As filed with the Securities and Exchange Commission on March 29, 2002

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, 2001

☐ **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**	**France**
(Translation of Registrant's name into English)	**75008 Paris**	*(Jurisdiction of incorporation or organization)*
	France	
	(Address of principal executive offices)	

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: 141,033,427

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 prior to the introduction of the euro; and references to ‘‘euros’’ or ‘‘€’’ are to the currency of the European Union.

The Company’s next general meeting of shareholders has been called for April 16, 2002. As provided under French law, the meeting is to be adjourned in the event of lack of required quorum. The date set by the Company for the adjourned meeting is April 25, 2002. Accordingly, in this annual report, the date indicated for the next general meeting of shareholders is April 25, 2002.

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 and Euro Monitor 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, the Argentinian peso, the Brazilian real, the Chinese Yuan and the Polish Złoty;
- 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 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 $ 0.89 per € 1.00, or € 1.12 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 31, 2001. See ''—Exchange Rate Information'' below for information regarding the euro and French franc/U.S. dollar exchange rates from 1997 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, 1999, 2000 and 2001 (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, 2001. Such data with respect to the years ended December 31, 1997, 1998, 1999, 2000 and 2001 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,					
	1997	1998	1999	2000	2001	2001[1]
	(in millions, except per share data)					
Consolidated Income Statement Data						
Amounts in accordance with French GAAP:						
Net sales	€ 13,488	€ 12,935	€ 13,293	€ 14,287	€ 14,470	$ 12,880
Cost of goods sold	(7,466)	(6,807)	(6,663)	(6,973)	(7,196)	(6,405)
Selling expenses	(3,633)	(3,650)	(3,964)	(4,453)	(4,331)	(3,855)
General and administrative expenses	(826)	(852)	(913)	(950)	(988)	(880)
Research and development expenses	(116)	(120)	(122)	(125)	(126)	(112)
Other expense and income[2]	(223)	(213)	(240)	(236)	(220)	(196)
Operating income[3]	1,224	1,293	1,391	1,550	1,609	1,432
Non-recurring items[3]	6	(44)	2	23	(757)	(674)
Interest expense, net	(170)	(146)	(131)	(193)	(180)	(160)
Provision for income taxes	(451)	(433)	(499)	(562)	(416)	(370)
Minority interests	(82)	(97)	(110)	(130)	(163)	(145)
Equity in net earnings of affiliated companies	32	25	29	33	39	35
Net income	559	598	682	721	132	118
Earnings per share (basic)[4]	3.94	4.24	4.88	5.13	0.95	0.85
Earnings per share (diluted)[4]	3.82	4.08	4.69	5.10	0.97	0.86
Earnings per ADS (diluted)[4][5]	0.76	0.82	0.94	1.02	0.19	0.17
Dividends per share (including the *avoir fiscal*)	2.12	2.25	2.63	2.85	3.09	2.75
Dividends per ADS[4][5] (including the *avoir fiscal*)	0.42	0.45	0.53	0.57	0.62	0.55
Approximate amounts in accordance with U.S. GAAP:						
Net income	512	553	637	807	205	182
Earnings per share (basic)[4]	3.61	3.93	4.56	5.74	1.47	1.31
Earnings per share (diluted)[4]	3.53	3.79	4.39	5.71	1.48	1.32
Earnings per ADS (diluted)[4][5]	0.71	0.76	0.88	1.14	0.30	0.27
Consolidated Balance Sheet Data						
Amounts in accordance with French GAAP:						
Marketable securities, cash and cash equivalents	€ 966	€ 894	€ 951	€ 783	€ 1,109	$ 987
Current assets	4,499	4,383	4,438	4,302	4,122	3,669
Total assets	15,030	15,042	15,015	17,233	17,095	15,216
Net debt[6]	2,752	2,873	3,119	4,401	4,827	4,297
Stockholders' equity	6,512	6,514	6,146	7,189	5,947	5,293
Approximate amounts in accordance with U.S. GAAP[7]:						
Stockholders' equity	6,134	6,057	5,788	7,041	5,554	4,944
Total assets	14,882	14,822	14,908	17,300	17,022	15,151

(See notes on following page)

	Year ended December 31,					
	1997	1998	1999	2000	2001	2001[1]
	(in millions, except per share data)					
Cash Flow Statement Data						
Amounts in accordance with French GAAP:						
Cash flow from operating activities	€1,334	€1,358	€1,325	€1,422	€2,240	$1,994
Cash flow from investing activities:						
Capital expenditures	(797)	(711)	(703)	(798)	(737)	(656)
Investments in companies (net of divestitures)	547	(247)	351	(2,137)	(853)	(759)
Total cash flows from investing activities	(250)	(958)	(352)	(2,935)	(1,590)	(1,415)
Cash flow from financing activities	(1,009)	(472)	(913)	1,585	(474)	(422)
Other Data						
EBITDA[8]	1,960	1,995	2,149	2,307	2,386	2,124
Depreciation and amortization	736	702	758	757	777	692
Cost of goods sold as a percentage of net sales	55.4%	52.6%	50.1%	48.8%	49.7%	49.7%
Operating income as a percentage of net sales	9.1%	10.0%	10.5%	10.8%	11.1%	11.1%

(1) Translated solely for convenience into dollars at the Noon Buying Rate on December 31, 2001 of $ 0.89 per € 1.00.

(2) Other income and expense includes the amortization of goodwill which amounted to € 149 million, € 124 million, € 93 million, € 90 million and € 94 million in the years ended December 31, 2001, 2000, 1999, 1998 and 1997, 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. In 2001, the € 757 million non-recurring loss had a negative impact of € 659 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 139,362,077, 140,662,272, 139,877,348, 141,078,170 and 141,959,740 as of December 31, 2001, 2000, 1999, 1998 and 1997, 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 142,697,380, 141,373,721, 148,990,002, 157,115,154 and 158,185,068 for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, 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,					
	1997	1998	1999	2000	2001	2001[1]
	(in millions)					
Net income	€ 559	€ 598	€ 682	€ 721	€ 132	$ 118
Equity in net earnings of affiliated companies	(32)	(25)	(29)	(33)	(39)	(35)
Minority interests	82	97	110	130	163	145
Provision for income taxes	451	433	499	562	416	370
Interest expense (net)	170	146	131	193	180	160
Non-recurring items	(6)	44	(2)	(23)	757	674
Depreciation and amortization	736	702	758	757	777	692
EBITDA	1,960	1,995	2,149	2,307	2,386	2,124

(1) Translated solely for convenience into dollars at the Noon Buying Rate on December 31, 2001 of $ 0.89 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 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. New public debt is 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). Euro banknotes and coins entered circulation on January 1, 2002. During a limited period of time (from January to February 17, 2002), the French franc subsisted as a non-decimal denomination of the newly introduced euro banknotes and coins. The French franc was completely withdrawn on February 18, 2002.

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								
1997	FF 6.02	FF 5.84	FF 6.35	FF 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
2001[2]					0.89	0.89	0.90	0.88
Monthly amounts								
September 2001	—	—	—	—	0.91	0.91	0.93	0.89
October 2001	—	—	—	—	0.90	0.90	0.92	0.89
November 2001	—	—	—	—	0.90	0.89	0.90	0.88
December 2001	—	—	—	—	0.89	0.89	0.90	0.88
January 2002	—	—	—	—	0.86	0.88	0.90	0.86
February 2002	—	—	—	—	0.87	0.87	0.88	0.86
March 2002 (through March 25)	—	—	—	—	$ 0.88	$ 0.88	$ 0.88	$ 0.87

(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 Group. Additional risks not currently known to the Group or that the Group currently deems immaterial may also impair its business operations. The Group'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, like the current one, 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 the 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 fresh 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 that 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 its brand names, differentiate its products and improve the efficiency and management of its operations in order to maintain or increase its 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 several of the Group's markets (France, Germany and Belgium), the Group's top three customers in such markets have more than 50% of the market share. In 2001, the Group's fifteen largest customers worldwide accounted in the aggregate for approximately 38% of the Group's consolidated net sales. Five of those customers are French companies and are also Danone's top customers in France. The Group's largest client, Carrefour, represents alone 10% of the Group's consolidated net sales. Any increase in the Group's dependence on key customers or market concentration could negatively affect its ability to maintain or increase its margins.

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 milk, wheat, sugar and cocoa, and materials needed for packaging its products, including mainly PET and PVC plastics and light cardboard for cartons. Factors such as changes in the global or regional levels of supply and demand, weather conditions and government controls, could substantially impact the price of food and 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 release or discharge of substances or waste into the environment, the protection of the environment and the protection of health and human safety. The introduction of higher standards or more stringent regulations could necessitate investment and result in substantial costs for the Group.

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 profits 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 or growing instability 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. In addition, in 2001, approximately 53% of the Group's consolidated net sales and approximately 66% of its operating income were generated by subsidiaries that use currencies with a fixed exchange rate with the euro. However, 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, other currencies influenced by the U.S. dollar like some South American currencies, and British Sterling, Chinese Yuan or Polish Złoty. 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. As a result of the Group's international strategy, the contribution by international activities to net sales, operating results and margins should increase over time.

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 headcount 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 the markets in which it operates. This strategy involves the pursuit of growth opportunities through acquisitions and alliances. The Group's business may be harmed if it is unsuccessful in the integration process or fails to achieve the synergies and savings it expects from these acquisitions.

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 proprietary formula. However, the Group cannot be certain that the steps it has taken will be sufficient to protect its intellectual property rights adequately 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. Under the Company's *statuts*, revised in 1941, the Company's existence was limited to 141 years, i.e., until December 13, 2040, except in the event of anticipated dissolution or extension. Its principal office is located at 7, rue Téhéran, 75008 Paris, France, its telephone number is +(33-1) 01.44.35.20.20. The Company's agent in the United States is: The Dannon Company Inc., located at 120 White Plains Road, Tarrytown, New York, 10591-5536, USA.

The Company is registered with the Register of Commerce and Companies of Paris (*Registre du Commerce et des Sociétés de Paris*) under number 552 032 534.

The Company'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 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 production 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, 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 and cereal snacks). Over the last five 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 € 1.6 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 2001:

- fresh dairy products, including yogurts, cheeses, dairy desserts and infant foods, representing approximately 48% of the Group's net sales;
- beverages, including primarily packaged water (following the sale of European beer activities) representing approximately 26% of the Group's net sales; and
- biscuits and cereal snacks, including cookies and savory snacks, representing approximately 23% of the Group's net sales.

Key Events in 2001

In an overall difficult context linked to Latin America's economic situation, an increase in raw material costs, the global economic uncertainties of the second half of the year and the impact of the European biscuits and cereal snacks restructuring, the Group continued to demonstrate the soundness of its profitable growth strategy and the solidity of its core businesses. On a comparable basis (after eliminating changes in the scope of consolidation and currency exchange rates), net sales continued to increase to more than 5%, and operating margin improved for the seventh consecutive year to nearly 30 basis points, to reach 11.1%.

The continued success of the Group's innovation policy was further illustrated in 2001 by a 40% increase in net sales of *Actimel* and more than 14% increase in net sales of the line of low-fat *Taillefine/Vitalinea* biscuits, the commercial success of the 5-liter bottles of *Volvic* in France and, in fresh dairy products, by the successful launch of *La Crème* in the United States and *Bio à boire* and *Danio* in Spain.

In the first half of 2001, the Company announced a reorganization of its European biscuits and cereal snacks industrial operations to reduce overcapacities in Europe while promoting a more specialized and efficient organization. This reorganization, which led to the recording of a restructuring charge of € 147 million (after taxes) in 2001, will be carried over in 2002, 2003 and 2004 and should result in the closure of five production plants. In accordance with currently applicable procedures within the Group, Danone will implement numerous accompanying social measures for employees concerned and will provide for the re-industrialization of the sites concerned. The costs associated with these measures have been incorporated in the above-mentioned charge. The announcement of the reorganization has led to work disruptions, notably in France, which has markedly affected production of certain products and resulted in stock shortages in the second and third quarters of 2001.

In the first half of 2001, the costs of two of the Group's most important raw materials, milk and PET, have continued to increase. However, price pressure eased up during the second half of the year. This unfavorable trend was compensated in part by an increase in prices of products sold.

The Group's performance was also substantially affected by the difficult economic situation in Latin America, particularly in Argentina, the principal market in that region for Danone in terms of net sales. Sales of biscuits and cereal snacks decreased considerably whereas water and fresh dairy products performed well under the circumstances.

In order to consolidate its international presence, the Group maintained its international growth strategy by increasing its control of companies in which it does not own 100%; by reinforcing its current market positions to achieve leadership positions locally; and by expanding in other countries to develop the Group's core business lines.

In fresh dairy products, the Group reinforced its presence in the United States, where it already occupied the second-leading market position with products sold under the brand name *Dannon*, by acquiring an initial 39% interest in Stonyfield Farm. This company has a leading position in the organic fresh dairy products market, with a strong geographical presence in the North East of the United States. The *Stonyfield* brand is currently fourth in the yogurts market in the United States. Under the terms of the agreement, Groupe Danone has an option, exercisable starting in 2004, to acquire a majority stake in the company. In Algeria, the Group entered into a partnership agreement with Djurdjura, the market leader, by acquiring 51% of Danone Djurdjura's share capital. In Saudi Arabia, Groupe Danone entered into a partnership with Al Safi by acquiring 50% of Al Safi Danone's share capital.

In beverages, Groupe Danone gained a controlling interest in Aqua, the market leader in Indonesia and number one for packaged water in Asia, by increasing its participation from 40% to 74%. The Company also acquired 51% of Zywiec Zdroj, the leader of bottled water in Poland, the largest market in Central Europe, reinforcing the Group's presence in this country following the creation in 2000 of a joint venture with San Benedetto (Polska Woda). In Mexico, one of the largest markets worldwide, the Group acquired 50% of Pureza Aga, number two in the home and office delivery market. The combination of Pureza Aga's strong position and Bonafont's leadership in the market for bottled waters enables the Group to lead the market for packaged water in Mexico. In partnership with ONA, the Group also acquired a 30% interest in Sotherma, one of the market leaders for bottled water in Morocco.

In biscuits and cereal snacks, Groupe Danone acquired a controlling interest in San in Poland and Fazer in Finland, which were purchased from United Biscuits.

At the end of 2001, the Company announced that it had entered into a partnership agreement with the Egyptian Rachid group, in Egypt and the Near and Middle East regions. The agreement covers all three of the Group's core businesses. The transaction contemplates the establishment of a biscuits activity in Egypt. This agreement reinforces the Group's presence in North Africa, and the Near and Middle East regions, through a number of partnerships and equity participations.

For a description of Danone's principal capital expenditures and divestitures, including investments in other companies in 2001 and in the two preceding financial years, see ''Item 5. Operating and Financial Review and Prospects—Overview—Acquisitions and Investments.''

Business Overview

Danone is one of the world's leading food companies, with worldwide sales and operating income of € 14.5 billion and € 1.6 billion, respectively, in 2001. On the basis of annual sales and production, Danone is the world leader in fresh dairy products and packaged water and the world's second largest producer of biscuits.

Danone is the world's leading producer of fresh dairy products, the second largest producer of biscuits and cereal snacks and the world's leading producer of 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*, Europe's leading biscuits brand and which

has a strong presence in the rest of the world; *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 also produces sauces (internationally known brands such as *HP Foods*, *Lea & Perrins* and *Amoy*) and infant food in France (*Blédina*). Overall, approximately 70% of world sales were realized through leading positions in local markets.

The Group's strategy relies upon (i) a concentration on three categories of products which have substantial elements of health and well-being, (ii) strong and grouped brand names, kept dynamic by sustained advertising campaigns, (iii) a balanced geographical distribution between developed countries and emerging countries and (iv) an ambitious innovative strategy maintained by an ever growing knowledge of consumer expectations.

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 43% of total net sales in 2001 from less than 15% in 1995 and a strong presence in emerging countries.

The brand name *Danone* (*Dannon* in the United States) currently represents more than one-third of the Group's net sales and grew more than 7% internally in 2001. 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 Asia. In addition, four of the Group's brands (*Danone*, *Lu*, *Evian* and *Wahaha*) represent over 50% of the Group's net sales.

The continued internal growth of the Group in recent years is based upon the Group's ability to sell quality products satisfying demands of local markets by (i) improving the products sold by recently acquired companies, (ii) introducing products available to large numbers of consumers in emerging countries to develop mass consumption of packaged food products thereby creating demand for the Group's brands for the future, (iii) taking advantage of the Group's marketing know-how to sell value added products already distributed in other countries, to accompany the increase in purchase power and consumption trends. Danone believes that demographic trends and economic developments in Asia and Latin America will lead in the medium term, despite current economic problems, to significant market expansion. 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 brand name 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 2001 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 and cereal snacks and is undeniably a market leader with a strong international presence in health/well being and is supported by prestigious brands.

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 development 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 believes that it can sustain an internal growth rate of 5% to 7%, by (i) having a portfolio of activities concentrated on dynamic health-oriented products, (ii) substantially advertising and promoting a

chosen few major brands, (iii) having a significant presence in emerging countries, (iv) occupying leading positions internationally in each business line built on strong and number one positions in local markets, (v) offering promising innovations based on consumer satisfaction, and (vi) having flexible and reactive organizational structures favoring the responsibility of each subsidiary while sharing 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 its international activities (outside the European Union) is still less than the Group's average, it is expected to be a factor of improvement of Danone's operating profitability in future years. 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 Themis integrated management system from 2002, 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. In biscuits and cereal snacks, the Group will benefit from the reorganization of its European production operations to reduce overcapacities and increase productivity through better specialization. The Group expects to progressively benefit from these initiatives starting in 2003.

The Group will direct its acquisition policy with a view to obtaining a leadership position and will seek to consolidate current positions so as to have a solid number one local market position. In Danone's continuing effort to reinforce its international presence, a significant portion of the planned operations will be realized outside the European Union, in countries already representing 42.6% of net sales (of which approximately 30% are in emerging countries).

In an international recessionary climate and in the absence of a significant crisis, in particular a worsening of the economic situation in Latin America, Danone expects that its consolidated net margin should continue to improve by 20 to 40 points per year.

Products and Markets

The tables below show, for each of the years 1999, 2000 and 2001, consolidated net sales and operating income by geographic areas and principal business lines.

Geographic Areas

	Year ended December 31,[1]					
	1999		2000		2001	
	(€ millions, except percentages)					
Net Sales						
France[2]	4,963	35.4%	4,298	28.5%	4,022	23.3%
European Union (excluding France)[3]	5,084	36.3%	5,273	35.0%	5,137	34.0%
Rest of the World[4]	3,960	28.3%	5,512	36.5%	6,192	42.7%
Intra-group sales[5]	(714)	—	(796)	—	(881)	—
Total	13,293	100.0%	14,287	100.0%	14,470	100.0%
Operating Income						
France[2]	587	41.7%	526	33.8%	462	28.9%
European Union (excluding France)[3]	501	35.6%	541	34.8%	584	36.6%
Rest of the World[4]	319	22.7%	489	31.4%	552	34.5%
Unallocated expenses[6]	(16)	—	(6)	—	11	—
Total	1,391	100.0%	1,550	100.0%	1,609	100%

(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 (excluding France) 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) Intra-group sales include sales between subsidiaries of different geographic areas (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,					
	1999		2000		2001	
	(€ in millions, except percentages)					
Net sales[1]						
Fresh dairy products	5,981	44.7%	6,530	45.7%	6,945	47.9%
Beverages[2]	3,565	26.6%	4,141	28.9%	3,796	26.2%
Biscuits and cereal snacks	2,822	21.1%	3,255	22.8%	3,371	23.3%
Other food businesses[2]	527	3.9%	378	2.6%	375	2.6%
Glass containers[3]	501	3.7%	—	—	—	—
Intra-group sales	(103)	—	(17)	—	(17)	—
Total	13,293	100.0%	14,287	100.0%	14,470	100.0%
Operating income[1]						
Fresh dairy products	655	46.5%	712	45.8%	790	49.4%
Beverages[2]	440	31.3%	513	33.0%	432	27.0%
Biscuits and cereal snacks	222	15.8%	282	18.1%	316	19.8%
Other food businesses[2]	39	2.8%	49	3.1%	60	3.8%
Glass containers[3]	51	3.6%	—	—	—	—
Unallocated expenses	(16)	—	(6)	—	11	—
Total	1,391	100.0%	1,550	100.0%	1,609	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. Intra-group 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 2001 of approximately € 6.9 billion, representing approximately 3.1 million tons, Danone is the leading producer of fresh dairy products worldwide, with nearly 17% of the world's market share and an average market share of at least 25% in each of its 10 most significant markets, which is three times more than its closest competitor. Danone's principal products in this business line are yogurts and similar products which, together, accounted for over 75% of Danone's total net sales in 2001. Danone also produces Italian cheeses under the *Galbani* brand and infant food sold principally in France under the *Blédina* brand, which, respectively, accounted for approximately 14% and 6% of net sales of fresh dairy products in 2001.

Principal Markets and Brand Names. Sales in France accounted for 23% of net sales of fresh dairy products, sales in the rest of the European Union accounted for 44% and sales in the rest of the world accounted for 33%. Danone's principal markets for fresh dairy products are France, Spain, Italy and Germany, which together accounted for nearly 58% of Danone's sales of fresh dairy products in 2001. 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 over one-third of the total market. Danone markets

yogurts and similar and other fresh dairy products principally under the *Danone* brand name, as well as infant food under the brand *Blédina*. In Italy, Danone owns 100% of Galbani, Italy's largest cheesemaker with specialties such as *Bel Paese*, *Santa Lucia* and *Dolcelatte*, as well as certain delicatessen products (sold under the brand *Casa Romagnoli*). Danone is also Italy's largest producer of yogurts with a market share of nearly 20%. 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 47%. In Germany, Danone is an important player in 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 that sell Danone's product lines. Danone also has a 30% ownership interest in Delta Dairy's Greek subsidiary specializing in fresh dairy products.

