(67)	(540)	(513)	(3,365)
Net change in long-term debt (excluding bonds)	148	1,044	971	6,372
Net increase in long-term loans and other assets	(55)	(83)	(224)	(1,469)
Net change in short-term debt	18	72	357	2,341
Proceeds from the sales of marketable securities	(32)	47	263	1,727
Cash flows (used in) provided by financing activities	(472)	(913)	1,585	10,399
Effect of exchange rate changes on cash and cash equivalents	(16)	33	12	77
Increase (decrease) in cash and cash equivalents	(88)	93	84	550
Cash and cash equivalents at beginning of year	459	371	464	3,044
Cash and cash equivalents at end of year	371	464	548	3,594

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

The notes on pages F-6 to F-51 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(excluding minority interests)

	Number of shares(1)		In millions of euros					
	Issued	Excluding treasury stock	Capital stock	Capital surplus	Retained earnings	Translation adjustments	Treasury stock	Stockholders' equity attributable to the Group
Balance at December 31, 1997	146,143,218	141,134,060	111	2,707	4,316	(363)	(259)	6,512
Capital stock issues	691,462	691,462	1	42				43
Conversion of bonds	1,014,940	1,014,940	1	63				64
Net income for 1998					598			598
Dividends paid					(203)			(203)
Translation adjustments						(141)		(141)
Change in treasury stock		(2,986,154)					(359)	(359)
Balance at December 31, 1998	147,849,620	139,854,308	113	2,812	4,711	(504)	(618)	6,514
Capital stock issues	1,135,102	1,135,102	1	72				73
Capital stock reduction	(9,000,000)	(9,000,000)	(7)	(1,015)				(1,022)
Conversion of bonds	8,286,454	8,286,454	6	553	24			583
Net income for 1999					682			682
Dividends paid					(208)			(208)
Translation adjustments						331		331
Change in treasury stock		(5,148,120)					(807)	(807)
Balance at December 31, 1999	148,271,176	135,127,744	113	2,422	5,209	(173)	(1,425)	6,146
Capital stock issues	655,610	655,610	45				45	
Capital stock reduction	(6,400,000)	(6,400,000)	(6)	(788)				(794)
Conversion of bonds	6,559,422	6,559,422	7	547				554
Capital conversion in euros			35	(35)				—
Net income for 2000					721			721
Dividends paid					(234)			(234)
Translation adjustments						110		110
Change in treasury stock		5,037,560					641	641
Balance at December 31, 2000	149,086,208	140,980,336	149	2,191	5,696	(63)	(784)	7,189

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

At December 31, 2000 the negative translation adjustments related to currencies in the euro zone amount to € 334 million.

The notes on pages F-6 to F-51 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Summary of significant accounting policies

The consolidated financial statements were initially prepared in French francs and then translated to euros using the official exchange rate of 6.55957 French francs per euro in place as of January 1, 2000. All data related to capital stock and earnings or dividends per share have been adjusted to take into account the June 2000 two-for-one stock split.

The comparability of the Group's consolidated financial statements from one year to another is not affected by the translation to euros. Additionally, the comparability of the Group's consolidated financial statements with the financial statements of other companies which are presented in euros in 1999 and 2000 but which were previously presented in French francs is not affected. However, the Group's consolidated financial statements, as presented in euros, are not comparable with the financial statements of other companies which are presented in euros in 1999 and 2000 but which were previously presented in a currency other than the French franc.

A. Basis of consolidation

The consolidated financial statements of GROUPE DANONE (the "Company") and subsidiaries (together, the "Group") have been prepared in accordance with current French generally accepted accounting principles ("French GAAP"). The French rule 99-02, applied from January 1, 2000 did not entail any amendment to the practices previously followed. Differences between accounting principles adopted by the Company under French GAAP and generally accepted accounting principles in the United States ("US GAAP") are summarized in *Note 2*.

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

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

In 2000, of the 156 companies included in the consolidation (1999: 156), 139 are consolidated (1999: 140) and 17 are accounted for under the equity method (1999: 16). A list of subsidiaries and equity investee companies included in the consolidation at December 31, 2000, and of newly consolidated and de-consolidated companies, is shown in *Note 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.

NOTE 1—Summary of significant accounting policies (Continued)

B. Foreign currency translation

Transactions denominated in foreign currencies

Accounts receivable and payable denominated in foreign currencies are generally recorded at the year-end exchange rate. Foreign exchange gains and losses resulting from the remeasurement of accounts receivable and payable stated in foreign currencies and from settlement of such balances during the year are recognized in the income statement under "Other expense and income", except those arising from intercompany transactions of a long-term investment nature which are shown as a separate component of retained earnings under "Translation adjustments."

Translation of financial statements of foreign operations

General:

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

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

C. Intangible assets

Goodwill

The acquisition cost of a subsidiary is allocated to the identifiable tangible and intangible assets acquired, including brands when relevant, and liabilities assumed based on their fair market values at the date of the acquisition (fair market values being determined based on independent appraisals and management estimates). Any excess of acquisition cost over the identifiable assets acquired and liabilities assumed is allocated to goodwill.

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

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

NOTE 1—Summary of significant accounting policies (Continued)

Brands and other intangible assets

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

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

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

D. Property, plant and equipment

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

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

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

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

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

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

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

E. Long-term investments

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

NOTE 1—Summary of significant accounting policies (Continued)

F. Inventories

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

G. Marketable securities

Marketable securities are carried at the lower of cost or market. At the end of 2000 and 1999, the cost approximates the market value.

H. Cash and cash equivalents

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

I. Treasury stock

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

J. Grants and subsidies

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

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

K. Deferred income taxes

Deferred income taxes are 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. Provision is made for withholding taxes on foreseen distributions when irrecoverable or when they do not confer right to tax credits; in the same way, tax credits available to certain consolidated companies on foreseen distributions are taken into account.

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

NOTE 1—Summary of significant accounting policies (Continued)

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

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

These obligations are covered either by provisions recorded in the balance sheet over the period the rights are acquired or by assets held in externally managed funds to which the Group contributes; such contributions are recorded as expenses.

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

M. Financial instruments

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

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

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

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

N. Net sales

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

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

O. Advertising expenses

Advertising costs are charged to expense as incurred, in the amount of € 593 million, € 664 million, and € 790 million for 1998, 1999 and 2000, respectively.

P. Research and development

Research and development costs are charged to expense as incurred.

NOTE 1—Summary of significant accounting policies (Continued)

Q. Non-recurring items

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

R. Earnings per share

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

Diluted earnings per share is calculated in the same way, but the denominator is increased by all the shares that could be potentially created (convertible bonds, options to subscribe or purchase shares) and the numerator by the related theoretical reduction in interest charges, net of tax.

S. Use of estimates

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

T. Reclassification

Certain amounts in the accompanying 1998 and 1999 financial statements could have been reclassified from previously issued financial statements to conform to the 2000 presentation.

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

The accompanying financial statements have been prepared in accordance with French GAAP which differ in certain significant respects from US GAAP.

Description of differences

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

1. Brand names amortization

Under French GAAP, the brand names which have been separately identified on the acquisition of subsidiaries are not systematically amortized but can be exceptionally impaired (*see Note 1.C*). Under US GAAP, intangible assets such as brand names must be amortized over the period estimated to be benefited, which may not exceed forty years. For the purpose of reconciling to US GAAP, brand names are amortized over a forty-year period, impairment charges recorded under French GAAP, which do not comply with the requirements of FAS 121 "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of", are reversed and capital gains or losses resulting from disposals are different due to the absence of amortization under French GAAP.

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

2. Goodwill relating to the acquisition of foreign subsidiaries

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

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

3. Stock options

Until January 1999, the Company granted stock options to eligible employees under fixed plans with a discount, at a price lower than the prevailing market price; since that date, all grants are made at fair value at the date of grant. Accounting for this discount is not addressed by French GAAP and these transactions have no effect on the statement of income. Under US GAAP, the discount, measured at the date of grant, is considered as compensation to employees. The effect of the decrease to retained earnings and increase to stockholders' equity for the amount of compensation expense is reflected as a US GAAP adjustment and shown below.

4. Available-for-sale securities

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

5. Deferred income taxes on brand names

Deferred income taxes on brand names resulting from purchase price allocation are not recorded. Consequently the goodwill arising on the acquisition of the related subsidiaries is not increased by the amount of such deferred tax liability. Under US GAAP, a deferred tax liability computed at the local tax rate applicable to long-term capital gains is recorded, and goodwill is increased by the same amount. The deferred tax liability is reversed to profit as the related intangible asset is amortized, whereas the amortization charge of the additional goodwill matches this profit.

Had US GAAP been applied, deferred income taxes (long-term liabilities) and goodwill would be increased by € 287 million as of December 31, 2000 (€ 381 million as of December 31, 1999).

Goodwill amortization, offset by an equal amount of deferred tax benefit of € 12 million, € 12 million and € 10 million for 1998, 1999 and 2000, respectively, would be recorded under US GAAP.

6. Purchase accounting—Fair value

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

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

Under US GAAP, no write-up in fair value of the net assets of the subsidiary related to the minority interest should occur. Accordingly, the write-up of fair values in brand names related to the minority interest should be reversed, thus decreasing brand names and minority interest by € 120 million as of December 31, 2000 (€ 165 million as of December 31, 1999). The remainder of the write-ups to fair value in other net assets related to the minority interest is not considered material.

7. Comprehensive income

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

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

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

Reconciling statements

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

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

(All amounts in millions of euros except per share data)	Year ended December 31,		
	1998	1999	2000
Net income under French GAAP	**598**	**682**	**721**
US GAAP adjustments:			
1. Brand names amortization	(45)	(46)	(39)
2. Reversal of brand names impairment recorded under French GAAP	—	—	69
3. Additional capital gain on disposal under US GAAP	—	—	79
4. Amortization of goodwill of foreign subsidiaries	4	4	(3)
5. Compensation costs under stock options plans	(3)	(2)	(1)
Net income with US GAAP adjustments before tax effect, and minority interests	554	638	826
Tax effect of the above adjustments	(8)	(7)	(19)
Minority interests effect of above adjustments	7	6	—
Net income under US GAAP	**553**	**637**	**807**
Basic earnings per share under US GAAP	3.93	4.56	5.74
Diluted earnings per share under US GAAP	3.79	4.39	5.71
Net income under US GAAP, a component of comprehensive income	**553**	**637**	**807**
Other comprehensive income, net of tax:			
• Additional paid-in capital related to compensation costs on shares issued to employees	3	2	1
• Change in net unrealized gains/losses on available-for-sale securities	39	(28)	6
less: Reclassification adjustment for net gains/losses included in net income	(6)	(10)	—
• Change in cumulative translation adjustments	(210)	511	209
less: Reclassification adjustment for net gains/losses included in net income	—	—	18
Other comprehensive income under US GAAP	(174)	475	234
Comprehensive income under US GAAP	**379**	**1,112**	**1,041**
Stockholders' equity under French GAAP	**6,514**	**6,146**	**7,189**
US GAAP adjustments:			
1. Brand names amortization	(342)	(399)	(320)
2. Amortization of goodwill of foreign subsidiaries	(179)	19	125
3. Unrealized gains on available-for-sale securities	105	57	128
Tax effect of the above adjustments	(84)	(80)	(84)
Minority interests effect of above adjustments	43	45	3
Stockholders' equity under US GAAP	**6,057**	**5,788**	**7,041**

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

US GAAP statement of changes in stockholders' equity

(All amounts in millions of euros)	
Balance as of December 31, 1997	**6,134**
Capital stock issues	42
Dividends paid	(203)
Conversion of bonds	64
Movements on treasury shares	(359)
Net income under US GAAP for 1998	553
Other comprehensive income under US GAAP for 1998	(174)
Balance as of December 31, 1998	**6,057**
Capital stock issues	73
Capital stock reduction	(1,022)
Dividends paid	(208)
Conversion of bonds	583
Movements on treasury shares	(807)
Net income under US GAAP for 1999	637
Other comprehensive income under US GAAP for 1999	475
Balance as of December 31, 1999	**5,788**
Capital stock issues	45
Capital stock reduction	(794)
Dividends paid	(234)
Conversion of bonds	554
Movements on treasury shares	641
Net income under US GAAP for 2000	807
Other comprehensive income under US GAAP for 2000	234
Balance as of December 31, 2000	**7,041**

Description of other differences

Presentation differences—Operating income

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

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

Presentation differences—Cash flow statement

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

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

Presentation differences—Additional disclosures required by SFAS 115

On December 31, 1999 and 2000, all long-term investments, other non-current assets and marketable securities held by the Group and categorized as available-for-sale consisted of equity securities. On December 31, 1999 and 2000 the Group had no held-to-maturity securities. On December 31, 1999 and 2000 available-for-sale securities consisted of the following:

(All amounts in millions of euros)	At December 31, 1999	At December 31, 2000
Securities held by consolidated companies:		
Cost	759	1,463
Gross unrealized gains*	56	128
Estimated fair value	815	1,592
Securities held by the companies recorded under the equity method:		
Group's share in net unrealized gains	—	—

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

On December 31, 1999 and 2000, these investments were included in the following captions on the consolidated balance sheet.