In Eastern Europe, Danone is the leading producer of fresh dairy products in Poland, Hungary, the Czech Republic, Slovakia 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 or partnerships. Through its association with Shanghai Bright Dairy in China, Danone is pursuing the establishment of the *Danone* brand on a still relatively small market.

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

New Products. Danone is continuously involved in the introduction of new products and lines while trying to develop, as quickly and widely as possible, a worldwide market for high-potential products. At the same time, Danone is continuously reviewing or relaunching some of its key existing products to meet consumers' expectations, in terms of recipes, formats or packaging.

In 1995, Danone introduced *Actimel*, an organic dairy product, which is now sold in 15 countries and continues to enjoy a very strong growth. In 2001, net sales of *Actimel* increased by 40% to more than € 350 million. The successful launch of this product in 2001 in Argentina, Poland and Mexico confirms the potential of this type of product in emerging countries.

Danone has continued to develop its line of drinkable yogurts, particularly adapted to new ''nomad'' and ''snacking'' consumer trends. The *Bio à boire* and *Danio* products were successful in Spain, as was *Danimals Drinkable* in the United States in the youth segment of the yogurt market, and *Petits Gervais aux Fruits à boire* in many countries.

The *Bio/Activia* line aiming at the health-orientated market sector has grown steadily, enjoying success in Southern Europe, the United Kingdom and Eastern Europe.

In the United States, *La Crème*, a creamy and low-fat dairy dessert has been a success, demonstrating the evolution in local tastes. This trend should enable the Group to introduce to the dynamic, yet still small, U.S. dairy market, products developed in other regions of the world.

Market Trends. Overall, the market for dairy products worldwide has grown relatively steadily over the past years. This market has grown continually in the European Market, driven by the innovative and dynamic nature of the health-orientated sector products. The market increased in the United States in the past years, 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 contribute to Danone's continued improvement of 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, supporting Galbani's strategy to expand its presence in cheese markets in Europe outside of Italy. Danone expects to see continued growth in demand for infant food in France, driven by trends toward increased consumption of convenience foods and the success of new and innovative product lines.

Beverages

Danone's beverage activities comprise packaged water and other non-alcoholic beverages. In 2001, net sales of beverages were € 3.8 billion, of which 17% are accounted for by sales in France, 19% by sales in the rest of the European Union and 64% by sales in the rest of the world.

With 14.5 billion liters of packaged water sold (including companies accounted for under the equity method) and a market share of 12.5%, Danone is the leading producer of packaged water in the world. Danone produces three of the four leading brands of bottled water in the world: *Evian, Wahaha* (China) and *Volvic* and the leading brand of packaged water: *Aqua* in Indonesia. Danone is also the second leading producer in Europe and in the United States, and the leading producer in Asia Pacific and Latin America.

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 21% 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 21% 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. In Germany and the United Kingdom, two markets experiencing rapid growth of the still water sector, the group is leading the market through its *Evian* and *Volvic* brands.

In Eastern Europe, Danone is the market leader in Poland, the largest market in the region, as a result of the Group's 51% interest in Zywiec Zdroj acquired in 2001 and its joint-venture, Polska Woda, entered into in 2000 with the Italian group San Benedetto.

In North Africa and the Near and Middle Easts, Danone owns a 50% interest in a significant producer of bottled water in Turkey and acquired in 2001 a 30% interest in Sotherma, a leader in the bottled water market in Morocco.

On the dynamic U.S. market, the Group is the second supplier of packaged water in the country. The Group enjoys a significant presence in the home delivery market for large water containers following the acquisition of various activities from the McKesson group in 2000, especially from its *Sparkletts* brand products. In the market for bottled water, Danone is a leader on the premium water market through *Evian* and is active on the domestic market for water mainly through the *Sparkletts* and the *Dannon* brands. In this competitive sector, Management has decided to focus its presence in the supermarkets distribution channels.

The Group is the market leader in Canada, holding approximately 30% of the Canadian market of packaged water under its *Crystal Springs, Labrador, Naya* and *Evian* brand names.

In Latin America, Danone is the market leader in packaged water. In Mexico, the Group is the market leader in terms of value, where it owns 100% of Bonafont, the leading Mexican producer of bottled water and 50% of Pureza Aga, number two in the home and office delivery market. By its size, the Mexican market is one of the largest markets worldwide and the largest market of the emerging countries. The Group also has a leading position in bottled water in Argentina with brands such as *Villa del Sur* and *Villavicencio* and is the market leader in water in Uruguay.

In Asia, Danone has an absolute leading position in packaged water with a market share of approximately 22%. In China, the Group is the market leader and has nearly 50% of the bottled water market, selling 2.3 billion liters in 2001 under the *Wahaha* and *Robust* brands. The Group is also the market leader of dairy drinks in this country. In Indonesia, the Group gained a controlling interest in Aqua, increasing its participation in the company from 40% to 74%. Aqua has an absolute leading position in the country with approximately 60% of the market. A significant part of its revenue is achieved in large containers. In 2001, the brand name *Aqua* had a leading position worldwide for water packaged in large containers and bottles with 2.6 billion liters of water sold.

New Products—Packaged Water. Danone' Activ, a water product enriched with calcium, was very successful in the United Kingdom as was the *Volvic* 5 liter family size bottle in France. The Group's dietetic waters *Taillefine/Vitasnella* remain, in France and Italy, successful with consumers displaying a promising welcome confirming the potential of this sector. On the rapidly growing market for flavored water, *Volvic Fruit* was successfully launched in Germany and in the United Kingdom. In France, the Group confirmed its leading position in the sector by introducing *Badoit Vertigo*, a flavored line of its famous sparkling water, leader on the French market. The Group has entered into a license agreement with Johnson & Johnson pursuant to which it has launched 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 and Cereal Snacks

With net sales in 2001 of approximately € 3.4 billion, representing over 1.2 million metric tons, Danone is the world's second leading producer of biscuits and cereal snacks. Danone's biscuit products include cookies, which represent more than half of biscuit and cereal snacks net sales, and savory snacks, crispbreads and crackers, and packaged cakes.

During the first half of 2001, the Group announced a reorganization of its European biscuits and cereal snacks production operations, to reduce overcapacities in Europe and to improve its organization and productivity. This plan will be carried out over 2002, 2003 and 2004 and should result in the closure of five plants. This reorganization, in accordance with current procedures within the Group, will lead to numerous accompanying social measures and the re-industrialization of the sites concerned. The announcement of this reorganization has led to work disruptions notably in France, which has markedly affected production of certain products and resulted in the stock shortages in the second and third quarters of 2001.

The biscuits and cereal snacks sales were substantially affected by the difficult economic situation in Latin America, particularly in Argentina, the principal market of that region for the Group.

Principal Markets and Brand Names. Sales in France account for 34% of biscuit and cereal snacks net sales, 28% in the rest of the European Union and 38% in the rest of the world. Danone's main product lines are marketed under the *Lu* brand name, which accounts for 36% of its net sales and which has a dominant position in the European market. The *Danone* brand name is used in Asia, China and Indonesia. The Group also has various local brands worldwide resulting from the many external growth operations carried out by the Group in

recent years. In an attempt to harmonize and benefit from these assets, in 2001, the Group implemented a strategy for the progressive transfer to the *Lu* brand name of some of its international activities. During 2001, producers in Brazil, Denmark, Norway and Sweden transferred portions of or their entire lines of products to the *Lu* brand name.

In Europe, Danone is the market leader and has a strong position in France, the Benelux, Greece and the Nordic countries following the purchase of United Biscuits' activities. In the United Kingdom, where the Group sells its products under the brand name *Jacob's*, Management has decided to regroup its portfolio concentrating on the crackers market where it has a leading position, and reinforced this by the purchase of United Biscuits' brand names in the sector. In Italy, the Group is, with Saiwa, number two in the market and has benefited in the savory snacks from the purchase of Fonzies from United Biscuits.

In Eastern Europe, Danone is clearly the market leader with a strong position in Russia, the Czech Republic, Slovakia, Hungary and Poland. Danone strongly reinforced its presence in Poland and Hungary through its acquisition of United Biscuits' local operations. Under favorable economic conditions, the Russian activity, under the *Bolshevik* brand, increased significantly in 2001.

In Latin America, Danone is the largest biscuit and cereal snack producer with a presence in Brazil, Argentina and Colombia. The Brazilian biscuit market is the fourth largest in the world based on volume, and the largest market in Latin America. Danone, present with the *Lu* brand, is the second leading producer in the country. In Argentina, despite particularly difficult economic conditions, *Bagley* remained the leading biscuit and cereal snack brand.

In the Asia Pacific region, Danone is the market leader for biscuits and cereal snacks. In China and India, two of the top three largest biscuit and cereal snack markets in the world in terms of volumes consumed, Danone has very strong positions. In China, *Danone* is the leading brand and *Britannia* is the leading brand of biscuits and cereal snacks in India. Danone is also the leading producer of biscuits and cereal snacks in New Zealand, with approximately 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 innovation tends to emphasize the nutritional qualities of biscuits and cereal snacks, the penetration of new consumption moments as well as the geographic expansion of concepts with a high commercial potential. Danone has continued to develop its range of low-fat products (first introduced in 1997 in the Netherlands and Belgium), using local brands that are already familiar for fresh low-fat dairy products: *Taillefine* in France, *Vitasnella* in Italy, *Vitalinea* in other European markets and *Ser* in Argentina. This concept, which now includes cookies, savory snacks and cereal snacks is now marketed in many countries, including France, Spain, Italy, the Czech Republic, Poland and Argentina. The Group has also actively been marketing breakfast products for which it believes that biscuits have a strong potential due to their ease of consumption and nutritional qualities. The health benefits of these products have been substantially reinforced by the Group's research concerning the release of complex sugars and the advancement of the concept of ''Long-Lasting Energy'' (''*Energie à Diffusion Progressive*''). During the year, these products were very successful in the European Union and Eastern Europe increasing the Group's share of the breakfast market. The *Prince* brand name, the principal brand name of the Group for youth market, continued its geographic expansion through a successful launch in Russia for example.

Other Food Businesses

Net sales of grocery products in 2001 were approximately € 375 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.

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.

In 2000, Danone revised significantly its research and development policy to transform it into a major competitive advantage of the Group. To increase intra-Group communication, efficiency and speed, the research and development teams will be grouped together in one global multidisciplinary center, Danone Vitapole, incorporating the three main activities, and research will be focused on a limited number of strategic projects. This center, located in the Paris region, will be operational in 2002 and will employ approximately 500 people.

In order to conduct basic research related to nutrition, flavor, and food processing and preservation, Danone regularly collaborates with outside entities such as universities and specialized public research centers. Danone has also established an international prize to reward research in nutrition or major 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. Furthermore, by their activities for the benefit of professionals in the fields of nutrition and healthcare, the 14 Danone institutes worldwide contribute to public awareness regarding nutrition and have commenced several projects for researchers and doctors.

Danone spent € 126 million, € 125 million and € 122 million on research and development in 2001, 2000 and 1999, respectively, representing, for 2001, 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 milk, fruits, flour, sugar, cocoa and fats or, collectively, food raw materials; and (ii) materials needed for packaging its products, including primarily plastics and cardboard 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 operations could be adversely affected by price increases or shortages of food and packaging raw materials. See "Item 3. Key Information—Risk Factors." The risk is mitigated by the diversity of raw materials that the Group purchases and the broad geographical base of its major suppliers.

Food Raw Materials. Milk represents the most important food raw material for the Group in terms of cost. In each country where Danone requires milk for the production of its dairy products, the Company'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 fixed by the European Union or supported by various national governments through quotas and duties. The milk prices increases in Europe in 2000 continued for a large part of 2001. Purchasing for other food raw materials, mainly fruit mixtures, sugar, cocoa and flour, is managed through global or regional purchasing programs, allowing for synergies in terms of volumes and skills. Purchases of sugar and cocoa are closely monitored because the market structures for these products 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. Factors that influence the pricing of packaging materials include international and regional supply and demand, installed production capacities and, more generally, economic cycles and the oil price. The price of PET, one of the most significant packaging raw materials purchased by the Group, increased significantly in 2000 and continued to increase in the first half of 2001, but subsequently eased up during the second half of the year. The other significant raw materials used for packaging (rigid and supple plastics and cartons) did not experience significant change during the year.

Organizational Systems and Information Technology

Project Themis

In 2000, the Group decided to restructure its organization and operating systems preferring an integrated information system or ERP (Enterprise Resource Planning) for its subsidiaries in the European Union, Eastern Europe and America. This restructuring is expected to lead to an optimization of information flows within the subsidiaries and within the Group as a whole between the financial, industrial, quality control, supply chain, commercial and purchasing divisions. ERP is also expected to accelerate the integration of newly acquired companies as a result of rapid dissemination of the Group's practices and tools. Developed in 2001 from an SAP framework, the system is being installed in four 'test' companies and is expected to be progressively deployed to the rest of the Group starting in 2002.

CPGmarket.com

This electronic marketplace, dedicated to the consumer products sector, was created in 2000 by Danone, Nestlé, Henkel and SAP, its founding shareholders. It is designed to enable the Group to generate additional synergies by optimizing its purchases through simplified processes and the implementation of new market practices such as e-tenders and e-auctions. The CPGmarket.com marketplace is now operational with over 80 employees, 28 shareholders and a database of over 3,000 active suppliers. It has already generated almost 600 online transactions. The Group began to deploy CPGmarket.com to its subsidiaries in 2001, and it already accounts for 10% of its online purchases in the European Union. CPGmarket.com was successfully deployed to subsidiaries in the rest of the world, and is expected to continue its internationalization during 2002.

Intellectual Property

The Group owns right to 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.

Risk Management Policy

The Group maintains an active risk management policy to preserve the interest of shareholders, employees, consumers and the environment. The policy is based upon:

- stringent identification of the risks (using various tools and reporting systems, and in particular, a worldwide mapping of the most significant risks, currently in progress);
- internal monitoring, training, prevention and protection, verified by regular audits of the Group's industrial sites; and
- a global insurance policy based on stringent technical evaluations using worldwide available insurance products based on their availability and local regulations. As a result, the Group has insurance coverage in all the countries in which it operates against significant accidents that may affect the Group's industrial installations as well as for its liability arising from its activities or the Group's products.

Customers, Distribution and Marketing

Customers

While 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, 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 in emerging countries. In 2001, the Group's 15 largest customers worldwide, of which five are French retail groups, accounted in the aggregate for approximately 38% of total consolidated net sales. Danone's largest client alone, Carrefour, accounted for 10% of consolidated net sales in 2001.

The Group has global partnership agreements with major retailers. These partnership agreements 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 has benefited from this expansion by using existing commercial ties to introduce its products in certain international markets and therefore accelerated 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 Water, a market leader in home and office delivery of packaged water in the United States, the Group has also 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 products designated for mass distribution and the flow designated for traditional market outlets.

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, working closely with its mass distributors to accelerate the development of product categories, to optimize the flow of products and the inventory levels of its customers. These include efficient consumer response, or ECR, which in addition to achieving stock management, automatic stock replenishments and just-in-time delivery is used to coordinate stock levels between the stores, the client's warehouses and 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 events.

Marketing

The Group's advertising and promotional strategy constitutes a key element in the success of its overall strategy based on innovation, brand recognition and market leadership. The Group engages 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 and cereal snacks. 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 maintains 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 marketing strategy direction and marketing structures across product lines and geographic areas to ensure consistency of strategies, sharing 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 3.5 million French households 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 regrouping 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. Danone established a centralized organization to develop and coordinate its worldwide Internet policy.

Food Safety and Quality Management

Food safety

Food safety is a paramount consideration for Danone. 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 focuses on identifying and analyzing microbiological, chemical and 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. The Group strives on continually improving its control over monitoring the supply chain, by gaining significant knowledge of the raw materials it purchases, monitoring the chain of distribution, developing a more efficient tracing system and controlling the production processes (using measures to define and implement rules relating to hygiene and production, based on international standards such as the *HACCP*). For certain risks, such as pesticides and heavy metals, the Group has implemented 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 brands 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

The Group considers quality to be a managerial responsibility that is rooted in the comprehension of consumers and clients and which seeks to achieve top results. This orientation concurs with the recent evolutions of the ISO 9000 standard of certification. Using these new standards, the Company has made quality a determining factor throughout the stages for each of its functions and activities. When evaluating a new product, all the parameters, organoleptic (flavor, taste, texture...), the reduction of food safety risks and consumer habits (format, weight, etc.), desired by customers and public authorities are taken into consideration. This quality policy is supported by a constant measure of product performances through internal and consumer testing. External audits are performed regarding the manufacturing process and hygiene. In beverages for example, these verifications go from the supply of water all the way to the actual dispatch of the products for sale.

Quality management teams oversee quality systems and their implementation at each of Danone's operating subsidiaries. They are specifically concerned with: (i) the development of new products through organoleptic tests performed internally and by consumers, allowing 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, 2001, 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 subsidiaries is subject to local 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 Group's 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 policy is rooted in a long-term strategy whose goal is to respond to consumer growing concerns for the environmental impact of industrial plants and production. In 1996, the Company'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 areas: industrial activity, packaging and agriculture-related issues.

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 costs or the temporary cessation of sales to particular markets in order to adjust packaging methods to meet the new standards.

Industrial Activity. The activities of the Group are subject to environmental regulations regarding air emission, discharge of substances and waste treatment. In addition to ensuring that plants comply with local regulations, the Group is committed to reducing water and energy consumption and waste 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, 2001, 161 plants had been audited and the Group believes that the results indicate no major risks. At December 31, 2001, 42 industrial plants, three corporate headquarters and one research center were certified ISO 14001.

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 training and educating various interested parties in 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 protect 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 to limit the use of fertilizer, phyto-sanitary products and water, without negatively affecting profitability.

The Group's capital expenditures for environmental protection totaled approximately € 15 million in 2001. 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 advertising component focusing on

certain brands, is to differentiate itself from its competitors by marketing innovative, value-added products, responding to a growing consumer demand 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 value-added health-oriented products, its ability to market locally its diverse global product lines and on its historical past relationships 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 activities 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, 2001.

FRESH DAIRY PRODUCTS

EUROPE

GERMANY
Danone
GmbH 99.92%
AUSTRIA
Danone
Ges.mbH 99.92%
BELGIUM
Galbani
Belgique 100%
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) 43.76%
FINLAND
Danone 100%
FRANCE
Blédina 100%
Danone 100%
Galbani
France 100%
UNITED
KINGDOM
Danone Ltd 100%
Galbani UK 100%
GREECE
Delta Dairy 30.04%
HUNGARY
Danone Kft 100%
IRELAND
Danone Ltd 99.9%
ITALY
Danone SpA 100%
Galbani 100%
THE NETHERLANDS
Danone Nederland
B.V. 100%
POLAND
Bakoma* 52.43%
Danone Sp zoo
100%
PORTUGAL
Danone Portugal
S.A. 53.81%
CZECH
REPUBLIC
Danone a.s. 98.05%
ROMANIA
Danone SRL 65%
RUSSIA
Danone Industria 70%
Danone Volga 61.79%
Mos Danone 35.70%
SLOVAKIA
Danone Spol s.r.o. 100%
SWITZERLAND
Galbani Suisse
100%

AMERICAS

ARIGENTINA Danone S.A.
99.50%
Logistica La Serenissima
50.69%
BRAZIL
Danone Ltda. 100%
Prospect Participacoes 100%
CANADA
Danone Ltda 100%
MEXICO
Danone de Mexico 100%
UNITED STATES
The Dannon Co. 100%
Stonyfield Farm 38.58%

AFRICA AND THE MIDDLE EAST

SOUTH AFRICA
Danone Clover 66.77%
Clover SA Ltd 26.15%
ALGERIA Danone
Djurdjura 51%
SAUDI ARABIA
Al Safi Danone 50.10%
ISRAEL
Strauss Dairy 20%
MOROCCO
Centrale Laitière 28.76%
TUNISIA
Stial-Socoges 50%
TURKEY
Danonesa Tikvesli 50%

ASIA

JAPAN
Calpis Ajinomoto
Danone 50%

BEVERAGES

EUROPE

GERMANY Danone Waters
Deutschland 100%
SPAIN
Aguas de Lanjarón 78.52%
Dasanbe 50%
Font Vella 76.92%
Mahou 33.34%
FRANCE
Evian 100%
Kro Beer Brands 100%
Volvic 100% Seat 99.91%
Smda 100%
UNITED KINGDOM
Danone Waters
UK & Ireland 100%
ITALY
Italaquae 92.67%
POLAND
Polska Woda 50%
Zywiec Zdroj 51.08%

AMERICAS

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. 100%
MEXICO
Pureza Aga 50%
Bonafont 100%
URUGUAY
Salus 42.30%

AFRICA AND THE MIDDLE EAST

MOROCCO
Sotherma 30%
TURKEY
Danonesa Danone Sabanci
50%

ASIA

CHINA
Hangzou Wahaha group
46.07%
Robust group 79.79%
Haomen Brewery 63.24%
Shenzhen Health Drinks
54.20% Wuhan Euro
Dongxihu Brewery 54.20%
INDONESIA
Aqua 66.85%

BISCUITS AND CEREAL SNACKS

EUROPE

GERMANY Lu Snack Foods
99.92%
Griesson De
Beukelaer 39.97%
BELGIUM
Lu Belgique 100%
DENMARK
Lu Nordic 100%
SPAIN
Lu Biscuits 100%
FINLAND Lu Finlande
100%
FRANCE
Lu France 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%
Lu San 75%
CZECH REPUBLIC
Opavia
Lu 99.71%
RUSSIA
Bolshevik 75.64%
SWEDEN
Lu Sverige 100%

AMERICAS

ARGENTINA
Bagley 99.23%
BRAZIL
Danone Ltda. 100%
COLUMBIA
Galletas Noel 30%

AFRICA AND THE MIDDLE EAST

MOROCCO
Bimo 50%
TUNISIA
Société Tunisienne
de Biscuiterie 20%

ASIA

CHINA
Jiangmen Danone
Biscuits 90.34%
Shanghai Danone Biscuits
Foods Co. Ltd 81.31%
INDIA
Britannia Industries Ltd.
19.07%
INDONESIA
PT Danone
Biscuits 90.34%
MALAYSIA
Britannia Brands
Malaysia 90.34%
Evercrisp Manufacturing
90.34%
NEW ZEALAND
Griffin's Foods 90.34%
PAKISTAN
Biscuits Ltd 44.71%
Continental

OTHER

FOOD ACTIVITIES

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

GLASS CONTAINERS

FRANCE
BSN Glasspack 44%
ITALY
Bormioli Rocco e Figlio
S.p.A. 16.3%

*The Group only holds 18.15% of the voting rights of Bakoma.