(All amounts in millions of euros)	At December 31, 1999	At December 31, 2000
Long-term investments	639	665
Other non-current assets	64	791
Marketable securities	112	136
	815	1,592

For the years ended December 31, 1998, 1999 and 2000 gross realized gains and losses on available-for-sale securities were not material. The cost of securities sold is based on the average cost method.

Presentation differences—Additional disclosures required by SFAS 123

SFAS 123, "accounting for Stock-based Compensation", was adopted as of January 1, 1996. Upon adoption of SFAS 123, the Company continues to use the measurement principles in APB 25. Had

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

compensation cost been determined on the fair value at measurement date which was the grant date, net income, basic earnings per share, and diluted earnings per share would have been as follows:

(Amounts in millions of euros, except per share data)	Year ended December 31, 1998	1999	2000
Net income under US GAAP	553	637	807
Additional compensation cost under SFAS 123	(24)	(23)	(20)
Amounts under US GAAP and with the application of SFAS 123:			
• Net income	529	614	787
• Basic earnings per share	3.75	4.39	5.59
• Diluted earnings per share	3.64	4.24	5.57

The fair values at December 31, 1999 and December 31, 2000 of the options granted were estimated for the purposes of SFAS 123 disclosure requirements using the Cox and Monaco option-pricing models based on the following weighted average assumptions:

	1998	1999	2000
Risk-free interest rate	3.37%	4.89%	4.92%
Expected life	8 years	8 years	8 years
Expected volatility	39.5%	34.5%	35.0%
Expected dividend yield	2.14%	2.43%	1.41%

Unaudited pro forma financial data disclosed

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

- the Group's external growth through acquisitions is a factor that generates additional revenues and costs every year,
- a review of businesses has been carried out over the last three years resulting in various divestitures and decreases in revenues and costs, and,
- the Company holds subsidiaries in various countries, where changes in exchange rates affect consolidated revenues and earnings reported in Euros.

The method used to determine the pro forma information disclosed in Note 5 is different from the method which is required to be used under US GAAP, which provides that the exchange rates existing in each year are used to determine the pro forma information as opposed to the method used in Note 5 which results in pro forma effect given in the prior year related to exchange rate changes which occurred in the subsequent year.

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

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

Effect of new accounting pronouncements

1. Accounting for Derivatives Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities". The standard, as amended by Statement of Financial Accounting Standards 137, "Accounting for Derivative Instruments and Hedging Activities − Deferral of the Effective Date of FASB Statement 133, an amendment of FASB Statement 133", and Statement of Financial Accounting Standards 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement 133" (referred to hereafter as "FAS 133"), is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (January 1, 2001 for the Company). FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether a derivative is designated as part of a hedging relationship and, if it is, depending on the type of hedging relationship. For fair-value hedges in which the Company is hedging changes in an asset's, a liability's, or a firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. For cash flow hedges in which the Company is hedging the variability of cash flows related to a variable-rate asset, variable-rate liability, or a forecasted transaction, the effective portion of the gain or loss on the derivative instrument will be reported in other comprehensive income. The gain or loss on the derivative instrument that is reported in other comprehensive income will be reclassified as earnings in the periods during which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

The Company has adopted FAS 133 as of January 1, 2001 for purposes of US GAAP reconciliation. While FAS 133 provides a significant change in the accounting guidance related to derivative instruments and hedging activities, the Company has determined that the more stringent accounting and documentation requirements under FAS 133 will not cause any significant changes in its overall risk management strategy and in its overall hedging activities.

Based on the tentative conclusions reached by the FASB's Derivatives Implementation Group, the Company estimates that on January 1, 2001 it will record the hedged items at their fair values and a net-of-tax cumulative-effect-type adjustment of € 16 million gain in earnings to recognize at fair value all derivative instruments that had previously been designated in a hedging relationship of the fair value exposure of an asset, liability or firm commitment. The final resolution by the Financial Accounting Standards Board of certain implementation issues may differ from these tentative conclusions.

NOTE 2—Summary of differences between French GAAP and US GAAP (Continued)

2. Revenue Recognition in Financial Statements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements" SAB 101 provides additional guidance on revenue recognition, as well as criteria for when certain revenue is generally realized and earned, and also requires the deferral of incremental direct selling costs. The adoption of SAB 101 did not have a material impact on the Group's consolidated financial statements.

3. Accounting for Certain Sales Incentives

In May 2000, the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") reached a consensus on Issue 00-14, "Accounting for Certain Sales Incentives". This issue addresses the recognition, measurement and income statement classification for various types of sales incentives, including discounts, coupons, rebates and free products. For cash sales incentives, costs are generally recognized at the date on which the related revenue is recorded by the vendor and are to be classified as a reduction of revenue. For non-cash sales incentives, costs are to be classified within costs of sales. In November 2000, the EITF revised the transition date so that the Group must adopt EITF 00-14 no later than the second quarter of 2001. The Group is currently assessing the impact of the adoption of this statement.

NOTE 3—Non-recurring items

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

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

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

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

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

NOTE 3—Non-recurring items (Continued)

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

NOTE 4—Investments in subsidiaries and equity method companies

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

- acquisition of the companies McKesson (Water in the United-States), Naya Waters of Canada (Water in Canada) and Robust (Water in China);
- acquisition of part of the assets of United Biscuits in the United Kingdom, Denmark, Sweden, Norway, Germany, Italy, Hungary and Malaysia;
- acquisition of the Paulista brand and of the dairy product and milk businesses of the Cooperativa Central de Laticinios in Brazil.

In 1999, the principal investments in subsidiaries and equity method companies included:

- acquisition of the Termas Villavicencio Company (Water in Argentina) and acquisition of the biscuits operations of the Wedel Company in Poland;
- additional interest in Danone Argentine (Fresh Dairy Products), Aguas Minerales (Water in Argentina), Bagley (Biscuits in Argentina) and Aymore (Biscuits in Brazil);
- acquisition of 50% of Bimo (Biscuits in Morroco), 20% of Galletas Noel (Biscuits in Colombia), 20% of Sotubi (Biscuits in Tunisia), 18% of voting rights of Bakoma (Fresh Dairy Products in Poland) and dairy products operations in Turkey through an investment of 50% in the company Danonesa.