Property, Plants and Equipment

Danone operates production facilities located around the world in its principal markets. At December 31, 2001, Danone had 208 production sites, with approximately 36% of its sites located in Europe (15% in France, 12% in Italy and Spain and 9% elsewhere in the European Union); 34% in Asia and the Pacific Rim, including China, New Zealand, India, Indonesia and elsewhere in Southeastern and Southwestern Asia; and 19% in North and South America, including plants in the United States, Canada, Argentina, Brazil and countries of central America. The table below sets forth the total number of Danone's facilities and total production by main business line at December 31, 2001.

Business line	Number of plants	Total Production in 2001 (thousands of tons or millions of liters)
Fresh dairy products	48	3,162
Beverages	99	14,143
Biscuits and cereal snacks	53	932
Other food businesses	8	124

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, France and Spain, and account for approximately 16% of Danone's production capacity for fresh dairy products. Danone's two largest sources of bottled water, both located in France, account for approximately 11% and 8% of Danone's total production capacity for bottled water in 2001, and its third largest source, located in Italy, accounts for approximately 5%. Danone's three largest biscuit and cereal snacks facilities are in Belgium, the United Kingdom and the Czech Republic and account for approximately 15% of Danone's total production capacity for biscuits and cereal snacks.

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 1999, 2000 and 2001, Danone spent a total of € 703 million, € 798 million and € 737 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 in the short term.

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.

U.S. GAAP Reconciliation

The Consolidated Financial Statements of Groupe Danone have been prepared in accordance with French generally accepted accounting principles, or French GAAP. The application of these principles does not give rise to material differences compared with U.S. generally accepted accounting principles, or U.S. GAAP, except for the brands amortization (brands are not systematically amortized as required per U.S. GAAP but can be exceptionally impaired), for the valuation of some financial assets (which are not recorded at their fair value at the closing date as required per U.S. GAAP) and for the accounting of some restructuring costs (some non-exit costs are accrued, whereas they should be expensed as incurred under U.S. GAAP).

The application of U.S. GAAP (based on a 40-year amortization period for brand names) would result in an increase in year 2001 consolidated net income of € 73 million (an increase of € 86 million in year 2000 and reduction of € 45 million in 1999) to € 205 million at December 31, 2001 and a reduction in stockholders' equity of € 393 million (reduction of € 148 million at December 31, 2000) to € 5,554 million at December 31, 2001. See Note 2 to the Consolidated Financial Statements for a discussion of the material differences between French GAAP as applied by Groupe Danone in its Consolidated Financial Statements and U.S. GAAP.

Period-to-Period Comparisons

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 this 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 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.

Critical Accounting Policies

In response to the SEC's Release No. 33-8040, ''Cautionary Advice Regarding Disclosure About Critical Accounting Policies,'' the Company identified the most critical accounting principles upon which its financial condition depends. It determined the critical principles by considering accounting policies that involve the most complex or subjective decisions or assessments. The Company identified its most critical accounting policies to be those related to consideration paid to retailers, business combinations, restructuring costs and intangible assets, goodwill and brand impairment. The Company states these accounting principles in the Notes to the Consolidated Financial Statements included elsewhere in this annual report.

Overview

Refocusing Strategy

In line with its strategy to focus on its three core business lines (fresh dairy products, beverages and biscuits and cereal snacks), the Group sold all of its grocery activities, excluding sauces, between 1997 and 2000, the majority of its glass containers business in 1999 (keeping only a 44% interest in BSN Glasspack) and, during the first half of 2000, concluded several agreements for the sale of a majority of its beer activities in Europe.

Pursuant to these agreements, the Group sold all the assets of its subsidiary Kronenbourg (with the exception of its brand names), 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. The Group has the option to sell its remaining assets for approximately € 2.5 billion or to transfer them to the Scottish & Newcastle beer business in exchange for a minority ownership interest therein. In addition, at the end of 2000, 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 represented approximately € 1.5 billion in net sales on a full year basis. For a detailed description of these agreements, see "Item 10. Additional Information—Material Contracts".

In addition, in December 2001, Danone entered into an agreement with CRE Beverage Limited, a joint venture between China Resources Enterprise Limited and South African Breweries Plc., regarding the proposed sale of its 60% stake in breweries in Wuhan, China. The activities to be sold represent approximately two-thirds of the Group's beer revenues in China.

Finally, in February 2002, the Group entered into an agreement for the sale of the Italian cheese and cured meat activities of Galbani to a private equity fund.

Acquisitions and Investments

As part of the Group's growth strategy, Danone is continuously considering 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 selling shareholders allowing Danone to increase its interest over time to obtain effective control, a majority interest or sole ownership.

In 2001, the Group's financial investments comprised primarily:

- the acquisition of a 50% ownership interest in Pureza Aga, Mexico's second largest supplier of large water containers for the home and office delivery markets;
- the acquisition of a 51% ownership interest in Zywiec Zdroj, the leader in bottled water in Poland;
- the acquisition of a 50.1% ownership interest in Al Safi Danone, a new company which retained certain activities of the South Arabian company, Al Safi, a leader in the market for dairy products in this country;
- the acquisition of a 39% interest in Stonyfield Farm, the fourth leading brand name for yogurts and the largest organic yogurt producer in the United States;
- the acquisition of a 51% interest in Djurdjura Danone, the leader in fresh dairy products in Algeria; and
- various increases in equity participation in companies already owned by Groupe Danone, such as the increase from 40% to 74% in the capital of Aqua, the leader in packaged water in Indonesia, the increase from 95% to 100% in Galbani and the increase from 89% to 100% in Mecaniver.

The Group's principal financial investments during 2000 included: (i) the acquisition of 100% of McKesson Water Products Company, the third largest supplier of water in the United States and the leader on

the U.S. West Coast; (ii) the acquisition of a 92% interest in Robust, a leader in water and other beverages in China; (iii) the acquisition of a 51% ownership interest in the Argentinian fresh dairy product distribution company Logistica La Serenissima; (iv) the acquisition of a 57.34% ownership interest in Salus, leader in the mineral water market in Uruguay; (v) the acquisition of 100% of Paulista in Brazil; and (vi) various European assets acquisitions from United Biscuits. 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 2001, total acquisition costs amounted to € 431 million and increases in ownership interest amounted to € 640 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 2000, total acquisitions costs amounted to € 2,531 million and increases in ownership interest amounted to € 318 million. In 1999 acquisition costs amounted to approximately € 426 million, and total equity investments amounted to approximately € 359 million.

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 2001 and 2000, the consolidation of newly acquired businesses did not compensate for the loss of net sales resulting from divestitures, in particular the sale of the European beer activities in 2000. The impact, in terms of lost net sales, amounted to approximately € 574 million in 2001 compared to 2000, and approximately € 511 million in 2000 compared 1999, taking into consideration the dates these operations were completed.

In 2001, Danone ceased fully consolidating its European beer activities and commenced consolidating, on a fully consolidated basis, its fresh dairy products activities in Romania and Brazil (Paulista) as well as the residual activities acquired from United Biscuits in Northern European countries, Eastern Europe and Asia. In addition, commencing in 2001, Danone accounted, under the equity method, for its fresh dairy product company, Al Safi Danone, (Saudi Arabia), as well as the following packaged water companies: Polska Woda (Poland) and Pureza Aga (Mexico).

For more information on changes in the Company's scope of consolidation for 2001 and 2000, see Note 4 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, the demand for water is at its peak during the second and third quarters of the year, and demand for biscuits is generally the strongest during the fourth quarter of each year. As a result, Danone typically records its lowest quarterly net sales during the first quarter of each year. In addition, cool summer temperatures may negatively impact sales of packaged water, and as a result, total net sales. Conversely, warmer temperatures can stimulate demand and thus favorably impact net sales.

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 material prices, competition, economic conditions and consumer spending power in countries where the Group operates, fluctuations in exchange and interest rates and certain government actions. For more information on how these particular factors may affect Danone's business and results of operations, see ''Item 3. Key Information—Risk Factors.''

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 an active transition period which lasted until the end of 2001. Beginning in 1999, the euro was the only currency used for intra-group billings as well as for all cash operations. Starting in 2001, the euro became the Group's internal currency following the successful transition of internal accounting, financial and payroll systems.

The use of the euro was introduced to the Group's customers on a trial basis in 1999 and extended in 2000 to several large distributors, particularly in France and Belgium and, starting in 2001, became widespread. Starting in 2000, 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 was extended to the Group's other customers and suppliers, including small- and medium-sized businesses.

The anticipation of the intra-group and others' transition to the euro provided the Group with an opportunity to concentrate on aiding the consumers' transfer to the euro. The Group played a significant role in the conclusion of agreements within the industry relating to the transition to the euro in France and Italy. To help consumers adjust to the new reference system in euros, these agreements contemplate a stability period from November 2001 to the end of March 2002 during which neither selling prices nor packaging will change in order to reduce the risk of a decrease in consumption in the first weeks of 2002. The promotional strategies have been reinforced for this transition period and companies in the euro zone have developed promotions adapted to the euro, often with an educational vocation, such as promotions using rounded euro numbers.

Early in 2002, the Group implemented in France the EuroDANONE Barometer in conjunction with its distributors to monitor its commercial and marketing strategies, and, if needed, to adjust them. The Barometer indicated that consumers rapidly adopted the new currency and that purchases slightly increased in January 2002 compared to January 2001. The Group has, thus far in 2002, not noted any significant changes in consumer trends in the European countries.

Valuation of Intangible Assets

For the year ended December 31, 2001, Danone recorded an impairment loss, in accordance with French GAAP, consisting of a one-time goodwill amortization for its Italian subsidiary Galbani, in light of the Company's project to sell Galbani's cheese and cured meat activities.

The Company has not recorded a goodwill amortization for its subsidiaries in Latin America, including in Argentina, in light of the solid brandname recognition and competitive positions of these companies. The valuation of these companies' intangible assets will be reviewed in 2002 in light of the evolution of the economic situation in the countries concerned.

Recent Events

International Developments

On January 18, 2002, Danone announced that it had received acceptances in excess of 90% under its takeover offer for the New Zealand company Frucor Beverages. As a result, the offer became unconditional and Danone proceeded with the compulsory acquisition of the remaining shares and the de-listing of the company in accordance with applicable local regulations. This transaction, made at the initial price of 2,35 New Zealand dollars per share, amounted to a total value of € 140 million for 100% of Frucor. Frucor, a key player in the New Zealand beverage market, is well known for its capacity to innovate and is also the market leader in

Australasia in the fast growing energy drink segment with its "V" brand. Frucor's revenues for the year ended June 30, 2001 amounted to approximately € 105 million with a compounded annual growth rate in excess of 40% over the last 3 years.

On February 4, 2002, the Group announced that it had entered into an agreement to increase its equity participation from 51% to 88% in Zywiec Zdroj. With a turnover of € 45 million in 2001, Zywiec Zdroj is the leader in the highly dynamic Polish market which, with 1.3 billion litres of water per year, is the largest in Eastern Europe. The transaction has been approved by the Polish antitrust authorities.

On February 8, 2002, the Group acquired a 4% shareholding interest for 33.2 million U.S. dollars in the Russian company Wimm Bill Dann at its initial public offering of ADSs on the New York Stock Exchange, on which the company floated 25% of its share capital. This company, with a 2000 turnover of 465 million U.S. dollars is the leader in the Russian market for dairy products and fruit juices. The Group intends to offer BERD a participation in this investment within the context of their partnership in Eastern Europe and Russia which was set up in 1995.

Sale of Galbani's Cheese and Cured Meat Activities

On February 27, 2002, the Group announced that it had entered into an agreement for the sale of its Galbani cheese, cured meat and other dairy products activities to private equity funds advised by BC Partners for € 1,015 million. The transaction includes a vendor loan by Danone for € 207 million. The activities to be sold represented net sales of € 1.1 billion in 2001.

Taking into account the amortization of Galbani's goodwill recorded in 2001, this transaction will not generate any capital loss in 2002. This transaction will improve the Group's key financial indicators: organic growth in turnover, operating margins and return on invested capital, without any negative impact on EPS.

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, 1999, 2000 and 2001. 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,					
	1999		2000		2001	
	(€ in millions, except percentages)					
Net sales[1]	13,293	100.0%	14,287	100.0%	14,470	100.0%
Cost of goods sold	(6,663)	50.1%	(6,973)	48.8%	(7,196)	49.7%
Selling expenses	(3,964)	29.8%	(4,453)	31.2%	(4,331)	29.9%
General and administrative expenses	(913)	6.9%	(950)	6.6%	(988)	6.8%
Research and development expenses	(122)	0.9%	(125)	0.9%	(126)	0.9%
Other income and expense	(240)	1.8%	(236)	1.7%	(220)	1.5%
Operating income	1,391	10.5%	1,550	10.8%	1,609	11.1%
Non-recurring items	2	—	23	0.2%	(757)	5.2%
Interest expense	(131)	1.0%	(193)	1.4%	(180)	1.2%
Provision for income taxes	(499)	3.8%	(562)	3.9%	(416)	2.9%
Minority interests	(110)	0.8%	(130)	0.9%	(163)	1.1%
Net earnings of equity method companies	29	0.2%	33	0.2%	39	0.3%
Net income	682	5.1%	721	5.0%	132	0.9%

(1) Net sales are stated net of excise taxes and discounts, except for trade support actions that are generally invoiced by customers, and which are treated as selling expenses.

	Net Sales			Operating Income			Operating Margin[1]		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
	(€ in millions, except percentages)								
By Business Line									
Fresh dairy products	5,981	6,530	6,945	655	712	790	11.0%	10.9%	11.4%
Beverages[2]	3,565	4,141	3,796	440	513	432	12.3%	12.4%	11.4%
Biscuits and cereal snacks	2,822	3,255	3,371	222	282	316	7.9%	8.7%	9.4%
Other food businesses	527	378	355	39	49	60	7.4%	13.0%	16.0%
Glass containers[2]	501	—	—	51	—	—	10.2%	—	—
Intra-group sales[3]	(103)	(17)	(17)						
Unallocated expenses				(16)	(6)	11			
Total	13,293	14,287	14,470	1,391	1,550	1,609	10.5%	10.8%	11.1%
By Geographic Area									
France	4,963	4,298	4,022	587	526	462	11.8%	12.2%	11.5%
Rest of European Union	5,084	5,273	5,137	501	541	584	9.9%	10.3%	11.4%
Rest of the World	3,960	5,512	6,192	319	489	552	8.1%	8.9%	8.9%
Intra-group sales	(714)	(796)	(881)						
Unallocated expenses				(16)	(6)	11			
Total	13,293	14,287	14,470	1,391	1,550	1,609	10.5%	10.8%	11.1%

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

(2) In 1999 and 2000, the Company sold its majority interest in glass containers business and its European brewery activities.

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

Results of Operations for the Years ended December 31, 2000 and 2001

Net Sales. Net sales are stated net of excise taxes and discounts, except for trade support actions that are generally invoiced by customers, and which are treated as selling expenses. Net sales increased by 1.3% to € 14,470 million in 2001 from € 14,287 million in 2000. This increase in net sales is due to a 5.1% internal growth and the slightly positive impact of currency conversion rates (0.4%) largely offset by a net negative effect (4.2%) of changes in the consolidation of the Group's operations. The consolidation effect is explained by a loss in net sales (related to activities sold in 2000) greater than net sales generated from new acquisitions. The currency conversion effect is mainly due to the increased value of the American dollar and currencies related to it offset in part by the decreased value of the Brazilian Real and South African Rand. This 5.1% increase in consolidated net sales is due to an increase in volumes (3.2%), and an increase in price of goods sold (1.9%).

On a comparable basis, consolidated net sales increased 5.1% in 2001 over 2000, compared to 7.0% in 2000 over 1999.

Geographically, internal growth in net sales was 4.7% in the European Union. France accounted for 3.5% of 2001 net sales growth and the rest of the world for 5.7%.

Growth rates varied throughout the year, as shown below:

1st Quarter	6.6%
2nd Quarter	5.7%
3rd Quarter	3.7%
4th Quarter	4.6%

After significant growth in 2000, 2001 was marked by a more difficult economic environment, particularly in the second half of the year, and by specific situations in several markets in which the Group operates and which impacted growth:

- The announcement of the reorganization of the European biscuits and cereal snacks business during the second quarter led to work disruptions, notably in France and Hungary, which affected production and sales and resulted in a temporary decrease of market share for the Group.
- The integration of certain business activities purchased from United Biscuits was more difficult than expected, particularly in Poland and Northern Europe.
- The deflationary environment exacerbated by the competition between *Wahaha* and *Robust*, the two leaders in the Chinese packaged water market (both controlled by Danone), weighed down the growth of the beverage subsidiaries in China.
- The difficult economic situation in Argentina and the restrictions on the use of electricity in Brazil led to a significant decrease in the activity of certain subsidiaries, in particular Bagley in Argentina.
- The increased competition in the U.S. market for packaged water which slowed down the growth of the Group's brand names (*Dannon, Sparkletts, Evian*).

Despite these temporary difficulties, the sectors in which the Group focuses its most significant efforts continued to experience high growth rates: 7.7% for yogurts and similar products (40% of which was accounted for by *Actimel)*, 8.4% for packaged water and 7% for the brand name *Danone*, which represented 35% of the Group's net sales.

Cost of Goods Sold. Costs of goods sold correspond to production costs, including costs of raw materials (food and packaging), labor costs and depreciation of the production machinery. Costs of goods sold increased 3.2% from € 6,973 million in 2000 to € 7,196 million in 2001. As a percentage of net sales, costs of goods sold increased 90 basis points in 2001, from 48.8% to 49.7%. This increase is primarily due to changes in consolidation of the Group's operations since the cost of the goods sold associated with activities that were sold (beer, in particular) represent a smaller percentage of net sales than that of the businesses retained. Furthermore, the significant increase in food raw materials (such as milk) and packaging raw materials costs were balanced by continued efforts to increase productivity, by focusing on the improvement of industrial performance and the international program of optimizing purchases and by increasing selling prices.

Selling, General and Administrative Expenses. Selling expenses correspond to advertising and promotional expenses, distribution costs and structural costs relating to sales force. Selling expenses decreased from € 4,453 million in 2000 to € 4,331 million in 2001. As a percentage of net sales, these expenses decreased from 31.2% to 29.9%, due primarily to changes in consolidation, the sold beer activities having relatively higher distribution costs.

General and administrative expenses increased slightly in 2001 to € 988 million, or 6.8% of net sales, from € 950 million or 6.6% of net sales in 2000.

Research and Development Expenses. Research and development expenses increased 0.8% from € 125 million in 2000 to € 126 million in 2001. 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, brandname royalties and goodwill depreciation. Other income and expense decreased from € 236 million in 2000 to € 220 million in 2001. This decrease is mainly a result of (i) an increase in goodwill depreciation costs from € 124 million in 2000 to € 149 million in 2001 related to various acquisitions during the year, (ii) the increased royalties (€ 50 million in 2001 compared to € 24 million in 2000) received from Scottish & Newcastle for its use of the *Kronenbourg* brand, and (iii) the decrease in the legally required employee profit sharing amount from € 122 million in 2000 to € 108 million in 2001, explained primarily by the disposal of the beer activities in France.

Operating Income. Operating income increased 3.8% from € 1,550 million in 2000 to € 1,609 million in 2001. On a comparable basis, operating income increased 9.8%.

Operating margin increased 27 basis points (from 10.8% in 2000 to 11.1% in 2001), despite the worldwide price increase in plastic raw materials and in milk in Europe. The 27 basis points increase in the operating margin reflects a 21 basis points decrease resulting from changes in the Group's consolidation, which was largely offset by an increase of 48 basis points in profitability of the operating activity.

Non-Recurring Items. In 2001, non-recurring items consist of (i) an exceptional goodwill impairment loss of Galbani for € 475 million, (ii) reorganization or integration costs of companies acquired for € 256 million, of which € 236 million is accounted for by the reorganization of the European biscuits and cereal snacks operations, (iii) the un-provisioned balance of a fine levied by the European Commission for an alleged agreement relating to the beer market in Belgium for € 26 million.

Interest Expense. Net interest expense decreased from € 193 million in 2000 to € 180 million in 2001. This decrease reflects the receipt of € 68 million in dividends in connection with the sale of European beer activities compared to € 38 million in 2000. In addition, the increase in the Group's average debt resulting from external acquisitions and the share buy-back program was in part offset by the decrease in the Group's average financing costs, resulting from the continually decreasing interest rates in 2001 and the issuance of convertible bonds at a rate of 1.20%.

Provision for Income Taxes. The Group's provision for income taxes decreased 26.1% from € 562 million in 2000 to € 416 million in 2001 and includes a tax credit of € 97 million in connection with reorganizations. Excluding capital gains and losses and one-time assets impairment charges, the effective tax rate decreased from 37.5% in 2000 to 36.4% in 2001, in particular due to dividends paid on the shares and other securities of Scottish & Newcastle, which are taxed at a reduced rate, and also as a result of decreased tax rates in France. Including capital gains and losses and one-time asset impairment charges, the Group's effective tax rate was 61.9% in 2001 compared to 40.75 % in 2000. Goodwill depreciation, which is generally non-deductible, impacts the effective tax rate of the Group by approximately 6 points. Capital gains and losses associated with disposals were specifically taxed.