In 1998, the principal investments in subsidiaries and equity method companies included:

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

NOTE 5—Unaudited pro forma financial data (prepared pursuant to French GAAP and not in accordance with US GAAP; *see Note 2*—Unaudited pro forma financial data disclosed, page F-11)

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

NOTE 5—Unaudited pro forma financial data (prepared pursuant to French GAAP and not in accordance with US GAAP; *see Note 2*—Unaudited pro forma financial data disclosed, page F-11) (Continued)

The comparison of 1999 and 2000 results is affected by changes in exchange rates and in companies included in the consolidation:

- initial consolidation in 2000 of McKesson (Water in the United-States), Euromarken Getranke (Water in Germany), Evian-Volvic UK (Water in the United-Kingdom), Naya Waters of Canada (Water in Canada), Robust (Water in China) and assets bought to United Biscuits in Denmark, Sweden, Norway, Germany and Italy;
- initial accounting under the equity method of Bakoma (Dairy products in Poland), Bimo (Biscuits in Morocco), Galletas Noel (Biscuits in Colombia) and Sotubi (Biscuits in Tunisia);
- the divestures outlined in *Note 3*.

The 1999 unaudited pro forma figures given below are presented on the basis of the same Group structure and exchange rates as for 2000. They are therefore comparable with the 2000 figures, but not necessarily indicative of actual results.

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

The comparison of 1998 and 1999 results is affected by changes in companies included in the consolidation:

- initial consolidation from January 1, 1999 of Bolshevik (Biscuits in Russia), Opavia (Biscuits in the Czech Republic), Danone Russie (Fresh Dairy Products in Russia), Elidis (Beer distribution in France) and Danone Ciatska (Biscuits in Poland);
- The divestitures outlined in *Note 3.*

The exchange rate fluctuations between 1998 and 1999 have no significant impact on the comparison of the results.

The 1998 unaudited pro forma figures given below are presented on the basis of the same Group structure and exchange rates as for 1999. They are therefore comparable with the 1999 figures, but not necessarily indicative of actual results:

(In millions of euros)	1998 (pro forma)	1999 (actual)
Net sales	12,571	13,293
Operating income	1,248	1,391
Net income	574	653

NOTE 6—Property, plant and equipment

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

NOTE 7—Intangible assets

(In millions of euros)	At December 31, 1999	At December 31, 2000
Gross amounts:		
Goodwill	4,170	5,829
Brand names	1,850	1,720
Other	800	353
Total gross intangible assets	6,820	7,902
Accumulated amortization:		
Goodwill	(803)	(881)
Other intangible assets	(497)	(300)
Total accumulated amortization	(1,300)	(1,181)
Net intangible assets	5,520	6,721

Goodwill

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

NOTE 7—Intangible assets (Continued)

There is no individual goodwill item representing more than 5% of the total, with the exception of McKesson, Galbani, Danone Argentine, Lu and Volvic which in the aggregate amount to a net of approximately € 2.7 billion as of December 31, 2000.

Additions and decreases during the year mainly result from newly consolidated companies and from divestitures (*refer to Notes 3 and 5*).

Current year amortization for consolidated companies of € 124 million (€ 93 million for 1999) is recorded as "Other expense and income" while current year amortization for companies accounted for under the equity method of € 10 million (€ 10 million in 1999) is recorded as "Net earnings of equity method companies".

Goodwill in the amount of € 277 million and € 334 million at the end of 1999 and 2000, respectively, relates to equity investees. Under U.S. GAAP, such goodwill would be recorded under "Equity method companies."

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 Galbani, Volvic, the Danone brand in Spain and the main brand names of the Group Biscuits operations, among others.

In 2000, changes in brand names mainly result of the exceptional impairment of Bagley and the divesture of San Miguel.

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

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

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

NOTE 9—Equity method companies

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

Other changes result mainly from movements in exchange rates.

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

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

NOTE 10—Other financial assets

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

NOTE 11—Inventories

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

NOTE 12—Trade accounts receivable; other accounts receivable and prepaid expenses

Trade accounts receivable

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

Movements in the allowance for doubtful receivables are as follows:

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

The Group believes its exposure to concentration of credit risk is limited, due to the large number of customers located in diverse geographical areas, and that there is no pronounced dependence on one single customer; the global net sales recorded with the first customer of the Group represent 11% of the total consolidated net sales.

NOTE 12—Trade accounts receivable; other accounts receivable and prepaid expenses (Continued)

Other accounts receivable and prepaid expenses

(In millions of euros)	At December 31, 1999	2000
State and local authorities	306	324
Interest receivable	31	37
Prepaid expenses	61	92
Advance payments to suppliers	67	66
Other	283	322
Other accounts receivable and prepaid expenses	748	841

NOTE 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 of euros)	Weighted average number of shares outstanding	Net income per share (in euros)
2000			
Before dilution	721	140,662,272	5.13
Stock options	0	711,449	(0.03)
After dilution	721	141,373,721	5.10
1999			
Before dilution	682	139,877,348	4.88
Convertible bonds	17	8,431,724	(0.17)
Stock options	0	680,930	(0.02)
After dilution	699	148,990,002	4.69
1998			
Before dilution	598	141,078,170	4.24
Convertible bonds	43	14,944,902	(0.13)
Stock options	0	1,092,082	(0.03)
After dilution	641	157,115,154	4.08

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 1999. As of December 31, 2000, 1,050,460 options could still be issued as part of the 1999 plan but the former authorizations relating to the 1992, 1995 and 1997 plans could not lead to any new attribution.

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

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

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

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

NOTE 15—Convertible bonds

As at December 31, 1999 convertible bonds included the € 610 million debt issued by GROUPE DANONE in October 1993. These bonds were issued at their principal amount of € 154.7 each, and bore interest at an annual rate of 3%. The bonds were convertible at any time, at the rate of one ordinary share per bond. The € 34.1 per bond redemption premium was charged to income on a straight-line basis over the eight-year life of the debt. The bonds initially maturing on January 1, 2002 and subject to the option

NOTE 15—Convertible bonds (Continued)

available to the Company to redeem the bonds early if the share price passed certain thresholds were redeemed by anticipation as of January 1, 2000. During 2000, 99% of bonds were converted into shares.

NOTE 16—Long-term debt

Classification by nature

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

Classification by year of maturity and by currency

Year of maturity	At December 31, 1999
2001	454
2002	265
2003	134
2004	394
2005-2009	232
After 2009	1,511
No fixed maturity	4
Total	2,994

Year of maturity	At December 31, 2000
2002	1,129
2003	927
2004	323
2005	125
2006-2010	148
After 2010	1,512
No fixed maturity	7
Total	4,171

Currency	At December 31, 1999	20000
French francs	2,959	4,121
Indian rupee	11	23
US Dollar	2	12
Chinese renminbi	8	6
Singapore dollar	3	4
Italian lira	3	1
Sterling pound	1	1
Spanish peseta	1	1
Belgian franc	3	—
Other	3	2
Total	2,994	4,171

At December 31, 2000, the Group held commitments from banks and other financial institutions for approximately € 2,725 million (€ 2,463 million at December 31, 1999) in connection with medium-term lines of credit over and above the debt recorded in the balance sheet at that date.

As part of such long-term commitments from lenders, the Group utilized € 1,505 million at December 31, 2000 (€ 1,492 million at December 31, 1999). This debt is classified as long-term debt.

NOTE 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.

NOTE 17—Retirement indemnities, pensions and post-retirement healthcare benefits (Continued)

The Group is also responsible for supplementary retirement schemes, contractual commitments for termination indemnities and post-retirement healthcare. The related actuarial commitments are taken into account either through the payment of contributions to externally managed funds, or through provisions.

French companies

The commitments of French companies were calculated for 1999 and 2000 in conformity with FAS 87, based on the following key actuarial assumptions:

	1999	2000
Personnel turnover and mortality		
Retirement age, depending upon each employee's category:	between 60 and 65 years	between 60 and 65 years
Discount rate applied:	5.2%	5.4%
Salary growth rate, depending on the age and category of each employee:	between 1.5% and 2.75%	between 2% and 3%
Rate of return of plan assets:	14%	8%

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:

	1999	2000
Personnel turnover and mortality		
Retirement age, depending upon each employee's category:	between 60 and 65 years	between 60 and 65 years
Discount rate applied:	between 2% and 12%	between 2% and 7.8%
Salary growth rate, depending on the age and category of each employee:	between 2% and 8%	between 1% and 5.9%
Rates of return of plan assets ranged:	between 4% and 9%	between 5.5% and 8%

NOTE 17—Retirement indemnities, pensions and post-retirement healthcare benefits (Continued)

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

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

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

NOTE 17—Retirement indemnities, pensions and post-retirement healthcare benefits (Continued)

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

In millions of euros)	Projected benefit obligation	Fair value of plan assets	Unrecognized gain or losses	Net accrued pension
Balance as at January 1, 1999	909	525	20	364
Net periodic pension cost				
• Service cost	36			36
• Interest cost	32			32
• Return on plan assets	—	21		(21)
• Amortization of actuarial gains and losses			(3)	3
Pension benefits payments to employees	(49)	(22)	—	(27)
Contributions made to plan assets	—	15	—	(15)
Unrecognized gains or losses	17	8	9	—
Effect of exchange rate changes	24	24	1	(1)
Other	(238)	(204)	12	(46)
Balance as at December 31, 1999	731	367	39	325
Balance as at January 1, 2000	731	367	39	325
Net periodic pension cost				
• Service cost	30			30
• Interest cost	33			33
• Return on plan assets		23		(23)
• Amortization of actuarial gains and losses			(6)	6
Pension benefits payments to employees	(49)	(27)		(22)
Contributions made to plan assets		16		(16)
Unrecognized gains or losses	17		17	—
Effect of exchange rate changes	1	1		—
Other	(36)	12	(34)	(14)
Balance as at December 31, 2000	727	392	16	319

The other movements include in particular contributions paid by employees to funds, the reclassification in "Provisions and long-term liabilities" of retirement indemnities provisions related to restructuring plans, as well as the reclassification of prepaid retirement indemnities and, in 1999, the impact of the sale of the Glass Containers operations.

NOTE 17—Retirement indemnities, pensions and post-retirement healthcare benefits (Continued)

The components of the net periodic pension cost for 1999 and 2000 are as follows:

(In millions of euros)	Year ended December 31,		
	1998	1999	2000
Service cost	42	36	30
Interest cost	31	32	33
Return on plan assets	(24)	(21)	(23)
Net amortization and deferral	5	3	6
Net periodic pension cost	54	50	46

NOTE 18—Provisions and long-term liabilities

(In millions of euros)	At December 31,	
	1999	2000
Restructuring	18	30
Long-term accrued liabilities	292	223
Long-term net deferred tax (asset) / liability	31	121
Capital investment grants	15	13
Provisions and long-term liabilities	356	387

Restructuring

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

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

NOTE 18—Provisions and long-term liabilities (Continued)

Long-term accrued liabilities

Long-term accrued liabilities mainly include:

- the € 57 million claims reserves established by Danone Ré, the Group's reinsurance company;
- various provisions estimated necessary to cover the specific risks and charges incurred in the normal course of business.

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

Trade accounts and notes payable

(In millions of euros)	At December 31, 1999	At December 31, 2000
Trade accounts payable	1,531	1,524
Notes payable	267	195
Trade accounts and notes payable	1,798	1,719

Accrued expenses and other current liabilities

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

NOTE 20—Personnel and remuneration

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

Group personnel at December 31, 1999 and 2000 were comprised of the following:

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

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

NOTE 21—Depreciation and amortization

	Year ended December 31,		
(In millions of euros)	1998	1999	2000
Property, plant and equipment	555	561	561
Goodwill	90	93	124
Intangible assets	57	104	72
Total	702	758	757

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

The amortization charge for goodwill included in this table relates only to goodwill of consolidated companies (as discussed in *Note 7*).

NOTE 22—Other expense and income

	Year ended December 31,		
(In millions of euros)	1998	1999	2000
Employee profit-sharing	123	125	122
Goodwill amortization	90	93	124
Other	—	22	(10)
Other expense net	213	240	236

NOTE 23—Interest expense, net

(In millions of euros)	Year ended December 31, 1998	1999	2000
Interest expense	233	200	284
Interest income	(87)	(76)	(55)
Exchange gain or loss	—	7	(36)
Interest expense net	146	131	193

Interest paid amounted to € 123 million, € 120 million, and € 225 million for the years ended December 31, 1998, 1999, and 2000, respectively.