Minority Interests. Minority interests increased from € 130 million in 2000 to € 163 million in 2001. This increase resulted from 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 € 33 million in 2000 to € 39 million in 2001. This increase was principally due to the € 7 million net positive effect of variations in the Group's consolidation scope, in particular, the consolidation of Al Safi Danone.

Net Income. In 2001, the Group's net income amounted to € 132 million. This includes the exceptional goodwill amortization of Galbani for € 475 million and the net costs of the reorganization for € 147 million after taxes and minority interests (for a total of € 757 million before taxes and minority interests), compared to € 1 million after taxes and minority interests (€ 64 million before tax and minority interests) in 2000. Excluding these non-recurring items, net profit increased by 8.3%.

Net Income per Share. The diluted net income per share decreased from € 5.10 in 2000 to € 0.97 in 2001. This decrease reflects the impact of the non-recurring items mentioned above. Excluding net capital losses associated with disposals, net assets depreciation costs and reorganization costs, net profit per share was € 5.51, an increase of 8.3% on a comparable basis. This increase results from the increase in net income excluding non-recurring items and the beneficial effects of the share buy-back program.

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

Fresh Dairy Products. Net sales of fresh dairy products increased from € 6,530 million in 2000 to € 6,945 million in 2001, a 6.4% increase with negative consolidation impact of 0.5% and positive currency conversion effect of 0.1%. On a comparable basis, net sales of fresh dairy products increased 6.8% in 2001 compared to 6.7% in 2000. Net sales of yogurt and similar products recorded the highest growth with an increase of 7.7%. Almost all of the Group's companies experienced net sales increases, along with in many cases, an improvement in local market share.

Operating income improved 11.0% from € 712 million in 2000 to € 790 million in 2001 while operating margin increased from 10.9% in 2000 to 11.4% in 2001. This improvement is due to the positive impact of the introduction of new and innovative products such as the line of drinkable yogurt products, the growth of products with strong margins such as *Actimel*, increased advertising and improvement in productivity. These factors, together with a price increase for the Group's products in certain countries, 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 best practice exchanges amongst the Group's subsidiaries.

Beverages. Net sales of beverages decreased 8.3% from € 4,141 million in 2000 to € 3,796 million in 2001, with a 15.8% negative consolidation impact and a positive currency conversion effect of 1.4%. On a comparable basis, net sales of beverages increased 7.1%, including an increase of 8.4% for packaged water and 1.5% for other activities. In the European Union, packaged water continued to grow (up 10.1%), where the Group experienced a higher growth rate than the market average due to the strength of its brands and favorable product mix. Outside the European Union, net sales increased by 10.6% in Latin America, despite difficult economic conditions in Argentina, and by 15.9% in Asia.

Operating income for beverages decreased 15.8% from € 513 million in 2000 to € 432 million in 2001 and operating margin decreased from 12.4% in 2000 to 11.4% in 2001. This decrease results from the disposal of the European beer activities, consolidated for the first half of 2000 only. Excluding beer activities, operating margin increased slightly from 11.5% in 2000 to 11.7% in 2001 and benefited from the strong profitability of Aqua in Indonesia which compensated for the difficulties in North America and the negative impact resulting from the increase in prices in certain countries to offset increases in PET costs, and the continued efforts to optimize logistics and reduce bottle weight.

Biscuits and Cereal Snacks. Net sales of biscuits and cereal snacks increased 3.6% from € 3,255 million in 2000 to € 3,371 million in 2001, with a positive consolidation impact of 3.7% and a 0.5% negative conversion effect. On a comparable basis, net sales of biscuits and cereal snacks increased 0.4% in 2001, compared to 6.4% in 2000. This slight increase results from contrasting trends: increased sales in Asia (6.2%) and Eastern Europe (8.0%) offset by a 13.7% decrease in sales volumes in Latin America, particularly in Argentina.

Operating income for biscuits and cereal snacks increased 11.9% from € 282 million in 2000 to € 316 million in 2001, partly due to the consolidation of recently acquired activities. Operating margin increased from 8.7% in 2000 to 9.4% in 2001. This increase reflects the improvement in the profitability of subsidiaries in Asia and Russia and compensated for the difficulties in Latin America and the European Union, particularly in France, as well as the constant efforts to improve global productivity and the success of value added products.

Other Food Businesses. Net sales of other food businesses decreased by 0.8% from € 378 million in 2000 to € 375 million in 2001, with a 1.0% negative consolidation impact and no conversion effect. On a comparable basis, net sales of other food businesses increased 0.2%.

Operating income for these activities increased 22.4% from € 49 million in 2000 to € 60 million in 2001. Operating margin increased to 16.0% in 2001 from 13.0% in 2000, reflecting the rationalization of the lines of products offered.

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 was 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 operations. The impact on consolidation resulted 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 was mainly due to the strong rise in value 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 was 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 one third of the Group's consolidated net sales.

Geographically, internal growth in net sales was 5.6% in the European Union. France alone accounted for 5.2% of 2000 growth in net sales and the rest of the world for 9.4%. Growth 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. As a percentage of net sales, costs of goods sold decreased 130 basis points, from 50.1% to 48.8% of net sales. This decrease was 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 benefited 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- and office-delivery activities acquired in 2000 and an increase in advertising costs (7.9% on a comparable basis). At the same time, costs related to product promotions 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 was 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 received from Scottish & Newcastle for its use of the *Kronenbourg* brand (€ 24 million in 2000). Legally required employee profit sharing remained stable at € 122 million in 2000 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 was 13.0%, substantially higher than the increase in net sales.

The operating margin increased by 30 basis points (from 10.5% in 1999 to 10.8% in 2000), despite the worldwide price increase in plastic raw materials and in milk in Europe. This increase reflected 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 more than offset the increase in advertising expenses.

Non-Recurring Items. In 2000, non-recurring items were comprised of (i) capital gains associated with the disposal of beer activities in Europe for € 156 million, (ii) assets impairment for € 92 million (including € 69 million for impairment of the brand *Bagley* in Argentina), and (iii) restructuring costs for € 41 million. Restructuring costs corresponded 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, impacted the effective tax rate of the Group by approximately 3 points; the impairment of the brand which is also non-deductible also impacted 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 decreased from 39.9% in 1999 to 37.5% in 2000, in particular due to dividends paid 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 scope (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 resulted 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 was € 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 was 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 factors 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 best practices exchanges amongst the Group's 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 the European Union, net sales increased by 11.4%, which represented a progression greater than the market average due to the strength of its brands and favorable product mix. Outside of the European Union, 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 was due in part to the consolidation of recently acquired activities (specifically McKesson and Robust), the stability of the operating margin resulted from an 8.7% volume increase. This increase in volume, combined with price increases for the Group's products in some countries, compensated the negative impact associated with the increase in PET prices and the integration of activities which, after goodwill amortization, had a lower profitability than the average of the beverage business line.

Biscuits and Cereal Snacks. Net sales of biscuits and cereal snacks 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% currency conversion effect. On a comparable basis, net sales of biscuits and cereal snacks increased 6.4% in 2000, compared to 3.4% in 1999. This increase resulted from the Group's strategy of promoting innovative products while emphasizing the nutritional benefits of biscuits and cereal snacks through a sustained advertising campaign. The concentration of activities on leading brands and international brands 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 and cereal snacks increased 26.9% from € 222 million in 1999 to € 282 million in 2000, partly due to the consolidation of acquired activities. Operating margin increased from 7.9% in 1999 to 8.7% in 2000. This increase reflected 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 currency 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 only through the accounting of BSN Glasspack under the equity method.

Liquidity and Capital Resources

Consolidated Cash Flows

At December 31, 2001, Danone had available cash, cash equivalents and marketable securities totaling € 1,109 million, compared to € 783 million at December 31, 2000. Danone has historically generated and Management believes that it will continue to generate in the future, 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, 1999, 2000 and 2001.

	Year ended December 31,		
	1999	2000	2001
	(€ in millions)		
Cash flows provided by operations	1,423	1,558	1,611
Net change in current working capital	(98)	(136)	629
Cash flows from operating activities	1,325	1,422	2,240
Capital expenditures	(703)	(798)	(737)
Free cash flow[1]	622	624	1,503
Net divestitures (acquisitions)	351	(2,137)	(853)
Dividends paid	(350)	(366)	(393)
Share repurchases	(1,724)	(169)	(921)
Other financing[2]	1,161	2,120	840
Effect of exchange rate changes on cash and cash equivalents	33	12	(11)
Increase (decrease) in cash and cash equivalents	93	84	165

(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 given year compared to the second half of that year because of higher working capital needs in the beginning 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 water inventory for stronger consumption in the summer and (iii) outstanding accounts receivable from sales realized in May and June as a result of seasonal variations.

Cash flows provided by operations increased 3.4% from € 1,558 million in 2000 to € 1,611 million in 2001. Net change in working capital decreased by € 629 million, mostly due to implementation in 2001 of a securitization program covering account receivables. Excluding the securitization program, net change in working capital increased by € 56 million.

Capital Expenditures. Capital expenditures amounted to € 737 million in 2001 compared to € 798 million in 2000 and € 703 million in 1999, representing 5.1% and 5.6% and 5.3% of net sales, respectively. Industrial investments in 2001 include (i) significant capacity investments in Asia in the beverage activities, and (ii) investments in fresh dairy production capacity in Europe to match the development of *Actimel*. The Company expects capital expenditures in 2002 to represent approximately 5.0% of net sales, excluding capital expenditures relating to acquisitions.

Financial Investments. Acquisitions and financial investments in other companies totaled € 1,071 million in 2001 compared to € 2,849 million in 2000 and € 934 million in 1999. The significant decrease from 2000 to 2001 is explained by the fact that the Group completed several larger acquisitions in 2000, including the acquisition of McKessor Water. In furtherance of its strategy of internationalization, the Group has followed an active policy of development of its principal business lines internationally. For additional information on the Group's acquisitions and divestitures, see above "—Overview—Acquisitions and Investments."

In addition, the Company has entered into several agreements to purchase interests held by third-party shareholders in certain subsidiaries, should these shareholders wish to exercise their option to sell their interests. These agreements are typically 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 at the time that the option to sell is exercised. At December 31, 2001, Management estimates the aggregate amounts susceptible to be engaged under these agreements to be approximately € 1,800 million. Although the Company is unable to predict when, or if, such investments will be required, no material investment under these agreements is anticipated for 2002. Also, the Company will continue to pursue its strategy of international development whenever opportunities will present themselves.

Share Buy-Back. In 2001, the amount of Groupe Danone shares that the Company repurchased pursuant to its share buy-back programs increased compared to 2000. In 2001, the Company repurchased 6,815,857 shares, for a total amount of € 921 million, compared to € 169 million in 2000. The Company expects that its shareholders will renew their approval to implement a share buy-back program at the next annual meeting to be held on April 25, 2002. See "Item 10. Additional Information—Trading in the Company's Own Shares." Assuming the program is adopted, the Company could, during a period of 18 months following the April 2002 general shareholders meeting, purchase up to 9 million shares, representing an aggregate purchase maximum price of € 1,800 million, assuming a maximum purchase price and a minimum sale price per share of € 200 and € 120. To finance repurchases under this program, the Company may use available cash and/or resort to short or medium-term debt financing for any additional cash needs.

Other Financial Commitments. At December 31, 2002, the total aggregate amount of guaranteed and rental commitments is € 150 million for the years 2002 to 2005, and € 80 million beyond 2005.

Other Financing

In June 2001, the Company issued 5,076,142, 1.20% bonds convertible and/or exchangeable into either newly issued or existing Groupe Danone shares, for an aggregate amount of € 999,999,974. The bonds will mature on January 1, 2007 at par and may be redeemed prior to maturity at the option of investors at par plus accrued and unpaid interest to, but excluding, the redemption date, on June 19, 2003, 2004 and 2005. The Company also has an option to redeem all of the bonds prior to maturity at par, from January 1, 2005 until December 31, 2006, if the stock price exceeds 30% of the conversion price (currently, approximately € 259.17). The bonds may be converted at the option of the investor, at any time from August 1, 2001, until maturity at the ratio of one share for one bond. The Company, at its discretion, can settle conversions using either existing shares or new shares.

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 € 504 million and € 610 million. The 1990 convertible bonds initially matured on January 1, 2000 and the 1993 convertible bonds initially mature on January 1, 2002. As provided for in the terms of the convertible bonds, the Company exercised its right to redeem prior to maturity all bonds remaining outstanding in 1999 and 2000.

Under the framework agreement of May 2000 with Scottish & Newcastle plc., the Company has an option to sell its residual beer activities in Europe to Scottish & Newcastle for an aggregate amount of € 2,500 million, or to transfer them to a new joint venture company in which the Company would hold a 25% interest. For details regarding the terms of this option, see, ''Item 10. Additional Information—Material Contracts—Material Contracts—Sale of Groupe Danone's Beer Activities to Scottish & Newcastle plc.''

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 indebtedness to protect its financial flexibility.

In July 2001, the Company entered into agreements with financial institutions for the sale, without recourse, of receivable trade accounts, for a maximum aggregate amount of € 760 million. At December 31, 2001, the amount of receivable securitized trade accounts recorded, net of the guarantee deposit, amounted to € 685 million. See Note 12 to the Consolidated Financial Statements included elsewhere in this annual report.

Danone maintains bank credit lines to ensure the availability of funding on an as-needed basis. At December 31, 2001 and 2000, Danone had credit lines totaling € 2,960 million and € 2,725 million, respectively, of which it had utilized € 1,465 million at December 31, 2000 (€ 1,505 million in 2000). Also at December 31, 2001, the Group had funds of € 1,109 million (compared to € 783 million at December 31, 2000) 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 € 4,827 million and € 4,401 million at December 31, 2001 and 2000, respectively, corresponding to ratios of net debt to shareholders equity of 72% (82% including the commercial debt securitization program) in 2001 and 55% in 2000**.**

Based on the above, Danone's Management believe that working capital is sufficient to meet the Company's present requirements.

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 was 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 9.0% in 2000 to 9.3% in 2001. Similarly, the contribution to shareholders' value increased by two-thirds from € 150 million in 2000 to € 260 million in 2001, based on a weighted average cost of resources of 7.25% over 7.75% in 2000.

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. 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 (taking into account the increase in share price and dividends, including the *avoir fiscal* tax credit but before taxes) was 5.6% between 1999 and 2001.

Impact of Changes in Exchange Rates

The Group publishes its consolidated financial statements in euros. In 2001, approximately 53% of the Company's subsidiaries' net sales and 66% 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.

Both the sales and expenses of the Group's subsidiaries are denominated principally in the currencies of their home countries, except for imports, exports and financial transactions, which are hedged. As a result, Danone believes that its exposure to currency fluctuations has been, and will continue to be, limited locally. 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, 2001, the negative conversion difference relating to translation of euro/zone currencies amounted to € 328 million compared to € 334 millions at December 31, 2000. In addition, the negative conversion difference relating to the devaluation of the Argentinian peso was € 494 million at December 31, 2001, calculated on a balance sheet conversion basis of 1.6 pesos for 1.0 U.S. dollar, or 1.41 pesos for 1.0 euro.

Trend information

For a discussion of factors and events that impacted the Group's results of operations and financial condition in 2001, see "Item 4. Information on Groupe Danone" and "Item 5. Operating and Financial Review and Prospects." Except as disclosed elsewhere in this annual report, the Company is not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Group's net sales, income from operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions. See also "Item 3. Key Information – Risk Factors" and " Cautionary Statement Regarding Forward-Looking Statements" at the beginning of this annual report.

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 specified by law.

The French company law, dated May 15, 2001 (number 2001-420) (the ''Law of May 15, 2001''), gives the Board of Directors the right to elect one person to assume the position of Chairman and Chief Executive Officer or to split the function between two different persons (the Chairman and Chief Executive Officer of the Board of Directors or another natural person bearing the title of Managing Director or *Directeur Général*). The Company's articles of association, or *statuts* currently do not provide for such a choice. As provided for in the Law of May 15, 2001, the Board of Directors will submit a resolution to the shareholders at the next extraordinary shareholders' meeting to be held on April 25, 2002, to amend the Company's *statuts* to comply with the law.

French law permits the Board of Directors to delegate to up to five people, general or specific powers (*Directeurs Généraux Délégués* or Assistant Managing Directors). The Managing Director proposes the *Directeurs Généraux Délégués* or Assistant Managing Directors and the Board of Directors determines their specific management powers and responsibilities. Under French law, a *Directeur Général Délégué*, like the Managing Director, has broad powers to represent and bind the company in dealings with third parties. The *Directeur Général Délégué* may be removed by the board of directors at any time upon proposal of the Managing Director. The *Directeur Général Délégué* may be held individually responsible for his/her actions if they are deemed contrary to the company's interests.

The Chairman of the Board, Managing Director and Assistant Managing Directors are entitled to remuneration in addition to attendance fees, or *jetons de présence* granted by the shareholders' meeting. This additional remuneration is determined by the Board of Directors and the Chairman of the Board may vote on a resolution concerning his or her remuneration. Under French law, the Board of Directors prepare and present yearly financial statements to the shareholders and call the shareholders' meeting. In addition, the Board of Directors review and monitor the economic, financial and technical strategies of the company.

Meetings of the Board of Directors, which are held as often as required by the corporate interest, are normally convened and presided over by the Chairman. According to French company law, if the Board of Directors has not met for over two months, at least one-third of the members of the Board may request that the Chairman convene the Board regarding matters listed in the agenda for the meeting. The quorum is one-half of the members of the Board and decisions are taken by a vote of the majority of the members present or represented by other members of the Board of Directors. A director may give a proxy to another director by any written or electronic means, but a director cannot represent more than one other member at any particular meeting. Members of the Board of Directors represented by another member at meetings do not count for purposes of determining the existence of a quorum. A director may not vote for an arrangement or contract in which he or she is materially interested. If he or she does vote, the decision will be void. A resolution will be submitted for approval at the next general shareholders' meeting to be held on April 25, 2002, to amend the *statuts* to provide that any director may vote at any meeting by means of conference call, video communication or written consultation of the members.

Under French law and the company's *statuts*, the Board of Directors must give prior authorization for any security, pledge or guarantee by the company. This authorization is generally granted for a period of one year. If the security, pledge or guarantee has not been previously authorized by the Board of Directors, this security, pledge or guarantee shall have no effect with regard to the company.

Board of Directors

Pursuant to the Company's *statuts*, the Board of Directors consists of between three and 18 directors. At December 31, 2001, the Company's Board of Directors consisted of 14 directors, following the death of Mr. Luca Fossati in October 2001. The Company's Board of Directors confirmed the appointment of Mr. Bruno Bonnell as a director at its meeting on February 18, 2002, to be ratified at the shareholders' meeting to be held on April 25, 2002. 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 2001, directors were paid a total of 0.3 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 of the Company. In 2001, the Board of Directors of the Company held six meetings.

The *statuts* provide for the retirement age of the directors. 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. However, the Board of Directors will submit for approval at the next general shareholders' meeting to be held on April 25, 2002, a resolution changing the age limit to sixty five years old for the directors, the Chairman of the Board and introducing an age limit for the Managing Director and Assistant Managing Director to sixty five.

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* and *Directeurs Généraux Délégués*), permanent representatives of companies on the Board of Directors, spouses or heirs of such persons, and other intermediaries.

The French Commercial Code and the Company's *statuts* (assuming it is amended accordingly at the general shareholders' meeting to be held on April 25, 2002) require directors, the Managing Director, Assistant Managing Directors and one of the Company's shareholders having a fraction of the voting rights greater than 5%, or if a shareholder company, the company controlling it, that 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 or person concerned 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. Under French law, directors are liable for violations of French legal or regulatory requirements applicable to *sociétés anonymes*, violation of the *statuts* or mismanagement. A director may be held liable for such actions both individually and jointly with the others directors.

The following table sets forth, as at December 31, 2001, 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]	46	Chairman and Chief Executive Officer; Director, Renault, Eurazeo, Scottish & Newcastle Plc, Strauss Dairy Ltd, ONA; Member of Supervisory Board, Accor	1992	2004
Michel David-Weill[1][2] . .	69	Chairman, General Partner, Lazard Frères Banque; Lazard LLC; Managing Director, Lazard Bank Ltd; Director, Eurazeo; Member of Supervisory Board, Publicis	1970	2005*
Jacques Vincent[1]	56	Senior Executive Vice-President	1997	2005*
Umberto Agnelli[1]	67	Chairman, IFIL S.p.A.; Vice Chairman and Director, IFI S.p.A.; Member of Supervisory Board, Worms & Cie	1987	2005*
Dominique Auburtin	50	Chairman, Worms & Cie; Director, CAR SA, Les Petites Affiches, Permal Group, Worms & Co Inc.	1998	2004
Yves Boël[1][2]	75	Chairman, SA Sofina; Chairman, Managing Director, SA Union Financière Boël; Vice Chairman, SA Tractebel; Director, SA Mecaniver	1972	2002
Yves Cannac[3]	67	Director, Cegos, Caisse des Dépôts-Développement, Société Générale, AGF	1985	2003
Jean Gandois[1][2][3]	72	Vice Chairman, Suez; Director, Eurazeo, Institut Curie; Member of Supervisory Board, Siemens	1981	2005*
Jean-Claude Haas[3]	76	Senior Executive Vice President, Lazard Frères Banque; Managing Director, Lazard Brothers & Co.	1991	2003
Christian Laubie[1][3]	63	Chairman, Alfabanque; Managing Director, Mecaniver; Director, BSN Glasspack	1985	2003
Philippe Lenain	65	Director, Eco-Emballages, Nord-Est, SEB	1991	2003
Jacques Nahmias	54	Chairman, Pétrofrance Chimie SA; Chief Executive Officer and Director, Petrofrance SA; Director, Danone SA	1981	2005*
Edouard de Royère[1]	69	Honorary Chairman; Member of the Supervisory Committee, L'Air Liquide SA; Chairman, ANSA; Director, L'Oréal, Sodexho, Solvay, Wanadoo; Member of Supervisory Board, Michelin	1987	2005*
Jérôme Seydoux[1]	67	Chairman and Chief Executive Officer, Pathé Images Production; Senior Executive Vice President, Chargeurs; Member of Supervisory Board, Accor	1970	2003

* Assuming reelection at the shareholders' meeting scheduled for April 25, 2002.
(1) Member of the Strategy and Nomination Advisory Committee.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.