NOTE 24—Income taxes

Income tax expense

Income before taxes and income tax expense consist of:

(In millions of euros)	Year ended December 31, 1998	1999	2000
Income before provision for income taxes:			
• French companies	334	507	673
• Foreign companies	769	755	707
Income before provision for income taxes	1,103	1,262	1,380
Income tax expense (income):			
—Current income taxes:			
• French companies	199	252	240
• Foreign companies	242	289	321
	441	541	561
—Deferred income taxes:			
• French companies	(50)	(41)	(13)
• Foreign companies	42	(1)	14
	(8)	(42)	1
Provision for income taxes	433	499	562

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

Current income taxes represent the amount of taxes for the year, paid or payable in a short term period to the tax authorities. These amounts are computed according to the rules and rates applicable in

NOTE 24—Income taxes (Continued)

the countries where the Group operates, taking into account the consolidated tax return applicable to the majority of the French subsidiaries in the Group.

The Group made income tax payments of approximately € 374 million, € 346 million and € 388 million in 1998, 1999 and 2000, respectively.

The net capital gains and losses and exceptional depreciation of assets generated a € 10 million tax charge, € 2 million tax saving and € 68 million tax charge in 1998, 1999 and 2000, respectively.

Analysis of the effective income tax rate

The effective tax rate is 40.75% in 2000, compared with 39.54% in 1999 and 39.3% in 1998. Such rates can be analyzed as follows:

(Amounts in percentage at income before taxes)	Year ended December 31,		
	1998	1999	2000
Statutory tax rate in France	41.66	39.99	37.76
Effect of foreign tax rate differential	(3.90)	(2.50)	(1.88)
Effect of amortization of goodwill	2.34	2.66	2.89
Effect of other differences	(0.80)	(0.61)	1.98
Effective income tax rate	39.30	39.54	40.75

Deferred income taxes

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

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

NOTE 24—Income taxes (Continued)

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

Tax loss carry forwards

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

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

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

Taking into account these hedging instruments, the consolidated net debt at December 31, 2000 is exposed to a change in rate for € 4 billion and, in case of a rate increase up to approximately 100 basis points, the Group would be exposed on only 47% of the net debt at December 31, 2000 (64% at December 31, 1999).

As a result of these hedging instruments, the effective weighted average interest rate of the Group's consolidated net debt in 2000 is 5.52% (1999: 4.33%), compared to a 5.71% (1999: 5.09%) weighted average rate before any hedging operations.

NOTE 25—Financial instruments (Continued)

Currency exposure

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

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

(In millions of euros)	At December 31, 1999	At December 31, 2000
Forward (purchases)/sales:		
• US dollar	377	395
• Pound sterling	137	422
• Euro	(642)	(1,091)
• Mexican peso	—	79
• Yen	114	72
• Swiss franc	57	37
• Other	3	81
Total forward	46	(5)
including:—Forwards purchased	(986)	(1,682)
—Forwards sold	1,032	1,676
Currency options purchased	(1)	—
Total currency hedging instruments	45	(6)

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

Translation exposure

The Group's international expansion is such that movements in exchange rates have an accounting impact on the translation into euros of approximately 45% of net sales (33% in 1999) and 35% of operating income (27% in 1999).

NOTE 25—Financial instruments (Continued)

Concentration of counterparty risk

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

(As a percentage of total fair values as of December 31, 1999 and 2000)	1999	2000
Counterparty's rating (according to Standard & Poor's)		
• AAA	11%	50%
• AA	54%	21%
• A	34%	29%
• BBB	1%	—

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

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

Market value of financial instruments

The table below summarizes the book and market values of the financial instruments used by the Group as at December 31, 1999 and 2000:

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

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

NOTE 25—Financial instruments (Continued)

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

The value of the convertible bonds has been determined on the basis of redemption value. The value of substantial long-term debt is computed item by item, using the last values for quoted instruments.

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

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

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

NOTE 26—Commitments and contingencies

Commitments relating to investments in subsidiaries

The Group has entered into commitments to increase its interest in certain subsidiaries, in particular to acquire the entire capital stock of Galbani before June 30, 2001. The investments related to these commitments amount to approximately € 295 million.

The Group has also entered into agreements to purchase interests held by third party stockholders in certain consolidated subsidiaries, should these stockholders wish to sell their interests. In any event, the potential cost of purchasing these shares will be dependent upon the rate of return and the financial situation of the subsidiary in question. No material investment under these agreements is currently planned.

Non-cancelable leases

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

Commitments received with respect to non-cancelable sub-leases are not significant.

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). The segment reporting reflects this structure.

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

	Total Divisions	Unallocated items	Total Group
Operating income	1,556	(6)	1,550
Net earnings of equity method companies	34	(1)	33
Capital expenditures	794	5	798
Depreciation and amortization expense	745	12	757
Cash flow from operations	1,551	7	1,558
Total assets	15,909	1,324	17,233

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

NOTE 27—Financial information by division (Continued)

	Year ended December 31, 1999		
	Total Divisions	Unallocated items	Total Group
Operating income	1,407	(16)	1,391
Net earnings of equity method companies	30	(1)	29
Capital expenditures	700	3	703
Depreciation and amortization expense	740	18	758
Cash flow from operations	1,508	(85)	1,423
Total assets	13,379	1,636	15,015

	Year ended December 31, 1998					
(In millions of euros)	Fresh Dairy Products	Beverages	Biscuits	Other Food Businesses	Containers	Total Divisions
Gross sales	5,948	3,373	2,929	930	946	14,126
Sales within the division	(283)	(369)	(322)	(25)	(14)	(1,013)
Net divisional sales	5,665	3,004	2,607	905	932	13,113
Sales within the Group	(25)	—	(5)	(1)	(147)	(178)
Net sales outside the Group	5,640	3,004	2,602	904	785	12,935
Operating income	621	368	203	29	91	1,312
Net earnings of equity method companies	(2)	14	(1)	14	—	25
Capital expenditures	253	241	99	30	84	707
Depreciation and amortization expense	210	240	135	41	60	686
Cash flow from operations	586	456	226	37	108	1,413
Total assets	4,606	3,178	3,611	1,157	778	13,330