During the meeting of the Board of Directors on February 18, 2002, Mr. Bruno Bonnell, 43 years old, the Chairman of Infogrames Entertainment, a director of Eurazeo and a member of the supervisory board of Pathé, was named as a replacement for Mr. Luca Fossati, subject to the approval of the shareholders at the shareholders' meeting to be held on April 25, 2002. As his term is coming to an end, its renewal until 2005 will be put to the shareholders' general meeting to be held on April 25, 2002.

The Company's Board also includes two honorary directors who serve in an advisory role: Mr. Franck Riboud's father, Antoine Riboud (Honorary Chairman) and Daniel Carasso.

Mr. Emmanuel Faber, 38 years old and currently an executive officer of the Company, will be proposed for nomination as a director of the Company to replace for Mr. Dominique Auburtin at the meeting of the Board of Directors to be held on April 25, 2002.

On February 18, 2002, Mr. Jean-Claude Haas informed the Board of Directors of his decision to resign from his position as a director of the Company at the end of the shareholders' meeting to be held on April 25, 2002. The Board of Directors has decided to name Mr. Jean-Claude Haas an honorary director.

Mr. Yves Boël's term expires at the shareholders' meeting to be held on April 25, 2002. The Board of Directors has decided to name him an honorary director.

The Company has developed a charter, which outlines the rights and responsibilities of directors and the principles governing the conduct of its executive officers. These guidelines should be adopted at the directors' meeting to be held on April 25, 2002.

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*.

The Law of May 15, 2001 gives the Board of Directors the power to elect one person as Chairman and Chief Executive Officer or to split the function between two different persons. The Company's *statuts* currently do not provide for such a choice. As provided for in the Law of May 15, 2001, the Board of Directors will submit a resolution to the next extraordinary shareholders' meeting which will held on April 25, 2002, to amend the Company's *statuts* to comply with such law.

Pursuant to the company's *statuts,* in addition to the appointment of *Directeurs Généraux Délégués*, the Board of Directors can appoint one or more Vice-Presidents. The Vice-President's seat comprises no particular powers other than chairing Board Meetings and General Meetings if either the Chairman or the Director temporarily acting for the latter, in compliance with the law, are absent.

The following table sets forth, as at December 31, 2001, 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	46	Chairman and Chief Executive Officer	1996
Jacques Vincent	56	Senior Executive Vice-President	1998
Jan Bennink	44	Senior Vice-President; Fresh Dairy Products Worldwide	1997
Jean-René Buisson	54	Senior Vice-President; General Secretary	1996
Georges Casala	60	Senior Vice-President; Internationalization Strategy	2000
Emmanuel Faber	38	Senior Vice-President; Chief Financial Officer	2000
Jean-Louis Gourbin	54	Senior Vice-President; Biscuits and Cereal Snacks Worldwide	1999
Bernard Hours	45	Executive Vice-President; Development Activities for Dairy Worldwide	2001
Simon Israël	48	Senior Vice-President; Asia/Pacific	1997
Pedro Medina	41	Senior Vice-President; Water Worldwide	1999

As of March 11, 2002, Mr. Bernard Hours replaced Mr. Jan Bennink, who left the Group as head of Fresh Dairy Products Worldwide. In addition, Mr. Franck Mougin, 43 years old, will become head of human resources and will become a member of the Company's executive committee as of May 2, 2002.

Franck Riboud, 46, 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, 56, was appointed Senior Executive Vice-President in 1998. Prior to this, he was a Vice-President—Fresh 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, was Senior Vice-President—Fresh Dairy Products Worldwide from 1995 until his departure from the Group in March 2002. 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, 54, was appointed Senior Vice-President—General Secretary in October 2001. As such, he heads the Human Resources department and the newly created Corporate Public Affairs and Quality and Food Safety departments. He joined the Group in 1979 and occupied various positions as human resources manager and general manager of certain subsidiaries in France and Italy. In 1996, he was appointed Senior-Vice President—Human Resources. Mr. Buisson holds degrees in private law and labor law.

Georges Casala, 60, 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, 38, 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, 54, is Senior Vice-President—Biscuits and Cereal Snacks 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.

Bernard Hours, 45, is Executive Vice-President for development activities Dairy products worldwide. He joined the Group in 1987 following a career at Unilever. Since then, he held various positions within the Group, including several marketing positions at Kronenbourg, Evian and Danone France. He was also managing director of Danone Hongrie, Danone Allemagne, Lu and Heudebert France. Mr. Hours is a graduate of the *Ecole des Hautes Etudes Commerciales*.

Simon Israël, 48, 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—Beverages 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 2001, 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 € 10.4 million, including € 10 million to executive officers, including € 4.7 million of which as bonus compensation. The aggregate amount paid by Danone for pension, retirement or similar benefits for the same executive officers and directors as a group in respect of the 2001 fiscal year was € 1.2 million.

In 2001, Mr. Franck Riboud received total compensation of € 2.3 million and Mr. Jacques Vincent received € 1.5 million. These amounts include gross salaries, bonuses, various indemnities and director attendance fees.

Committees of the Board of Directors

Strategy and Nomination Advisory Committee

The Strategy and Nomination Advisory Committee, which is composed of 11 directors or honorary directors appointed by the Board of Directors, performs an advisory function for the Board. The Strategy and Nomination Advisory Committee did not meet in 2001. Mr. Antoine Riboud is the current Chairman. Members are paid € 3,811 per year, with the Chairman receiving double that amount. Members who are officers of the Company do not receive such fees. As of January 2002, the Strategy Advisory Committee has been abolished. A Nominations Committee was established and is composed of the following four members: Michel David-Weill, Chairman, Yves Cannac, Edouard de Royère and Jérôme Seydoux.

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 one meeting in 2001. Members are paid € 1,524 per year, with the Chairman receiving double that amount. Mr. Michel David-Weill is the current Chairman. Mr. Yves Boël should be replaced by Mr. Jérôme Seydoux following the shareholders' meeting to be held on April 25, 2002.

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 2001, the Audit Committee held two meetings. Mr. Jean-Claude Haas is the current Chairman but will be replaced by Mr. Jean Gandois as of April 25, 2002. Members are paid € 3,811 per year, with the Chairman receiving double that amount.

Share ownership

As of December 31, 2001, the total number of shares owned by the Company's directors and executive officers as a group (22 persons) was 139,704 or 0.10% of the outstanding shares, not including 11,135,410 shares held by Eurazeo and Worms, in which Mr. Michel David-Weill and Mr. Umberto Agnelli, 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 December 31, 2001, a total of 2,870,060 options to purchase existing shares were outstanding, of which 707,600 were held by the executive officers, and a total of 299,365 options to subscribe for newly issued shares were outstanding, of which 62,000 were held by the executive officers. In 2001, Mr. Franck Riboud and Mr. Jacques Vincent were granted, respectively, 50,000 and 30,000 options to purchase existing shares, exercisable until March 14, 2009 at a price of € 147.14. In 2001, Mr Franck Riboud and Jacques Vincent exercised, respectively, 1,000 and 6,000 options at an exercise price of € 53.66. These options were issued by the Board of Directors pursuant to employee stock option plans adopted at general meetings of the shareholders in 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 1995 and May 1997) or up to two million shares at the date of issuance (plans adopted in May 1999 and May 2001), including all options already outstanding under the current and previous plans. Since March 1999, the exercise price for the options should be at least equal to the average price quoted for the shares on Euronext Paris during a period of 20 business days prior to the date of issuance.

In 2001, a total of 187,000 options to purchase existing shares were granted at a weighted average exercise price of € 146.85 to the 10 employees, excluding board directors (*mandataires sociaux*), who received the greater number of options, of which 160,000 to members of the Company's executive committee. During the same period, a total of 55,525 options were exercised at a weighted average exercise price of € 80.35 by the same group of persons, of which 4,000 by a member of the Company's executive committee.

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, 2001. 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 Directors and Issue dates[(1)]	Options Issued	Expiration Date	Options Exercise Price per Ordinary Share	Number of Ordinary Shares subscribed or purchased by December 31, 2001	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
5/11/1995	1,073,000[(2)]		1,073,000			762,635	299,365	62,000	4
		9/5/1995	179,000	9/5/2001	€ 59.38	168,000	—		
		1/31/1996	90,000	1/31/2002	€ 55.11	72,000	18,000		
		3/19/1996	25,000	3/19/2002	€ 53.66	15,000	10,000	10,000	
		5/2/1996	300,000	5/2/2002	€ 53.66	212,625	87,375	49,000	
		9/4/1996	223,000	9/4/2002	€ 49.55	159,800	63,200		
		12/11/1996	109,000	12/11/2002	€ 50.84	66,410	42,590	1,000	
		3/17/1997	147,000	3/17/2005	€ 64.10	68,800	78,200	2,000	
5/14/1997	1,340,020[(3)(4)]		1,340,020			309,400	1,030,620	233,000	10
		9/9/1997	320,000	9/9/2005	€ 66.77	131,500	188,500	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	113,900	275,100	89,000	
		5/19/1998	5,000	5/19/2006	€ 102.14	—	5,000		
		9/15/1998	137,000	9/15/2006	€ 116.17	25,000	112,000	2,000	
		1/26/1999	139,600	1/26/2007	€ 111.51	16,200	123,400		
		3/17/1999	80,400	3/17/2007	€ 113.51	8,200	72,200	20,000	
		5/19/1999	189,020	5/19/2007	€ 123.97	14,600	174,420	22,000	
5/19/1999	1,693,790[(5)]		1,693,790			10,000	1,683,790	474,600	10
		6/15/1999	207,000	6/15/2007	€ 128.38	10,000	197,000		
		9/14/1999	19,700	9/14/2007	€ 120.31	—	19,700		
		1/26/2000	333,340	1/26/2008	€ 116.18	—	333,340	223,600	
		3/15/2000	224,800	3/15/2008	€ 103.06	—	224,800	11,000	
		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		
		3/14/2001	744,250	3/14/2009	€ 147.14	—	744.250	240,000	
5/29/2001	2,000,000		155,650			—	155,650		
		10/8/2001	155,600	10/8/2009	€ 141,63	—	155,650		
Total			4,262,460			1,082,035	3,169,425	769,600	10

(1) The options can be exercised as soon as they are issued by annual tranches for the May 1995 Plan. 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 1,452,782 options issuable under the May 1995 Option Plan, 379,782 options were not issued and ceased to be issuable in May 1997, five years after the adoption of the plan. Of the 1,073,000 options issued, 762,635 have been exercised and 11,000 options no longer can be exercised because they expired on September 5, 2001.

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

(4) 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.

(5) Of a total of 2,000,000 options issuable under the May 1999 option plan, 306,210 options were not issued and ceased to be issuable on May 29, 2001.

Employees

At December 31, 2001, Danone had a total of 100,560 employees worldwide. The table below shows the total number of employees at year-end and the percentage of such employees by geographical region and business sector from 1999 through 2001.

	1999	2000	2001
Total number of employees	75,965	86,657	100,560
By Geographical Area:			
France	20.8%	13.5%	12.2%
Rest of the European Union	23.7%	18.8%	15.9%
Central Europe	9.4%	8.6%	9.9%
China	20.4%	29.7%	25.0%
Rest of Asia-Pacific	11.5%	9.3%	19.1%
North and South America	14.2%	20.1%	17.9%
Total	100.0%	100.0%	100.0%
By Business Line			
Fresh dairy products	29.0%	27.3%	24.0%
Beverages	30.3%	35.8%	42.3%
Biscuits and cereal snacks	36.7%	33.3%	30.4%
Other food businesses	3.3%	2.9%	2.5%
Corporate functions	0.7%	0.7%	0.8%
Total	100.0%	100.0%	100.0%

General Policy. Danone's corporate culture is founded on both an economic and a social goal. As a result, the Group's human resources policy is articulated around two principles: a full and complete involvement in operating decisions and the determination to uphold demanding social commitments.

The Company's policy to involve human resources in operating decisions aims at making human resources an essential part of the Group's vector of economic success. In doing so, the Company pursues two specific objectives. The first objective consists of (i) attracting qualified candidates with strong international profiles, using a dynamic and bold recruitment policy and taking advantage of new technologies (such as e-Recruitment); (ii) developing skills, using a resource management policy that is individualized and takes into account evolving organizations (in that respect, specific training adapted to various categories of jobs plays an important role); and (iii) rewarding talent, with the goal of filling 80% of positions internally. The second objective pursued by the Group is to integrate human resources in the Group's global acquisition strategy on the one hand, and in the Group's efforts to increase its competitiveness on the other. For this purpose, human resources created a "New Business" structure 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 strategy of external growth.

Training. More than ten years ago, the Company put into place a series of training sessions, in areas such as purchasing, marketing and human resources, that are run by professionals from various companies within the Group, with the assistance of outside specialists such as consultants. These sessions are an integral part of the professional development of the Group's managers. They also represent opportunities to spread know-how and the Group's corporate culture.

In 2000, the Company established "Danone Campus" to reinforce the relationship between managers as the Group grew and became more international. The idea of Danone Campus is to bring together, in a single location and several times within the year, several managers from different levels and countries for a series of training sessions over a the course of one week. The sessions focus on corporate training but also allow for the dissemination of Groupe Danone's corporate culture and the exchange of best practices among participants. During the week, two special sessions are planned: one focusing on a broad theme dealing with the Group's

culture, methods of management or strategic projects, and the other involving a live discussion with a member of the executive committee. These campuses take place in different countries of the world where the Group is present.

Furthermore, since 2000, Danone has progressively implemented in the various geographic regions in which it is present, broad-based training on basic aspects of management, such as team motivation or management of personnel. These training sessions are designed to take into account cultural specificity to provide participants from various geographic locations with the means to improve their management skills with the support of local partners.

Likewise, the implementation of ''360°'' evaluations, beginning with the Group's Executive Committee and filtering down to other levels of management, attempts to respond to the demands of a modern and transparent management. The Group also emphasizes internal communication for the broadest distribution possible of information, particularly using the Group's Intranet system. The Group's ultimate challenge is the continued integration of a rapidly growing, strong company which requires a reinforcement of its cohesion through the systematic development of intra-group relations rather than uniformly.

Conducting Business. Danone has established certain business guidelines, referred to as the ''Danone Way'', which managers are expected to follow. These guidelines were established to address a number of sensitive areas that are susceptible of engaging the company's liability, such as employment policy, environmental and food security issues. These guidelines reflect the perspectives and particular concerns of key categories of stakeholders such as consumers and clients, shareholders, employees, suppliers, the community in general, the environment. Through the Internet, all of the Group's subsidiaries have access to this resource. The guidelines provide each of the subsidiaries the opportunity to communicate the Group's corporate culture to the management and to bring about internal discussion on the subjects concerned. Working groups bringing together individuals from different backgrounds are asked to contribute to the elaboration of the guidelines. At the end of the process, the guidelines are approved and implemented by executives of each subsidiary who are responsible for their application. ''Danone Way'' was first introduced in 2000 and was trial-run in 2001 in approximately 10 subsidiaries worldwide. The program has enabled each subsidiary to identify strong and weak points in the different liability areas. It has also allowed them to prioritize and implement plans for improvement. Audits will be conducted by the Group and outside experts to validate the procedure and self-evaluation processes. This method should also enable the Group to establish a more precise reporting system in areas where quantification is not always possible or sufficient.

Social Responsibility and the Reduction of the Working Week. 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, the Group's French subsidiaries concluded agreements relating to a reduction of the working week. The average effective working week, for workers and non-management employees, is approximately 32.5 to 35 hours per week. The working week is annualized on the basis of an outside limit of 1,600 hours per year and working hours are adjusted to accommodate variations in activity. For management personnel, the reduction is effected through the granting of a number of additional days off, such that the number of working days in the year is limited to between 209 and 212. In connection with the negotiation of these agreements, a number of other measures were agreed upon, including a freeze on salaries accompanied by limited pay raises for two years and changes in the organization to facilitate a higher level of productivity and adaptability.

Measures Accompanying Restructuring. In connection with the restructuring of certain of its operations, some of Danone's subsidiaries have affected headcount reductions through early retirements, voluntary departures and lay-offs. To assist the employees concerned, Danone has created special programs providing employees with assistance and alternative employment opportunities in affected regions. Danone's policy is to

never leave an employee in a situation in which he or she must handle an employment problem without support. To this effect, Danone relies on the following initiatives:

- Providing in-house solutions, accompanied by various relocation assistance measures, including for example:
  - relocation allowance,
  - indemnification in the event of salary loss,
  - organization of one or more reconnaissance trips for the employee and its family to the new location,
  - and for spouses: compensation of possible income loss, assistance in search for employment and financing of training.

In France, Danone will extend, to each employee concerned, an employment contract in another company within the Group.

- Implementing external solutions for employees who cannot relocate or in the event of a shortage of in-house opportunities, by:
  - assisting in the search for alternative employment in other local businesses through the creation of employment centers. These centers are headed by the Company's human resources personnel and other employment counselors. Their objective is to assist individuals concerned until their situation has been resolved by arranging jobs interviews, career evaluations and training, and by identifying opportunities available in a given area.
  - assisting employees who aspire to create their own businesses by means of technical assistance, project evaluation, business plans and financial assistance.

In order to compensate for the loss of economic activity and decrease in tax revenues for the regions affected, the Group undertakes various actions aiming at creating sources of permanent employment. These actions involve specific financial means for buyers of the facilities concerned.

In addition, Danone strives to reinforce the economic backbone of the labor markets affected through close collaboration with local authorities, assistance in the canvassing and the setting up of new businesses, technical support to local small- and medium-sized businesses that may be able to hire the relocated employees (monetary contribution, counseling by executives of the Group, staff trainings) and the financing of local infrastructures and initiatives.

Organization. To implement its strategy, Danone has reorganized its management structure so that human resources reflect the Group's 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 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 major development and implementation regions in order to provide the Group with a more accurate perspective on the evolution of its markets.

Most of Danone's non-managerial personnel in the European Union is represented by the principal national labor unions. In general, each operating subsidiary negotiates and establishes collective labor agreements with the relevant unions on a yearly basis. In 1996 the information and Group consultation committee was established, on which sits the European union representatives. Since 1985, regular meetings between Danone and the International Union of Food Industry Employees, or IUF, have led to joint programs, formalized in six agreements since 1988, relating to gender equality in the workplace, access to information, recognition of union rights and business matters affecting employment levels and working conditions.

Publications. Danone has been publishing a Social Responsibility Report since 1998, which presents the social and environmental impacts of the Group's activities. This report is available at Danone Initiatives, 7, rue de Téhéran, 75008 Paris.

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 December 31, 2001. To the best of the Company's knowledge there are no 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[1]
Eurazeo	6,112,090	4.33%	6,166,226	4.04%
Worms & Cie (''Worms'')	5,023,320	3.56%	10,046,640	6.58%
Caisse des Dépôts et Consignations[2]	4,179,334	2.96%	4,179,334	2.74%
FCPE ''Fonds GROUPE DANONE''	1,528,988	1.09%	2,399,262	1.57%
Public	117,844,016	83.56%	129,849,169	85.07%
The Company and its subsidiaries[3]	6,345,679	4.50%	—	—
Total	141,033,427	100.00%	152,640,631	100.00%

(1) 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.

(2) Information communicated by the Caisse des Dépôts et Consignations on September 3, 2001.

(3) Including 1,441,030 shares (i.e. 1.02% of the capital) indirectly held.

As of December 31, 2001, the Group owned, directly or indirectly through its 55.74% owned Spanish subsidiary, Danone SA, 6,345,679 shares of Groupe Danone, representing 4.50% 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 the Company's capital on April 9, 1999, held 3.56% of the capital and 6.58% of the Company's voting rights at December 31, 2001. Eurazeo, having exceeded 5% of Danone's capital on February 22, 2001, held 4.33% of the capital and 4.04% of the Company's voting rights on December 31, 2001. FINDIM and its subsidiary AMERFINDIM, which held 2.25% of the capital and 4.10% of the Company's voting rights at December 31, 1999, reported on December 18, 2001 that they held less than 0.5% of the Company's capital. The Caisse des Dépôts et Consignations, having exceeded 2.5% of the Company's voting rights on January 31, 2002, held 2.96% of the capital and 2.74% of the Company's voting rights.

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, 2003, 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.

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 Company 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, 2001, 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 pre-fixed floor and ceiling prices. In December 2001, the Company granted to Union Financière Boël pre-emptive acquisition rights at market value with respect to Sofina shares held by a subsidiary of the Company. Mr. Yves Boël, one of the Company's directors, is the Chairman of Sofina and the chief executive officer of Union Financière Boël. See ''Item 6. Directors, Senior Management and Employees—Board of Directors.''

In January 2001, the Company acquired from Finanziara di Partecipazioni S.p.A., or IFIL, an additional amount of shares in Edigio Galbani S.p.A. for a cash consideration of 147 million, bringing the Company's ownership in Galbani to 100%. In June 2000, the Company had also acquired additional shares in Galbani for a total cash consideration of approximately 169 million. IFIL is a majority shareholder in Worms & Cie, an important shareholder of Groupe Danone. 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 own. See ''Item 5. Operating and Financial Review and Prospects—Overview —Acquisitions and Investments'' 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 Eurazeo, 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, 2001, 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 1989 through 1995, each of the Company's shareholders was given the option of receiving dividends in the form of cash or shares. Applications for dividend payments in the form of shares shall be submitted no later than three months after the date on which the General shareholder's meeting is held. 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]**
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	12.46	1.90	18.69	2.85	0.36	0.54
2001[6]	—	2.06	—	3.09	0.41	0.62

(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 2001 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 2001 translated solely for convenience at the Noon Buying Rate on December 31, 2001 of $0.89 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, 2000 and 2001 have been declared in euros.

(6) Dividends to be proposed at the shareholders' meeting to be held on April 25, 2002.

Legal Proceedings

The Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, including in connection with certain warranties given as part of divestitures completed between 1997 and 2000. In a few cases, substantial amounts of damages are sought. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on the Group's consolidated financial position or results of operations.

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. Following these investigations, on December 5, 2001, the Commission concluded that anti-competitive practices in Belgium had occurred and imposed a fine of € 44.6 million on Groupe Danone. The entire amount was provisioned in the Group's accounts at December 31, 2001. The Group has launched an appeal procedure in February 2002, the outcome of which is still pending. The investigation initiated in January 2000 in France, to which Brasseries Kronenbourg is subject, is still in process. 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 € 2.5 billion if it exercises its put option on Scottish & Newcastle.

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, 2001, 9,286,170 ADSs were outstanding, representing approximately 1.3 % of the Company's outstanding shares and there were 15,200 holders of record of ADSs. As of December 31, 2001, there were also approximately 350 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.

	Euronext Paris		New York Stock Exchange	
Calendar period	**High**	**Low**	**High**	**Low**
	(in €)		(in U.S. dollars)	
Monthly				
March 2002 (through March 25)	137.9	131.5	24.4	23.1
February 2002	134.8	125.2	23.2	22.2
January 2002	139.4	129.2	24.6	22.6
December 2001	137.8	125.3	24.0	22.3
November 2001	135.5	125.8	23.8	22.5
October 2001	146.3	124.9	26.4	22.9
September 2001	154.4	131.0	27.6	25.2
2001	163.3	124.9	30.2	22.3
First quarter	163.3	132.1	30.2	24.1
Second quarter	162.1	131.7	27.4	24.0
Third quarter	162.8	131.0	27.6	25.2
Fourth quarter	146.3	124.9	26.4	22.3
2000	173.1	90.2	30.7	17.7
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
1999	137.6	102.9	29.4	23.2
1998	143.7	78.4	30.6	17.1
1997	86.0	54.3	18.3	13.6

Sources: Euronext Paris S.A. and Bloomberg.

On March 25, 2002 the last reported sales price of the Company's shares on Euronext Paris was € 135.90 per share and the last reported sales price of the Company's ADSs on the New York Stock Exchange was $ 23.90 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 N.V. is listed on the *Premier Marché* of Euronext Paris since July 2001. In January 2002, Euronext N.V acquired the London International Financial Futures and Options Exchange (LIFFE), London's derivatives market. The combination of LIFFE and Euronext N.V. will enable to treble the volume of derivatives business conducted through LIFFE CONNECT™ trading plateform.

Since February 6, 2002, Bolsa de Valores de Lisboa e Porto (BVLP) has become a wholly-owned subsidiary of Euronext N.V. and is therefore renamed Euronext Lisbon.

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 two categories depending on the volume of transactions. The Company's shares are listed in the category known as *Continu*, which includes the most actively traded securities. The minimum yearly trading volume required for a security to be placed in *Continu* is 2,500 trades.

Official trading of listed securities on the *Premier Marché* is transacted through authorized financial institutions that are members of Euronext Paris. 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 securities effected after the close of a stock exchange session is recorded on the next Euronext Paris trading day at the previous session's closing price for the relevant 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, 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* and the *Commission des Opérations de Bourse* (the ''COB'') may also suspend trading.

Since September 25, 2000, all trading on the *Premier Marché* is performed on a cash-settlement basis on the third trading day after the trade. However, market intermediaries are also permitted to offer investors a deferred settlement service (*Service à Règlement Différé* or *SRD*) for a fee. The SRD allows investors who elect this service to benefit from leverage and other special features of the monthly settlement market (formerly, *Marché à Règlement Mensuel*). The SRD is reserved for securities which are either SBF 120 components or have both a total market capitalization of at least € 1 billion and represent a minimum daily trading volume of € 1 million and which are normally cited on a list published by Euronext Paris. The Company's shares are eligible to the deferred settlement service. 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.

Prior to any transfer of securities held in registered form on the *Premier Marché*, the securities must be converted into bearer form and accordingly inscribed in an account maintained by an accredited intermediary with Euroclear France S.A., a registered clearing agency. Securities transactions are initiated by the owner giving instructions (through an agent, if appropriate) to the relevant accredited intermediary. Trading securities listed on the *Premier Marché* is cleared and settled through Euroclear France S.A. using a continuous net settlement system. A fee or a commission is payable to the broker-dealer or other agent involved in the transaction.

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 or by writing to Danone, *Direction Relations Investisseurs*, 7, rue Téhéran, 75008 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 December 31, 2001, the Company share capital amounts to € 141,033,427 divided into 141,033,427 outstanding common shares with a nominal value of € 1.0 per share. All the outstanding shares are fully paid. The Company's share capital is not changed as of the date of this annual report. 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*, the change of the corporate purpose and/or the name of the Company,
- 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, and
- the voluntary liquidation of the Company prior to the end of its statutory term.

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

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 5% of the Company's voting rights,
- 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 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 (*département*) in which the Company is registered, as well as in the BALO, with prior notice having been given to the COB.

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, or
- a duly qualified association of shareholders holding 1% of the Company's voting rights, and
- the working committee.

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

During the 15 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 by French law and 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 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 no earlier than five days prior to the date set for the meeting (i.e. three days for the 2002 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 no earlier than five days before the meeting (i.e. three days for the 2002 meeting).

A resolution will be submitted to the next general shareholders' meeting, to be held on April 25, 2002 concerning correspondence or proxy voting. This will provide that any shareholder voting by correspondence or by proxy and presenting a certificate issued by the depositary attesting that the shares are blocked, may transfer all or part of the shares with which it voted by correspondence or for which it appointed a proxy, upon the condition that it provides the Company's authorized agent with details enabling the shareholder to cancel its vote or proxy and change the number of shares and corresponding votes no later than the day before the general shareholders' 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 a proxy granted by any means provided for by the *statuts*, including by remote data transmission to the company of a proxy pursuant to the applicable laws and regulations. A resolution to amend the Company's *statuts* will be submitted to the next general shareholders' meeting to be held on April 25, 2002. Shareholders may vote either by proxy or by mail or, if provided by the *statuts* and decided by the Boards of Directors by remote data transmission methods, in accordance with relevant regulations. A resolution to amend the company's *statuts* will be submitted to the next general shareholders' meeting to be held on April 25, 2002.

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 (i.e. three days for the 2002 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. A resolution will be submitted to the next general shareholders' meeting to be held on April 25, 2002 to amend the *statuts* to modify the deadline for the Company to receive proxies.

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 were to come into possession of at least 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 a quarter of the shares entitled to voting rights must be present in person or voting by mail or by proxy, or if provided for by the *statuts*, by any means including by remote data transmission, in accordance with the applicable laws and regulations 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 a third 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 a quarter of outstanding voting rights must be present in person or voting by mail or by proxy or, if provided for by the *status*, present by any means, including by remote data transmission in accordance with the applicable laws and regulations, for the quorum to be met. 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 in person or present by any means, including by remote data transmission in accordance with applicable laws and regulations or represented by proxy or voting by mail is counted 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.

French company law also requires that a special report must be provided to the general shareholders' meeting regarding the stock options authorized and/or granted by the Company.

Dividends

The Company may distribute dividends out of ''distributable profits'', plus any amounts held in the Company's reserves which the shareholders decide to make available for distribution, other than those reserves which are specifically required by laws and the Company's *statuts*.

''Distributable profits'' consist of 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.

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, a first 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 of a minimum of € 0.76 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 (other than for an in-kind contribution) 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.

Whenever the shareholders approve a capital increase or approve the delegation to the Company's Board of Directors the right to implement a capital increase, they must also consider whether an additional capital increase should be reserved for the Company's employees and its subsidiaries or whether to delegate to the Company's Board of Directors the right to carry out such reserved capital increase.

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 may also 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 Banque acting on behalf of the Company as its agent. In addition, Lazard Frères Banque 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 Banque, 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. The account is held separate from the Company's share account 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 the identity of holders of shares or other securities, held in bearer form, 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. French company law states that shares held by any non-French resident may be held on the shareholder's behalf in a collective account or in several individual accounts by the intermediary.

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*, or tax assessed on the price at which the securities were traded, is payable at the rate of 0.3% on transactions up to € 153,000 and at a rate of 0.15% thereafter. The tax is subject to a rebate of € 23 per transaction and a maximum assessment of € 610 per transaction. Non-residents of France are generally not subject to the payment of such *impôt sur les opérations de bourse.*

In addition, 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. See ''—Taxation—French Taxation.''

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 outstanding shares or the voting rights of any French company listed on the Euronext Paris, or that increases or decreases its shareholding or voting rights above or below any of these thresholds, 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* (''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 who come to own more than 33⅓% 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.

The Company must publish in the BALO information with respect to the total number of voting rights as of the date of the Company's annual general meeting not later than 15 calendar days after such meeting. In addition, if the number of voting rights changes by 5% or more between two ordinary general meetings, the Company is required to publish in the BALO, within 15 calendar days of such change, the number of voting rights 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 after consultation of the COB, and may be subject to a € 18,000 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 plan 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*), in connection with a corporate share repurchase program. To acquire the shares for these purposes, the Company must file 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.

Repurchased shares held by the Company must be held in registered form. These shares must be fully paid up. 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 to be submitted for approval by the Company's shareholders at a general meeting to be held on April 25, 2002, the Company would 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 29, 2001. This authorization is granted for 18 months starting from April 25, 2002. At December 31, 2001, the Company had purchased 6,406,426 of its shares between May and December 2001 at an average purchase price of € 134.80 per share. The company purchased 1,382,082 of its shares in January and February 2002 at an average purchase price of € 132 per share.

The Company may not repurchase, under purposes 2 and 3 listed above, an amount of shares that would result in the Company's holding, directly or through a person acting on the Company's behalf, more than 10% of the Company's outstanding share capital, or if the Company has different classes of shares, 10% of the shares in each class.

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,
- 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 3 trading days immediately preceding the trade. This last requirement applies only to trades in shares that are 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.

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 € 703.7 million, as follows:

- approximately € 170 million in cash, which was used by a subsidiary of FAS, together with approximately € 58.5 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 approximately € 228.7 million;

- 24,063,213 new ordinary shares (valued at approximately € 152.4 million, 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 € 381.1 million 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 approximately € 90.9 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 approximately € 2 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 approximately € 396.4 million (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 approximately € 228.7 million. The consideration (net of premium) payable by Scottish & Newcastle for the shares in Brasseries Kronenbourg (approximately € 2 billion) together with the consideration payable by Scottish & Newcastle for the shares in FAS (approximately € 228.7 million) 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 approximately € 320.2 million. The Company has a put option to sell to Scottish & Newcastle Danone's interests in Mahou for approximately € 442.1 million 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 share 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 ''E.U.'' obtain an *autorisation préalable*, or prior authorization, prior to acquiring a controlling interest in a French company. However, both E.U. and non-E.U. residents must file a *déclaration* administrative, or administrative notice, with French authorities in connection with the acquisition of a controlling interest or an increase of controlling interest in any French company. Under existing administrative rulings, ownership of 20% or more of a listed company's share capital or voting rights is regarded as a controlling interest, but a lower percentage may be held to be a controlling interest in certain circumstances (depending upon such factors as the acquiring party's intentions, its ability to elect directors or financial reliance by the French company on the acquiring party).

Exchange Controls

Under current French exchange control regulations, there are no limitations on the amount of payments that may be remitted by a French company to non-French residents. Laws and regulations concerning foreign exchange controls do require, however, that all payments on transfers of funds made by a French resident to a non-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, alone or with relatives, 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 € 3,049 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 generally 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 and meet the condition to qualify under the French parent-subsidiary regime; 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 which carry an *avoir fiscal* (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 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
Estonia
Finland
Gabon
Germany[1]
Ghana
Iceland
India
Israel
Italy
Ivory Coast
Japan
Latvia
Lithuania
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

(1) According to a common statement of the French and German tax authorities dated July 13, 2001, German resident holders other than individuals are no longer entitled to the *avoir fiscal* for dividends paid as of January 1, 2001. As regards German resident individuals, a supplementary agreement to the tax treaty between France and Germany was signed by the French Republic and the Federal Republic of Germany on December 20, 2001, which provides that German resident holders, including German resident individual holders, should no longer be entitled to the *avoir fiscal*. Such supplementary agreement has not yet been adopted but, when adopted, should apply retroactively as of January 1, 2002.

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 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 the shares of non-French resident individual investors owning directly or indirectly less than 10% of the Company's share capital assuming such shares do not enable such individual to exercise influence on the Company.

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 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 generally 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 and meet the conditions to qualify under the French parent-subsidiary regime; 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 which carry an *avoir fiscal* (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 second 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 15 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 euros, including the amount of any French taxes withheld therefrom, will be equal to the U.S. dollar value of the euros on the date such *précompte* is included in income (which, for a U.S. Holder of ADSs, will be the date of receipt by the depositary), regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder will generally be required to recognize a U.S. source ordinary income or loss upon the sale or disposition of euros.

Taxation of Capital Gains

A U.S. Holder who is a resident of the United States as defined pursuant to the provisions of the Treaty will not be subject to French tax on any capital gain from the sale or exchange of 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 current rate of 30%. 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.

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, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Investors can obtain information on the operation of the public reference facilities by calling the Commission at 1-800-SEC-0330 or 1-202-942-8090.

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, 2000 and 2001. 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, 2001, and (ii) the related hedged assets and liabilities (*i.e.*, the Group's consolidated net debt) existing as of December 31, 2001. Such estimated cash flows are calculated based on the interest rates (TAM: 4.54%, T4M: 3.38%, EURIBOR 1 month: 3.33%, EURIBOR 3 months: 3.29% or LIBOR USD 3 months: 1.88%) and currency exchange rates at December 31, 2001.

Expected cash flows from the existing interest rate instruments at December 31, 2001 are shown below by maturity dates:

	2002	2003	2004	2005	2006	Subsequent to 2006
			(€ in millions)			
Interest rate swaps						
euros:						
• fixed rates:						
— payable (average rate: 3.72%)	(47)	(18)	(2)	—	—	—
— receivable (average rate: 5.59%)	26	16	9	—	—	—
• variable rates:						
— payable (TAM rate)	(19)	(12)	(7)	—	—	—
— receivable (TAM rate)	43	14	2	—	—	—
Other currencies:						
• fixed rates:						
— payable (average rates: 2.52%)	(8)	(2)	—	—	—	—
— receivable (average rate: 5.95%)	4	3	—	—	—	—
• variable rates:						
— payable (TAM rate)	(3)	(2)	—	—	—	—
— receivable (TAM rate)	6	1	—	—	—	—
Interest rate options *(with variable reference rates at TAM, T4M or EURIBOR 3 months)*						
• floors	(1)	—	—	—	—	—
• flexicaps	—	—	—	—	—	—
• caps	1	1	—	—	—	—
• swaptions	—	—	1	1	1	—

Expected interest cash-flows from the assets and liabilities existing at December 31, 2001 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.

	2002	2003	2004	2005	2006	Subsequent to 2006
			(€ in millions)			
Convertible bonds (fixed rate: 1.2%)	(6)	(12)	(12)	(12)	(12)	(12)
Long-term debt						
fixed rates (average rate: 5.08%)	(65)	(64)	(22)	(2)	(1)	—
variable rate (EURIBOR 3 months)	(45)	(31)	(16)	(12)	(6)	(1)
variable rate (LIBOR $ 3 months)	(3)	(2)	—	—	—	—
variable rate (EURIBOR 1 month)	(51)	(44)	(37)	(17)	(2)	—
Cash and cash equivalents, net of short-term debt and bank overdrafts *(variable rate EURIBOR 1 month)*	3	—	—	—	—	—
Marketable securities *(variable rate EURIBOR 1 month)*	13	11	10	4	—	—

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, 2000 and 2001.

The table below provides an indication of the estimated future cash flows from the existing currency hedging instruments at December 31, 2001, 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.

	2002	2003	Subsequent to 2003
	(€ in millions)		
Anticipated commercial transactions *(with a net position different from zero)*			
Forward purchases of:			
• Hong Kong dollar	(13)	(1)	—
• Polish zloty	(6)	—	—
• British sterling	(3)	—	—
• Swiss franc	(3)	—	—
• Other currencies	(1)	—	—
Forward sales of:			
• British sterling	160	25	—
• U.S. dollar	110	6	—
• Japanese yen	77	9	—
• Swiss franc	42	5	—
• Mexican peso	38	—	—
• Canadian dollar	20	2	—
• Czech crown	20	—	—
• Other currencies	40	2	—
Financial transactions:			
Forward purchases of:			
• U.S. dollar	(120)	—	—
• Czech crown	(45)	—	—
• Singapore dollar	(20)	—	—
• Other currencies	(3)	—	—
Forward sales of:			
• U.S. dollar	368	—	—
• British sterling	180	—	—
• Singapore dollar	94	92	—
• Japanese yen	82	—	—
• Mexican peso	69	39	—
• Canadian dollar	54	—	—
• Other currencies	18	—	—

No cash flow is reported with respect to currency options, as these options were out of the money at December 31, 2001.

Item 12. Description of Securities Other than Equity Securities

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 € 35,252,200.68 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, 1999, 2000 and 2001 . . . . F-2
Consolidated Balance Sheets as of December 31, 2000 and 2001 . . . . F-3
Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 2000 and 2001 . . . . . . F-4
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 1999, 2000 and 2001 . . . . F-5
Notes to the Consolidated Financial Statements F-6

Item 19. Exhibits

1.1 *Statuts* of Groupe Danone, as proposed to be amended at the shareholders' meeting to be held on April 25, 2002.

*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).

* Incorporated by reference to Groupe Danone's Report of Form 20-F for the fiscal year ended December 31, 2000, as filed with the Commission on May 4, 2001.

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: March 29, 2002

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, 2001 and 2000 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, 2001, 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, 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, 2001 and the determination of consolidated stockholders' equity at December 31, 2001, 2000 and 1999 to the extent summarized in Note 2 to the consolidated financial statements.

PRICEWATERHOUSECOOPERS

Paris, France, February 18, 2002, except for Note 30, for which the date is February 27, 2002.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

	Notes	euros (millions) Year ended December 31, 1999	2000	2001
Net sales		13,293	14,287	14,470
Cost of goods sold		(6,663)	(6,973)	(7,196)
Selling expenses		(3,964)	(4,453)	(4,331)
General and administrative expenses		(913)	(950)	(988)
Research and development expenses		(122)	(125)	(126)
Other expense and income	22	(240)	(236)	(220)
Operating income		1,391	1,550	1,609
Non-recurring items	3	2	23	(757)
Interest expense, net	23	(131)	(193)	(180)
Income before provision for income taxes and minority interests		1,262	1,380	672
Provision for income taxes	24	(499)	(562)	(416)
Income before minority interests		763	818	256
Minority interests		(110)	(130)	(163)
Net earnings of equity method companies		29	33	39
Net income		682	721	132

PER SHARE INFORMATION[1]

	amounts in euros (except number of shares)		
Number of shares used in calculating:			
— basic earnings per share	139,877,348	140,662,272	139,362,077
— diluted earnings per share	148,990,002	141,373,721	142,697,380
Basic earnings per share	4.88	5.13	0.95
Diluted earnings per share	4.69	5.10	0.97

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

The notes on pages F-6 to F-49 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

	Notes	euros (millions) At December 31, 2000	2001
ASSETS			
Property, plant and equipment	6	8,044	8,547
Less: accumulated depreciation		(4,080)	(4,473)
		3,964	4,074
Brand names	7	1,652	1,615
Other intangible assets (net)		121	119
Goodwill	7	4,948	5,074
		6,721	6,808
Long-term loans		286	209
Long-term investments	8	571	429
Investments accounted for under the equity method	9	408	553
Other	10	981	900
		2,246	2,091
Non-current assets		12,931	12,973
Inventories	11	728	764
Trade accounts and notes receivable	12	1,784	1,289
Other accounts receivable and prepaid expenses	12	841	770
Short-term loans		166	190
Marketable securities		235	396
Cash and cash equivalents		548	713
Current assets		4,302	4,122
Total assets		17,233	17,095
LIABILITIES AND STOCKHOLDERS' EQUITY			
Capital stock (par value € per share; shares issued 2001 : 141,033,427—2000: 149,086,208)		149	141
Capital surplus		2,191	1,150
Retained earnings	13	5,696	5,560
Translation adjustments		(63)	(301)
Treasury stock		(784)	(603)
Stockholders' equity		7,189	5,947
Minority interests		830	780
Convertible bonds	15	—	1,000
Long-term debt	16	4,171	4,425
Retirement indemnities, pensions and post-retirement healthcare benefits	17	319	334
Provisions and long-term liabilities	18	387	542
Stockholders' equity and non-current liabilities		12,896	13,028
Trade accounts and notes payable	19	1,719	1,715
Accrued expenses and other current liabilities	19	1,605	1,841
Short-term debt and bank overdrafts		1,013	511
Current liabilities		4,337	4,067
Total liabilities and stockholders' equity		17,233	17,095

The notes on pages F-6 to F-49 are an integral part of the consolidated financial statements.