	Total Divisions	Unallocated items	Total Group
Operating income	1,312	(19)	1,293
Net earnings of equity method companies	25	25	
Capital expenditures	707	4	711
Depreciation and amortization expense	686	16	702
Cash flow from operations	1,413	(86)	1,327
Total assets	13,330	1,712	15,042

NOTE 28—Activities of divisions by geographical area

(In millions of euros)	Year ended December 31, 2000			
	France	Rest of European Union	Rest of world	Total
Total sales by geographical area of origin	4,340	5,593	5,6066	15,539
Intra-Group sales within geographical areas	(42)	(320)	(94)	(456)
Net sales by geographical area of origin	4,298	5,273	5,512	15,083
Intra-Group sales between geographical areas	(566)	(213)	(17)	(796)
Net sales outside the Group	3,732	5,060	5,495	14,287
Operating income	526	541	489	1,556
Net earnings of equity method companies	9	24	1	34
Capital expenditures	163	199	432	794
Cash flow from operations	515	515	521	1,551
Total assets	4,247	5,277	6,385	15,909

(In millions of euros)	Year ended December 31, 1999			
	France	Rest of European Union	Rest of world	Total
Total sales by geographical area of origin	5,124	5,410	4,030	14,564
Intra-Group sales within geographical areas	(161)	(326)	(70)	(557)
Net sales by geographical area of origin	4,963	5,084	3,960	14,007
Intra-Group sales between geographical areas	(497)	(208)	(9)	(714)
Net sales outside the Group	4,466	4,876	3,951	13,293
Operating income	587	501	319	1,407
Net earnings of equity method companies	6	28	(4)	30
Capital expenditures	198	234	268	700
Cash flow from operations	654	505	349	1,508
Total assets	3,982	5,472	3,925	13,379

NOTE 28—Activities of divisions by geographical area (Continued)

	Year ended December 31, 1998			
(In millions of euros)	France	Rest of European Union	Rest of world	Total
Total sales by geographical area of origin	5,223	5,554	3,349	14,126
Intra-Group sales within geographical areas	(181)	(287)	(46)	(514)
Net sales by geographical area of origin	5,042	5,267	3,303	13,612
Intra-Group sales between geographical areas	(481)	(184)	(12)	(677)
Net sales outside the Group	4,560	5,083	3,292	12,935
Operating income	589	475	248	1,312
Net earnings of equity method companies	(3)	28	—	25
Capital expenditures	231	261	215	707
Cash flow from operations	685	455	273	1,413
Total assets	4,523	5,874	2,933	13,330

Exports by French companies of Groupe Danone amounted to € 559 million, € 546 million and € 570 million in 1998, 1999 and 2000, respectively.

NOTE 29—Companies consolidated at December 31, 2000

Companies consolidated for the first time in 2000

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

Changes in the consolidation method

San Miguel, which was fully consolidated in 2000, is accounted for under the equity method from December 31, 2000.

Companies no longer consolidated at December 31, 2000

Companies sold or wound up

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

Merged companies at December 31, 2000

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

NOTE 29—Companies consolidated at December 31, 2000 (Continued)

LIST OF COMPANIES CONSOLIDATED AT DECEMBER 31, 2000

Consolidated companies

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

NOTE 29—Companies consolidated at December 31, 2000 (Continued)

Companies	Country	Percentages Group's Control	Interest
BEVERAGES			
SA DES EAUX MINERALES D'EVIAN	France	100.00	100.00
SEAT (Sté d'Exploitation d'Activités Touristiques)	France	100.00	100.00
VOLVIC	France	100.00	100.00
KRO BEER BRANDS	France	100.00	100.00
EUROMARKEN GETRANKE	Germany	100.00	100.00
AGUAS DE LANJARON	Spain	95.00	78.52
FONT VELLA	Spain	94.26	77.79
ITALAQUAE	Italy	100.00	91.84
EVIAN VOLVIC UK & IRELAND	United Kingdom	100.00	100.00
AGUAS DE ARGENTINA	Argentina	100.00	100.00
VILLA ALPINA	Argentina	85.00	85.00
AQUATERRA	Canada	100.00	100.00
NAYA WATERS OF CANADA	Canada	100.00	100.00
DANNON WATER	United States	100.00	93.79
McKESSON	United States	100.00	93.79
BONAFONT	Mexico	100.00	100.00
WUHAN EURO DONGXIHU BREWERY	China	60.00	54.20
TANGSHAN UNITED EUROPEAN & HAOMEN BREWERY	China	70.00	63.24
SHENZHEN HEALTH DRINKS	China	60.00	54.20
WAHAHA	China	51.00	41.01
ROBUST	China	92.00	79.79
BISCUITS			
COMPAGNIE FINANCIERE BELIN	France	100.00	100.00
GENERALE BISCUIT GLICO FRANCE	France	50.00	50.00
HEUDEBERT	France	100.00	100.00
LU	France	100.00	100.00
FONZIE ALLEMAGNE	Germany	100.00	99.92
LU BELGIE	Belgium	100.00	100.00
LU NORDICS	Denmark	100.00	100.00
LU ESPANA	Spain	100.00	100.00
PAPADOPOULOS	Greece	60.00	60.00
W.&.R. JACOB (Irish Biscuits)	Ireland	100.00	100.00
NEWCO	Italy	100.00	100.00
SAIWA	Italy	100.00	100.00
LU NEDERLAND	The Netherlands	100.00	100.00
LU GYORI	Hungary	100.00	100.00
JACOB'S BAKERY	United Kingdom	100.00	100.00

NOTE 29—Companies consolidated at December 31, 2000 (Continued)