GROUPE DANONE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

	euros (millions)		
	Year ended December 31,		
	1999	2000	2001
Net income	682	721	132
Minority interests in net income of consolidated subsidiaries	110	130	163
Net earnings of equity method companies	(29)	(33)	(39)
Depreciation and amortization	758	757	777
Other	(98)	(17)	578
Cash flows provided by operations	1,423	1,558	1,611
Decrease in inventories	(23)	(32)	(21)
Net variation in trade accounts and other accounts receivable	(260)	(344)	460
Net variation in trade accounts and other accounts payable	208	224	180
Other variations	(23)	16	10
Net change in current working capital	(98)	(136)	629[1]
Cash flows provided by operating activities	1,325	1,422	2,240
Additions to property, plant and equipment	(703)	(798)	(737)
Investment in subsidiaries and equity method companies	(934)	(2,849)	(1,071)
Proceeds from the sales of businesses and other investments	1,285	712	218
Cash flows used in investing activities	(352)	(2,935)	(1,590)
Increase in capital and capital surplus	608	554	46
Purchases of treasury stock	(1,724)	(169)	(921)
Dividends	(350)	(366)	(393)
Net change in long-term debt	517	1,170	1,248
Net increase in long-term loans and other assets	(83)	(224)	108
Net change in short-term debt	72	357	(416)
Proceeds from the sales of marketable securities	47	263	(146)
Cash flows (used in) provided by financing activities	(913)	1,585	(474)
Effect of exchange rate changes on cash and cash equivalents	33	12	(11)
Increase (decrease) in cash and cash equivalents	93	84	165
Cash and cash equivalents at beginning of year	371	464	548
Cash and cash equivalents at end of year	464	548	713

(1) including € 685 million from net securitized trade accounts receivable at December 31, 2001.

The notes on pages F-6 to F-49 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, 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
Capital stock issues	447,219	447,219		45				45
Capital stock reduction	(8,500,000)	(8,500,000)	(8)	(1,086)				(1,094)
Net income for 2001					132			132
Dividends paid					(268)			(268)
Translation adjustments						(238)		(238)
Change in treasury stock		1,760,193					181	181
Balance at December 31, 2001	141,033,427	134,687,748	141	1,150	5,560	(301)	(603)	5,947

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

At December 31, 2001 the negative translation adjustments related to currencies in the euro zone amount to € 328 million.

The notes on pages F-6 to F-49 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

As of January 1, 2001, the consolidated financial statements are prepared in euros and all previous data have been translated into euros, using the official exchange rate of 6.55957 French francs per euro in place as of January 1, 2000. The comparability of the Group's consolidated financial statements from one year to another is not affected by the translation to euros, nor is 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. 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.

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.

A. Basis of consolidation

The consolidated financial statements of GROUPE DANONE (the "Company") and subsidiaries (together, the "Group") have been prepared in accordance with current French generally accepted accounting principles ("French GAAP"). The French regulation 99-02, applied from January 1, 2000 did not entail any amendment to the practices previously followed. 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 2001, of the 162 companies included in the consolidation (2000: 156), 142 are consolidated (2000: 139) and 20 are accounted for under the equity method (2000: 17). A list of subsidiaries and equity investee companies included in the consolidation at December 31, 2001, and of newly consolidated and de-consolidated companies, is shown in *Note 29*.

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

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

B. Foreign currency translation

Transactions denominated in foreign currencies

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

payable stated in foreign currencies and from settlement of such balances during the year are recognized in the income statement under ‘‘Other expense and income’’, except those arising from 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 euros at the official year-end exchange rate;
- income statement items are translated at the average exchange rate for the year for each currency;
- exchange differences arising from the translation of the accounts of foreign companies into euros are included in retained earnings under the heading ‘‘Translation adjustments’’ until the related foreign investments are sold or liquidated.

Where the functional currency is not the local currency (highly inflationary countries or companies with the euro 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 or estimates the fair value of the business less costs to sell, when the assets and relating goodwill are to be disposed of.

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 of containers.

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

E. Long-term investments

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

F. Inventories

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

G. Marketable securities

Marketable securities are carried at the lower of cost or market. At the end of 2001 and 2000, 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.

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

Revenue from distribution of beverages (mainly beer until 2000) 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 € 664 million, € 790 million, and € 810 million for 1999, 2000 and 2001, respectively.

P. Research and development

Research and development costs are charged to expense as incurred.

Q. Non-recurring items

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

R. Earnings per share

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

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

S. Use of estimates

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

T. Reclassification

Certain amounts in the accompanying 1999 and 2000 financial statements could have been reclassified from previously issued financial statements to conform to the 2001 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. Under US GAAP, intangible assets such as brand names must be amortized over their useful life, 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 and 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.

2. Goodwill relating to the acquisition of foreign subsidiaries

Goodwill relating to the acquisition of subsidiaries in the euro zone (relating to the acquisition of most foreign subsidiaries until 2000) are translated in the Group's accounts using an historical exchange rate when US GAAP require the use of the closing exchange rate. Under US GAAP, the difference is part of the ''Translation adjustments'' component of stockholders' equity.

Amortization of goodwill relating to the acquisition of subsidiaries in the euro zone (amortization of most goodwill relating to the acquisition of foreign subsidiaries until 2000) 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 € 326 million as of December 31, 2001 (€ 287 million as of December 31, 2000).

Goodwill amortization, offset by an equal amount of deferred tax benefit of € 12 million, € 10 million and € 11 million for 1999, 2000 and 2001, 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).

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 € 134 million as of December 31, 2001 (€ 120 million as of December 31, 2000). The remainder of the write-ups to fair value in other net assets related to the minority interest is not considered material.

7. Derivative instruments

Under French GAAP, the interest rates and currency derivatives, that are hedging instruments, are not reported on the balance sheet, except for related cash out or in-flows. Any gain or loss on those derivatives are deferred until the period in which earnings are affected by the underlying hedged items.

Under US GAAP, all derivative instruments are reported on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

8. Restructuring costs

Under French GAAP, restructuring costs are recorded as soon as a detailed restructuring plan has been decided by the management and communicated to third parties. These restructuring costs include costs related to employee benefits, costs associated with the elimination and reduction of production lines and losses on assets impairments and disposals of assets.

Under US GAAP, certain employee benefits, such as relocation costs or transfer benefits, do not qualify as exit costs and are expensed as incurred.

9. Pension liability

Under US GAAP, if the fair value of plan assets for pension plans is lower than the Accumulated Benefit Obligation, an additional liability has to be recognized for the difference. An equal amount has to be recorded as an intangible asset or as a reduction of equity for the portion that exceeds the amount of unrecognized prior service cost.

10. 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
- negative equity adjustments as an additional pension liability not yet recognized as net periodic pension cost
- effective portion of changes in the fair value of the derivative instruments designated as cash flow hedges.

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, 1999	2000	2001
Net income under French GAAP	**682**	**721**	**132**
US GAAP adjustments:			
1. Brand names amortization	(46)	(43)	(42)
2. Brand names and goodwill impairment	—	69	20
3. Additional capital gain on disposal under US GAAP	—	79	—
4. Amortization of goodwill of foreign subsidiaries	4	(3)	3
5. Compensation costs under stock option plans	(2)	(1)	(1)
6. Derivative instruments	—	—	9
7. Restructuring costs	—	—	13
Net income with US GAAP adjustments before tax effect and minority interests	638	822	134
Tax effect of the above adjustments	(7)	(19)	67
Minority interests effect of above adjustments	6	4	4
Net income under US GAAP	**637**	**807**	**205**
Basic earnings per share under US GAAP	4.56	5.74	1.47
Diluted earnings per share under US GAAP	4.39	5.71	1.48
Net income under US GAAP, a component of comprehensive income	**637**	**807**	**205**
Other comprehensive income, net of tax:			
• Additional paid-in capital related to compensation costs on shares issued to employees	2	1	1
• Change in net unrealized gains/losses on available-for-sale securities	(28)	6	(24)
less: Reclassification adjustment for net gains/losses included in net income	(10)	—	—
• Change in cumulative translation adjustments	511	209	(508)
less: Reclassification adjustment for net gains/losses included in net income	—	18	—
Minimum pension liability	—	—	(25)
Other comprehensive income (loss) under US GAAP	**475**	**234**	**(556)**
Comprehensive income (loss) under US GAAP	**1,112**	**1,041**	**(351)**
Stockholders' equity under French GAAP	**6,146**	**7,189**	**5,947**
US GAAP adjustments:			
1. Brand names amortization	(399)	(353)	(455)
2. Amortization of goodwill of foreign subsidiaries	19	125	51
3. Unrealized gains on available-for-sale securities	57	128	99
4. Derivative instruments	—	—	9
5. Restructuring costs	—	—	13
6. Minimum pension liability	—	—	(36)
7. Other	—	—	(25)
Tax effect of the above adjustments	(80)	(84)	(82)
Minority interests effect of above adjustments	45	36	33
Stockholders' equity under US GAAP	**5,788**	**7,041**	**5,554**

US GAAP statement of charges in stockholders' equity

(All amounts in millions of euros)	
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**
Capital stock issues	45
Capital stock reduction	(1,094)
Dividends paid	(268)
Movements on treasury shares	181
Net income under US GAAP for 2001	205
Other comprehensive income (loss) under US GAAP for 2001	(556)
Balance as of December 31, 2001	**5,554**

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.

Presentation differences—Additional disclosures required by SFAS 115

On December 31, 2000 and 2001, 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, 2000 and 2001 the Group had no held-to-maturity securities. On December 31, 2000 and 2001 available-for-sale securities consisted of the following:

(All amounts in millions of euros)	At December 31,	
	2000	2001
Securities held by consolidated companies:		
Cost	1,463	1,380
Gross unrealized gains*	128	98
Estimated fair value	1,592	1,478
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, 2000 and 2001, these investments were included in the following captions on the consolidated balance sheet.

(All amounts in millions of euros)	At December 31,	
	2000	2001
Long-term investments	665	497
Other non-current assets	791	895
Marketable securities	136	86
	1,592	1,478

For the years ended December 31, 1999, 2000 and 2001 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 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,		
	1999	2000	2001
Net income under US GAAP	637	807	205
Additional compensation cost under SFAS 123	(23)	(20)	(23)
Amounts under US GAAP and with the application of SFAS 123:			
• Net income	614	787	182
• Basic earnings per share	4.39	5.59	1.31
• Diluted earnings per share	4.24	5.57	1.32

The fair values at December 31, 2000 and December 31, 2001 of the options granted were estimated for the purposes of SFAS 123 disclosure requirements using the Cox and Monaco option-pricing model, or the Black & Scholes model, based on the following weighted average assumptions:

	1999	2000	2001
Risk-free interest rate	4.89%	4.92%	4.16%
Expected life	8 years	8 years	8 years
Expected volatility	34.5%	35.0%	29.0%
Expected dividend yield	2.43%	1.41%	2.00%

Presentation differences—Additional disclosures required by SFAS 133

On January 1, 2001, the Company adopted SFAS 133, which establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that the Company recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. The impact of adoption of SFAS 133 on the Group's balance sheet was to increase assets by € 25 million and liabilities by € 9 million for recording all derivatives at fair value as of January 1, 2001. The impact of adoption of SFAS 133 on net income, for recording the Group's fair value hedges on balance sheet, was zero as the unrealized gain on the derivatives was equally offset by the adjustments of the carrying value of the underlying asset or liability. The net impact of adoption of SFAS 133 at January 1, 2001 on other comprehensive income, for recording the Group's cash flow hedges on balance sheet was € 11 million, net of a tax effect of € 5 million. During 2001 all cashflow hedges recorded upon adoption were realized through income by the Group. The Group has not designated any of its new hedges of cashflows in 2001 as cash flow hedges in accordance with SFAS 133, therefore all such hedges have been recorded on balance sheet at December 31, 2001 with the impact recorded in current period earnings.

The difference between net income under French GAAP and US GAAP for 2001 of € 9 million is due to changes in the fair value of derivatives not designated as hedges under SFAS 133.

Fair Value Hedges—Ineffectiveness resulting from fair value hedging activities was not material to the Company's results of operations. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness. In 2001, there were no hedged firm commitments that no longer qualified as fair value hedges.

Cash Flow Hedges—The Company does not have any cash flow type hedges that qualify as such under US GAAP.

Fair Value—For carrying amounts and fair values of the Group's derivative and financial instruments, please refer to *Note 25*. Off-balance currency instruments are mainly comprised of forward exchange contracts: their fair value is included in accrued expenses and other current liabilities. Off-balance sheet interest rate instruments are mainly comprised of interest rate swaps and options : their fair value is mainly recorded in long term loans.

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 Notes 5 which results in pro forma effect given in the prior year related to exchange rate changes which occurred in the subsequent year.

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.

2. Revenue Recognition

The EITF has recently addressed several topics related to the classification and recognition of certain promotional expenses. In November 2001, EITF No. 01-9 ''Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's products'' codified earlier pronouncements of the EITF, related to the recognition, measurement and income statement classification of certain sales incentives, including discounts, coupons, and free products and of cash and non cash consideration given by a vendor to customers or resellers. Under these Issues, the EITF concluded that certain consumer and trade sales promotion expenses, such as coupon redemption costs, cooperative advertising programs, new product introduction fees, feature price discounts and in-store display incentives, should be classified as a reduction of sales rather than as marketing expenses.

The Company has historically classified certain costs covered by the provisions of Issue No. 01-9 as promotional expenses within selling expenses. Based on historical information, annual net sales as currently reported could be reduced by approximately 7% to 8%. As reclassifications, these changes will not affect the company's financial position or earnings.

However, following French generally accepted accounting principles, the Company will be required to continue to classify these expenses within selling expenses and not as a reduction of net sales, and therefore the information will be provided in the reconciling statement only.

3. Business combinations

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." In addition to requiring that all business combinations be accounted for under the purchase method, SFAS No. 141 requires intangible assets that meet certain criteria to be recognized as assets apart from goodwill. The provisions of SFAS No. 142 indicate that goodwill and indefinite life intangible assets should no longer be amortized but rather be tested for impairment annually. Intangible assets with a finite life shall continue to be amortized over the estimated useful life. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Earlier adoption is permitted for companies with fiscal years beginning after March 15, 2001 provided that the first interim financial statements have not been issued. The elimination of amortization is to be applied on a prospective basis and prior periods are not to be restated. The impact of amortization of goodwill and indefinite life intangible assets is to be disclosed for prior periods. However, following French generally accepted accounting principles, the Company will be required to continue to amortize goodwill.

The Company is currently evaluating the impact of these provisions, which will be disclosed in the 2002 reconciling statement. The total after tax and minority interests amortization expense related to goodwill and other intangible assets was approximately € 163 million in the French GAAP accounts and € 243 million in the US GAAP accounts in 2001.

4. Assets retirement obligations

In June 2001, the Financial Accounting Standards Board issued SFAS 143, "Accounting for Asset Retirement Obligations", which is effective for fiscal years beginning after June 15, 2002. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that the Company recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company does not expect the adoption of SFAS No. 143 to have a material impact on the Company's 2003 financial statements..

5. Impairment of long-lived assets

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets, expands the scope of a discontinued operation to include a component of an entity and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. SFAS No. 144 is effective for the Company on January 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company's 2002 financial statements.

NOTE 3—Non-recurring items

The year 2001 income included significant non recurring items, such as (i) a € 147 million (after taxes) charge related to the European Biscuits division restructuring, (ii) a € 475 million impairment loss related to the anticipated disposal of the Galbani Italian cheese and cured meat business, (iii) a € 26 million charge for a European Union fine for non-competitive practices related to the Beer business in Belgium and (iv) integration costs of newly acquired companies and other restructuring costs, other than those related to the Biscuits division.

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

(In millions of euros, except per share data)	Non recurring items	Taxes	Minority interests	Net income	Diluted earnings per share
Goodwill impairment loss	(475)	—	—	(475)	(3.33)
Biscuits restructuring costs	(236)	89	—	(147)	(1.03)
European Union fine	(26)	—	—	(26)	(0.18)
Other integration or restructuring costs	(20)	8	1	(11)	(0.08)
	(757)	**97**	**1**	**(659)**	**(4.62)**

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.

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 2001, the Group's main investments in subsidiaries and equity method companies included:

- acquisition of the companies San (Biscuits in Poland) and Fazer (Biscuits in Finland) bought from the United Biscuits Group;

- acquisition of 50.1% of Al Safi Danone (Fresh Dairy Products in Saudi Arabia), 50% of Pureza Aga (Water in Mexico) and 51.08% of Zywiec Zdroj (Water in Poland);
- additional interests in Aqua (Water in Indonesia), Mecaniver (Belgian holding company, which owns the Group's American subsidiaries in the Water and the Fresh Dairy Products businesses), Galbani (Fresh Dairy Products in Italy) and Bagley (Biscuits in Argentina).

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

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

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

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

NOTE 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-17)

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.

The comparison of 2000 and 2001 results is affected by changes in exchange rates and in companies included in the consolidation:

- initial consolidation in 2001 of Danone Romania (Fresh Dairy Products), Prospect Participacoes (Fresh Dairy Products in Brazil), Salus (Water in Uruguay), since March 1 of San (Biscuits in Poland) and since May 1 Fazer (Biscuits in Finland);
- consolidation of Aqua since April 1, whereas the company was accounted for under the equity method during the first quarter of 2001;
- initial accounting under the equity method of Al Safi Danone (Fresh Dairy Products in Saudi Arabia) since January 1, of Polska Woda (Water in Poland) since October 1 and of Pureza Aga (Water in Mexico) since May 1;
- the divestitures outlined in *Note 3*.

The 2000 unaudited pro forma figures given below are presented on the basis of the same Group structure and exchange rates as for 2001. They are therefore comparable with the 2001 figures, but not necessarily indicative of actual results.

(In millions of euros)	2000 (pro forma)	2001 (actual)
Net sales	13,764	14,470
Operating income	1,465	1,609

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

NOTE 6—Property, plant and equipment

(In millions of euros)	At December 31, 2000	At December 31, 2001
Land	304	316
Buildings and rental property	1,791	1,839
Machinery and equipment	4,717	5,120
Consigned containers	122	168
Vehicles, office furniture and other	664	739
Capital assets in progress	446	365
Total	8,044	8,547
Less accumulated depreciation	(4,080)	(4,473)
Net property, plant and equipment	3,964	4,074

NOTE 7—Intangible assets

(In millions of euros)	At December 31, 2000	At December 31, 2001
Gross amounts :		
Goodwill	5,829	6,574
Brand names	1,720	1,660
Other	353	373
Total gross intangible assets	7,902	8,607
Accumulated amortization :		
Goodwill	(881)	(1,500)
Other intangible assets	(300)	(299)
Total accumulated amortization	(1,181)	(1,799)
Net intangible assets	6,721	6,808

Goodwill

(In millions of euros)	Year ended December 31, 2000	Year ended December 31, 2001
Net book value as at January 1	3,367	4,948
Additions during the year	2,030	846
Decreases during the year	(315)	(557)
Amortization	(134)	(163)
Net book value as at December 31	4,948	5,074

There is no individual goodwill item representing more than 5% of the total, with the exception of Danone Waters of North America USA, Danone Argentine, Lu and Volvic which in the aggregate amount to a net of approximately € 1,926 million as of December 31, 2001.

Additions and decreases during years 1999, 2000 and 2001 mainly result from newly consolidated companies and from divestitures (*refer to Notes 3 and 5*). Decreases of year 2001 also result from the goodwill impairment of Galbani (Fresh Dairy Products in Italy) for € 475 million and the impact of the evolution of the foreign exchange rates against euro.

Current year amortization for consolidated companies of € 149 million (€ 124 million for 2000) is recorded as "Other expense and income" while current year amortization for companies accounted for under the equity method of € 14 million (€ 10 million in 2000) is recorded as "Net earnings of equity method companies".

Goodwill in the amount of € 334 million and € 471 million at the end of 2000 and 2001, respectively, relates to equity investees. Under US GAAP, such goodwill would be recorded under "Investments accounted for under the equity method".

Brand names

Brand names result from the allocation of the excess of the purchase price of the companies acquired since 1989 and are recorded at fair value. They include 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 resulted from the exceptional impairment of Bagley and the divesture of San Miguel.

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

(In millions of euros and at net book value)	At December 31, 2000	2001
Acquired previous year-end, and consolidated at the beginning of subsequent year	206	104
Subsidiaries (more than 50% owned)	43	78
Affiliates (20% to 50% owned)	2	29
Other investments (less than 20% owned)	320	218
Net long-term investments	571	429

Net long-term investments in non-consolidated subsidiaries and affiliates are mainly comprised of investments in the companies Stonyfield (Fresh Dairy Product in the United States), Danone Djurdjura (Fresh Dairy Product in Algeria) and Aquarius (Water in China) which will be included in the consolidation in 2002, and investments in companies that are not consolidated due to their size (including the Japanese Yakult company).

NOTE 9—Investments accounted for under the equity method

(In millions of euros)	Year ended December 31, 2000	2001
Net book value as at January 1	289	408
New investments accounted for under the equity method	160	118
Investments accounted for under the equity method disposed of during the year	(61)	—
Net earnings	33	39
Dividends paid	(28)	(26)
Other	15	14
Net book value as at December 31	408	553

Other changes mainly result from movements in exchange rates.

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

(In millions of euros)	Year ended December 31, 2000	2001
Net sales:		
European Union	2,413	2,602
– Rest of the world	1,568	1,777
– Net income	163	197
Stockholders' equity	1,417	1,740

NOTE 10—Other financial assets

As of December 31, 2000 and 2001, other financial assets are comprised 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 for € 689 million.