Companies	Country	Percentages Group's Control	Interest
BISCUITS (Continued)			
LU POLSKA	Poland	75.00	75.00
BOLSHEVIK	Russia	73.43	73.43
OPAVIA—LU	Czech Republic	99.54	99.54
BAGLEY	Argentina	91.28	91.28
JIANGMEN DANONE BISCUITS	China	100.00	90.34
SHANGHAI DANONE BISCUITS FOODS	China	60.00	54.20
BRITANNIA INDUSTRIES	India	38.71	18.39
DANONE	Indonesia	100.00	90.34
BRITANNIA BRANDS MALAYSIA	Malaysia	100.00	90.34
KEEBLER	Malaysia	100.00	90.34
GRIFFIN'S FOODS	New-Zealand	100.00	90.34
CONTINENTAL BISCUITS PAKISTAN	Pakistan	49.49	44.71
OTHER FOOD BUSINESSES			
HP FOODS	United Kingdom	100.00	100.00
LEA & PERRINS	United States	100.00	100.00
AMOY	China	100.00	90.34
SHANGHAI AMOY FOODS	China	67.00	60.53
BEST CORPORATION	New-Zealand	100.00	90.34
EXPORT			
DIB PARIS	France	100.00	100.00
DIB ANTILLES GUYANE	France	100.00	100.00
DIB OCEAN INDIEN	France	100.00	100.00
DIB PORTUGAL	Portugal	100.00	100.00
DIB SUEDE	Sweden	100.00	100.00
DIB AUSTRALIE	Australia	100.00	100.00
DIB CANADA	Canada	100.00	100.00
GBE USA	United States	100.00	100.00
DIB MEXICO	Mexico	100.00	100.00
DIB HONG KONG CHINA	China	100.00	100.00
DIB JAPON	Japan	100.00	100.00
DIB ASIA	Singapore	100.00	100.00
HOLDINGS COMPANIES			
Cie GERVAIS DANONE	France	100.00	100.00
GENERALE BISCUIT	France	100.00	100.00
BLANRIM	France	100.00	100.00
DANONE FINANCE	France	100.00	100.00

NOTE 29—Companies consolidated at December 31, 2000 (Continued)

Companies	Country	Percentages	
		Group's Control	Interest
HOLDINGS COMPANIES (Continued)			
FINALIM 3	France	100.00	100.00
FINALIM 4	France	100.00	100.00
GAAP	France	100.00	100.00
ALFABANQUE	France	100.00	100.00
LODAHLIM FRANCE	France	100.00	92.90
DANONE HOLDING	Germany	99.92	99.92
DANONE VERMOGENS VERWALTUNG	Germany	100.00	99.92
DANONE FINANCE BENELUX	Belgium	100.00	93.79
COFIVE	Belgium	100.00	99.96
MECANIVER	Belgium	89.00	89.00
DANONE FOODS	United States	100.00	92.90
DANONE HOLDINGS USA	United States	100.00	93.79
FINANZIARIA IMPERIESE	Italy	100.00	95.09
SCIA	Italy	92.97	92.14
SIFIT	Italy	100.00	99.10
SOGEPA DANONE	Italy	99.73	99.72
DANONE RE	Luxemburg	100.00	100.00
DANONE FINANCE NETHERLANDS	The Netherlands	100.00	100.00
SELBA	The Netherlands	100.00	100.00
LODAHLIM BV	The Netherlands	100.00	89.00
SETEC-SOBELPAR	Portugal	100.00	100.00
ABIH	United Kingdom	50.00	45.17
ABIL	United Kingdom	100.00	45.17
BRITANNIA BRANDS	United Kingdom	100.00	90.34
DANONE HOLDINGS UK	United Kingdom	100.00	100.00
JINJA	China	89.02	80.40
ASIA HOST	China	100.00	90.34
SHANGHAI DANONE CONSULTING	China	100.00	90.34
BANNATYNE/DOWBIGGIN/NACUPA/SPARGO/ VALLETORT	Singapore	40.00	18.07
BHPL	Singapore	100.00	100.00
DANONE ASIA/KUAN/BRITANNIA BRANDS KUAN/ PEERLESS	Singapore	90.34	90.34
CALVON	Singapore	96.00	86.73

NOTE 29—Companies consolidated at December 31, 2000 (Continued)

Companies accounted for under the equity method

Companies	Country	Percentages	
		Group's control	Interest
FRESH DAIRY PRODUCTS			
CLOVER	South Africa	22.75	26.15
DELTA DAIRY	Greece	30.04	30.04
STRAUSS DAIRY	Israel	20.00	20.00
CALPIS AJINOMOTO DANONE	Japan	50.00	50.00
CENTRALE LAITIERE DU MAROC PINGOUIN	Morocco	20.00	20.00
BAKOMA	Poland	18.15	53.43
STIAL/SOCOGES	Tunisia	50.00	50.00
DANONESA TIKVESLI	Turkey	50.00	50.00
BEVERAGES			
MAHOU	Spain	33.34	33.34
SAN MIGUEL	Spain	33.34	33.34
AQUA	Indonesia	40.00	36.14
DANONESA DANONE SABANCI	Turkey	50.00	50.00
BISCUITS			
GRIESSON DE BEUKELAER	Germany	39.97	39.97
GALLETAS NOËL	Colombia	20.00	20.00
BIMO	Morocco	50.00	50.00
SOTUBI	Tunisia	20.00	20.00
CONTAINERS			
BSN GLASSPACK	France	44.00	44.00

NOTE 30—Subsequent events

Reorganization of the Biscuit Business

In March 2001, Danone presented its plan to reorganize its European biscuit business to employee representatives. The reorganization project is intended to enhance the competitiveness of the biscuit division on a European scale by developing large capacity factories coupled with a network of smaller specialized factories. Management believes that this reorganization, based on specific commitments of the Group and principles of industrial organization, is necessary for maintaining the competitiveness of its European manufacturing capability.

The Group has articulated its plan along specific guidelines to minimize the adverse impact on its employees and the communities in which they live by (i) favoring the maintenance of volume produced in each country and by favoring in-house production over subcontracting, and (ii) implementing the project over two to three years in order to facilitate the re-qualifying or re-employment of employees concerned as well as the re-industrialization of sites concerned.

NOTE 30—Subsequent events (Continued)

The Group's plan also reflect the following principles of industrial organization: (i) to develop sites which can increase volume and which have the most favorable cost structure; (ii) to rationalize the production through a specialization at each site which in turn will result in a higher utilization of production lines; and (iii) to rely on a network of smaller, specialized sites, for which transfer of production to other units would not have contributed significantly to reducing costs.

As a result of the reorganization, of the 36 existing biscuit factories in Europe:

- Five sites would be developed without major structural investment in view of their ability to significantly increase volume of production and their competitive cost structures. These sites would therefore be specialized on a limited number of technologies and would see a significant increase in production volume and workforce;
- Twenty sites of smaller capacity that respond to local demand or have specific technologies not justifying a transfer to more effective costs, would not be affected by this project and would continue their activities.
- Five sites would be reorganized with limited reductions in workforce to maintain their industrial competitiveness; and
- Six sites in five countries that cannot be developed at competitive cost would be closed permanently. Production from these sites would be transferred to other sites in the same country.

Management expects to record a provision of € 250 million in 2001 in connection with the plant closures. However, such amount may change based on the Company's ability to effectively implement its plan in a timely manner.

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