NOTE 11—Inventories

(In millions of euros)	At December 31, 2000	2001
Goods purchased for resale	72	64
Raw materials and supplies	284	304
Semi-finished goods and work in process	60	60
Finished goods	298	317
Non-returnable containers	34	44
Less allowances	(20)	(25)
Net inventories	728	764

NOTE 12—Trade accounts receivable; other accounts receivable and prepaid expenses

Trade accounts receivable

(In millions of euros)	At December 31, 2000	2001
Trade accounts receivable	1,794	1,308
Notes receivable	89	88
Less allowance for doubtful receivables	(99)	(107)
Net trade accounts receivable	1,784	1,289
of which unmatured discounted bills account for	7	8

Movements in the allowance for doubtful receivables are as follows:

(In millions of euros)	Year ended December 31, 2000	Year ended December 31, 2001
Balance as at January 1	137	99
Charge (net of reversal) for the year	22	28
Utilization	(24)	(20)
Translation differences	(36)	—
Balance as at December 31	99	107

The Group believes its exposure to concentration of credit risk is limited, due to the large number of customers located in diverse geographical areas, and that there is no pronounced dependence on one single customer; the global net sales recorded with the first customer of the Group represent 10% of the total consolidated net sales.

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

Other accounts receivable and prepaid expenses

(In millions of euros)	At December 31, 2000	At December 31, 2001
State and local authorities	324	301
Interest receivable	37	16
Prepaid expenses	92	87
Advance payments to suppliers	66	62
Other	322	304
Other accounts receivable and prepaid expenses	841	770

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)
2001			
Before dilution	132	139,362,077	0.95
Convertible bonds	6	2,664,975	0.03
Stock options	—	670,328	(0.01)
After dilution	138	142,697,380	0.97
2000			
Before dilution	721	140,662,272	5.13
Stock options	—	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	—	680,930	(0.02)
After dilution	699	148,990,002	4.69

NOTE 14—Stock options

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

The Extraordinary General Meeting of Shareholders authorized the Board of Directors to grant stock options, over a 26-month period up to a limit of 2 millions of shares for the plan of 2001. As of December 31, 2001, 1,844,350 options could still be issued as part of the 2001 plan but the former authorizations relating to the 1992, 1995, 1997 and 1999 plans could not lead to any new attribution.

The December 31, 2001 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, 2001
1996	49.6—55.1	221,165
1997	64.1—66.8	266,700
1998	78.0—116.2	472,100
1999	111.5—128.4	586,720
2000	103.1—155.8	722,840
2001	141.6—147.1	899,900
Total		3,169,425

The following table summarizes transactions during 2000 and 2001, including balances from previous plans:

(Number of shares)	At December 31, 2000	At December 31, 2001
Balance as at January 1	2,314,540	2,519,650
Granted	722,840	899,900
Exercised	(480,930)	(181,325)
Surrendered	(36,800)	(68,800)
Balance as at December 31	2,519,650	3,169,425

NOTE 15—Convertible bonds

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

The bonds mature on January 1, 2007 and will be able to be redeemed at par with the interest that has accrued since the interest payment date before the early redemption date until the effective redemption date, on June 19, 2003, on June 19, 2004 and on June 19, 2005 at the request of the bondholders. In case of default, the bonds shall be immediately redeemable.

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

NOTE 16—Long-term debt

Classification by nature

(In millions of euros)	At December 31, 2000	At December 31, 2001
Bonds (average interest rate: 4.8% 2000 : 6.1%)	1,299	1,223
Bank loans, other debt and employee profit-sharing debt (average interest rate: 4.5% 2000 : 4.3%)	3,451	3,485
Less short-term portion	(579)	(283)
Long-term debt	4,171	4,425

Classification by year of maturity and by currency

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

Year of maturity	At December 31, 2001
2003	919
2004	1,246
2005	379
2006	358
2007-2011	44
After 2011	1,476
No fixed maturity	3
Total	4,425

Currency	At December 31, 2000	2001
French Francs/Euros	4,121	4,396
Indian Rupee	23	12
US Dollar	12	9
Chinese Renminbi	6	5
Singapore Dollar	4	—
Italian Lira	1	—
Sterling Pound	1	1
Spanish Peseta	1	—
Other	2	2
Total	4,171	4,425

At December 31, 2001, the Group held commitments from banks and other financial institutions for approximately € 2,960 million (€ 2,725 million at December 31, 2000) 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 € 1,465 million at December 31, 2001 (€ 1,505 million at December 31, 2000). This debt is classified as long-term debt.

NOTE 17—Retirement indemnities, pensions and post-retirement healthcare benefits

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

The Group is also responsible for supplementary retirement schemes, contractual commitments for termination indemnities and post-retirement healthcare. The related actuarial commitments are taken into account either through the payment of contributions to externally managed funds, or through provisions.

French companies

The commitments of French companies were calculated for 2000 and 2001 in conformity with FAS 87, based on the following key actuarial assumptions:

	2000	2001
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:	5.4%	5%
Salary growth rate, depending on the age and category of each employee:	between 2% and 3%	between 2% and 3%
Rate of return of plan assets:	8%	6%

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:

	2000	2001
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 7.8%	between 2% and 7.5%
Salary growth rate, depending on the age and category of each employee:	between 1% and 5.9%	between 1% and 5.9%
Rates of return of plan assets ranged:	between 5.5% and 8%	between 5.5% and 8%

The following table reconciles the funded status of the companies' plans with the provision recorded in the consolidated balance sheet at December 31, 2000 and 2001:

(In millions of euros)	At December 31,			
	2000		2001	
	France	Other countries	France	Other countries
Accumulated benefit obligation	226	454	232	472
Projected benefit obligation	255	472	265	506
Fair value of plan assets	79	313	76	312
Projected benefit obligation in excess of plan assets	176	159	189	194
Actuarial differences and modifications of plans	10	6	13	36
Accrued pension cost recognized in the financial statements	166	153	176	158

Accrued post-retirement healthcare benefits are included under the projected benefit obligation, as the related amount is not significant (€ 11 million and € 11 million as of December 31, 2000 and 2001, respectively).

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

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

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, the reclassification of prepaid retirement indemnities, as well as the impact of the sale of the Glass Containers operation in 1999 and of the European Beer companies in 2000.

The components of the net periodic pension cost for 1999, 2000 and 2001 are as follows:

(In millions of euros)	Year ended December 31,		
	1999	2000	2001
Service cost	36	30	28
Interest cost	32	33	40
Return on plan assets	(21)	(23)	(25)
Net amortization and deferral	3	6	3
Net periodic pension cost	50	46	46

NOTE 18—Provisions and long-term liabilities

(In millions of euros)	At December 31,	
	2000	2001
Restructuring	30	176
Long-term accrued liabilities	223	238
Long-term net deferred tax (asset) / liability	121	113
Capital investment grants	13	15
Provisions and long-term liabilities	387	542

Restructuring

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

(In millions of euros)	Employees: redundancy & other benefits	Write-down of plants & factories	Ancillary costs	Total
Balance as at 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
Charge	130	1	13	144
Utilization	(7)	(16)	(3)	(26)
Amounts recorded in connection with purchase accounting for acquired businesses	5	5	18	28
Balance as at December 31, 2001	135	7	34	176

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

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

Long-term accrued liabilities

Long-term accrued liabilities mainly include:

- the € 59 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, 2000	At December 31, 2001
Trade accounts payable	1,524	1,506
Notes payable	195	209
Trade accounts and notes payable	1,719	1,715

Accrued expenses and other current liabilities

(In millions of euros)	At December 31, 2000	At December 31, 2001
Personnel and social charges	331	341
Year-end rebates payable to customers	312	366
State and local authorities	251	353
Consigned containers	54	79
Accrued interest payable	27	20
Income tax payable	214	120
Other	416	562
Accrued expenses and other current liabilities	1,605	1,841

NOTE 20—Personnel and remuneration

Group personnel costs (including payroll taxes and related charges) for 2001 amounted to € 2,066 million (2000: € 2,067 million), of which € 10 million (2000: € 8.4 million) represented remuneration paid to the Executive Committee of the Group.

Group personnel at December 31, 2000 and 2001 were comprised of the following:

	Year ended December 31,	
	2000	2001
	(unaudited)	
France	11,759	12,275
Rest of western Europe	16,264	16,027
International	58,634	72,258
Total	86,657	100,560

On a comparable basis, Group personnel would have been 100,560 as at December 31, 2001 and 100,192 as at December 31, 2000.

NOTE 21—Depreciation and amortization

	Year ended December 31,		
(In millions of euros)	1999	2000	2001
Property, plant and equipment	561	561	591
Goodwill	93	124	149
Intangible assets	104	72	37
Total	758	757	777

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*) and does not include the Galbani goodwill impairment loss of € 475 million.

NOTE 22—Other expense and income

	Year ended December 31,		
(In millions of euros)	1999	2000	2001
Employee profit-sharing	125	122	108
Goodwill amortization	93	124	149
Other	22	(10)	(37)
Other expense net	240	236	220

The line ‘‘other’’ mainly includes royalties for the utilization of the *Kronenbourg*, *Kanterbrau* and *1664* brand names, which are received by Kro Beer Brands, a wholly owned subsidiary of the Group.

NOTE 23—Interest expense, net

(In millions of euros)	Year ended December 31, 1999	2000	2001
Interest expense	200	284	323
Interest income	(76)	(55)	(39)
Other financial income and expenses	7	(36)	(104)
Interest expense net	131	193	180

Interest paid amounted to € 120 million, € 225 million, and € 202 million for the years ended December 31, 1999, 2000, and 2001, respectively.

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

NOTE 24—Income taxes

Income tax expense

Income before taxes and income tax expense consist of:

(In millions of euros)	Year ended December 31, 1999	2000	2001
Income before provision for income taxes:			
• French companies	507	673	336
• Foreign companies	755	707	336
Income before provision for income taxes	1,262	1,380	672
Income tax expense (income):			
—Current income taxes:			
• French companies	252	240	115
• Foreign companies	289	321	317
	541	561	432
—Deferred income taxes:			
• French companies	(41)	(13)	9
• Foreign companies	(1)	14	(25)
	(42)	1	(16)
Provision for income taxes	499	562	416

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

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

The Group made income tax payments of approximately € 346 million, € 388 million and € 453 million in 1999, 2000 and 2001, respectively.

Analysis of the effective income tax rate

The effective tax rate is 61.90% in 2001, compared with 40.75% in 2000 and 39.54% in 1999. Such rates can be analyzed as follows:

(Amounts in percentage of income before taxes)	Year ended December 31,		
	1999	2000	2001
Statutory tax rate in France	39.99	37.76	36.43
Effect of foreign tax rate differential	(2.50)	(1.88)	(5.01)
Effect of amortization of goodwill	2.66	2.89	6.46
Exceptional impairment loss on Galbani goodwill	—	—	25.53
Effect of other differences	(0.61)	1.98	(1.51)
Effective income tax rate	39.54	40.75	61.90

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,	
	2000	2001
Deferred tax assets on temporary differences:		
• Retirement benefits	62	67
• Restructuring provisions	17	66
• Other temporary differences	—	—
Deferred tax assets on tax loss carry forwards:		
• Gross	136	75
• Less valuation allowance for carry forwards	(108)	(58)
Long-term deferred tax assets	107	150
Deferred tax liabilities on temporary differences:		
• Depreciation of property, plant & equipment	(98)	(100)
• Capitalized interests	(5)	(4)
• Other differences	(125)	(159)
Long-term deferred tax liabilities	(228)	(263)
Net long-term deferred tax asset / (liability)	(121)	(113)

Net short-term deferred tax assets amounting to € 88 million as of December 31, 2001 (€ 43 million as of December 31, 2000) 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 € 187 million as of December 31, 2001, and mainly expire after 2003. They mainly relate to the tax deductibility of goodwill amortization charges in some countries.

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, 2000	At December 31, 2001
Interest rate swaps, with a remaining term at December 31:		
• below one year	1,246	(2,505)
• between one and five years	1,416	1,107
• above five years	129	22
Interest rate caps and floors, with a remaining term at December 31:		
• below one year	(102)	(57)
• between one and five years	(2,189)	(2,954)
• above five years	(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, 2001 is exposed to a change in rate for € 5 billion and, in case of a rate increase up to approximately 100 basis points, the Group would be exposed on only 29% of the net debt at December 31, 2001 (47% at December 31, 2000).

As a result of these hedging instruments, the effective weighted average interest rate of the Group's consolidated net debt in 2001 is 5.07% (2000: 5.52%), compared to a 5.08% (2000: 5.71%) weighted average rate before any hedging operations.

Currency exposure

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

The used financial instruments are mainly forward exchange contracts, as well as purchased foreign exchange options, negotiated with major counterparties.

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, 2000	2001
Forward (purchases) / sales:		
• US dollar	395	338
• Pound sterling	422	369
• Euro	(1,091)	(1,125)
• Mexican peso	79	113
• Yen	72	151
• Swiss franc	37	43
• Canadian dollar	72	75
• Other	9	42
Total forward	(5)	6
including:		
—Forwards purchased	(1,682)	(1,523)
—Forwards sold	1,676	1,529
Currency options purchased	—	1
Total currency hedging instruments	(6)	7

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 47% of net sales (45% in 2000) and 34% of operating income (35% in 2000).

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, 2000 and 2001)	2000	2001
Counterparty's rating (according to Standard & Poor's)		
• AAA	50%	9%
• AA	21%	23%
• A	29%	68%
• BBB	—	—

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

There are no financial instruments negotiated with 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, 2000 and 2001:

(In millions of euros)	At December 31, 2000		At December 31, 2001	
	Net book value	Market value	Net book value	Market value
Long-term loans	286	286	209	209
Long-term investments	571	665	429	498
Investments accounted for under the equity method	408	408	553	729
Other financial assets	981	1,015	900	931
Trade debtors	2,625	2,625	2,059	2,059
Short-term loans	166	166	190	190
Trade creditors	(3,324)	(3,324)	(3,556)	(3,556)
Off-balance sheet currency instruments	—	(3)	—	(6)
Convertible bonds (including the redemption premium accrued before tax)	—	—	(1,000)	(1,005)
Long-term debt	(4,171)	(4,200)	(4,425)	(4,450)
Short-term debt and bank overdrafts	(1,013)	(1,013)	(511)	(511)
Marketable securities	235	235	396	398
Cash and cash equivalents	548	548	713	713
Off-balance sheet interest rate instruments	—	8	—	8

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

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

The value of the convertible bonds and 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 partially 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 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. At December 31, these financial commitments do not exceed € 1,800 million and no material investment under these agreements is currently planned.

The Group can sell its residual assets related to the European Beer business for about € 2,500 million.

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

Other commitments

As of December 31, 2001, the Group had non-cancelable lease commitments and other commitments amounting to € 150 million with respect to the years 2002 through 2005, and € 80 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 and Cereal Snacks). The segment reporting reflects this structure.

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

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

	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	307	395	83	8	—	793
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	793	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

(In millions of euros)	Year ended December 31, 1999					
	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

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

NOTE 28—Activities of divisions by geographical area

(In millions of euros)	Year ended December 31, 2001			
	France	Rest of European Union	Rest of World	Total
Total sales by geographical area of origin	4,064	5,487	6,262	15,813
Intra-Group sales within geographical areas	(42)	(350)	(70)	(462)
Net sales by geographical area of origin	4,022	5,137	6,192	15,351
Intra-Group sales between geographical areas	(651)	(210)	(20)	(881)
Net sales outside the Group	3,371	4,927	6,172	14,470
Operating income	462	584	552	1,598
Net earnings of Equity method companies	6	35	(2)	39
Capital expenditures	128	183	395	706
Cash flow from operations	505	526	591	1,622
Total assets	3,991	5,283	6,986	16,260

(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	5,606	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	431	793
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

Exports by French companies of GROUPE DANONE amounted to € 546 million, € 570 million and € 681 million in 1999, 2000 and 2001, respectively.

NOTE 29—Companies consolidated at December 31, 2001

Companies consolidated for the first time in 2001

- DANONE ROMANIA
- PROSPECT PARTICIPACOES
- AL SAFI DANONE
- ZYWIEC ZDROJ
- DASANBE
- POLSKA WODA
- SMDA
- SALUS
- AGA
- LU SUOMI OY
- LU SAN
- DANONE VITAPOLE

Changes in the consolidation method

Agua, which was accounted for under the equity method until March 31,2001, is fully consolidated afterwards.

Companies no longer consolidated at December 31, 2001

- DIB SUEDE
- DIB MEXICO
- SOGEPA DANONE (liquidation)

Merged companies at December 31, 2001

- LABORATOIRE GALLIA merged with BLEDINA
- DANNON WATERS and McKESSON merged together to become DANONE WATERS OF NORTH AMERICA
- HEUDEBERT merged with LU

LIST OF COMPANIES CONSOLIDATED AT DECEMBER 31, 2001

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
DANONE	Germany	100.00	99.92
DANONE	Austria	100.00	99.92
DANONE	Belgium	100.00	100.00
GALBANI	Belgium	100.00	100.00
STENVAL	Belgium	97.08	97.08
DANONE	Denmark	100.00	100.00
DANONE	Spain	55.74	55.74
DANONE CANARIES	Spain	78.50	43.76
DANONE	Finland	100.00	100.00
DANONE	Ireland	99.90	99.90
DANONE	Italy	100.00	100.00
GALBANI	Italy	100.00	100.00
DANONE	The Netherlands	100.00	100.00
DANONE	Portugal	97.61	53.81
DANONE	United Kingdom	100.00	100.00
GALBANI	United Kingdom	100.00	100.00
GALBANI	Switzerland	100.00	100.00
DANONE SERDIKA	Bulgaria	69.64	69.64
DANONE	Hungary	100.00	100.00
DANONE	Poland	100.00	100.00
DANONE	Czech Republic	98.05	98.05
DANONE	Romania	65.00	65.00
DANONE VOLGA	Russia	88.28	61.79
MOS DANONE	Russia	51.00	35.70
DANONE INDUSTRIA—ZAO	Russia	100.00	70.00
DANONE	Slovakia	100.00	100.00
DANONE	Argentina	99.50	99.50
DANONE	Brazil	100.00	100.00
PROSPECT PARTICIPACOES	Brazil	100.00	100.00
DANONE CANADA DELISLE	Canada	100.00	100.00
DANNON COMPANY	United States	100.00	100.00
DANONE DE MEXICO	Mexico	100.00	100.00
DANONE CLOVER	South Africa	55.00	66.77
BEVERAGES			
SA DES EAUX MINERALES D'EVIAN	France	100.00	100.00
SEAT (Sté d'Exploitation d'Activités Touristiques)	France	99.91	99.91
SMDA	France	100.00	100.00

Companies	Country	Percentages Group's control	Interest
VOLVIC	France	100.00	100.00
KRO BEER BRANDS	France	100.00	100.00
DANONE WATERS DEUTSCHLAND	Germany	100.00	100.00
AGUAS DE LANJARON	Spain	95.00	78.52
FONT VELLA	Spain	93.88	76.92
ITALAQUAE	Italy	100.00	92.67
DANONE WATERS UK & IRELAND	United Kingdom	100.00	100.00
ZYWIEC ZDROJ	Poland	51.08	51.08
AGUAS DE ARGENTINA	Argentina	100.00	100.00
VILLA ALPINA	Argentina	85.00	85.00
DANONE WATERS OF NORTH AMERICA	Canada	100.00	100.00
LES EAUX NAYA DU CANADA	Canada	100.00	100.00
DANONE WATERS OF NORTH AMERICA	United States	100.00	100.00
BONAFONT	Mexico	100.00	100.00
SALUS	Uruguay	57.36	42.30
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	46.07
ROBUST	China	92.00	79.79
AQUA	Indonesia	74.00	66.85
BISCUITS			
COMPAGNIE FINANCIERE BELIN	France	100.00	100.00
GENERALE BISCUIT GLICO FRANCE	France	50.00	50.00
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
LU SUOMI OY	Finland	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
JACOB'S BAKERY	United Kingdom	100.00	100.00
LU GYORI	Hungary	100.00	100.00
LU POLSKA	Poland	75.00	75.00
LU SAN	Poland	100.00	75.00
BOLSHEVIK	Russia	75.64	75.64
OPAVIA—LU	Czech Republic	99.71	99.71
BAGLEY	Argentina	99.23	99.23
JIANGMEN DANONE BISCUITS	China	100.00	90.34
SHANGHAI DANONE BISCUITS FOODS	China	90.00	81.31

		Percentages	
Companies	Country	Group's control	Interest
BRITANNIA INDUSTRIES	India	40.15	19.07
DANONE	Indonesia	100.00	90.34
BRITANNIA BRANDS MALAYSIA	Malaysia	100.00	90.34
EVERCRISP	Malaysia	100.00	90.34
GRIFFIN'S FOODS	New-Zealand	100.00	90.34
CONTINENTAL BISCUITS PAKISTAN	Pakistan	49.49	44.71
OTHER FOOD BUSINESSES			
HP FOODS	United Kingdom	100.00	100.00
LEA & PERRINS	United States	100.00	100.00
AMOY	China	100.00	90.34
SHANGHAI AMOY FOODS	China	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 AUSTRALIA	Australia	100.00	100.00
DIB CANADA	Canada	100.00	100.00
GBE USA	United States	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
DANONE VITAPOLE	France	100.00	100.00
FAS	France	100.00	100.00
FINALIM 3	France	100.00	100.00
FINALIM 4	France	100.00	100.00
GAAP	France	100.00	100.00
ALFABANQUE	France	100.00	100.00
LODAHLIM FRANCE	France	100.00	100.00
DANONE HOLDING	Germany	99.92	99.92
DANONE VERMOGENS VERWALTUNG	Germany	100.00	99.92
DANONE FINANCE BENELUX	Belgium	100.00	100.00
COFIVE	Belgium	100.00	99.97
MECANIVER	Belgium	100.00	100.00
DANONE FOODS	United States	100.00	100.00
DANONE HOLDINGS USA	United States	100.00	100.00
DANONE SERVICES	Italy	100.00	100.00
FINANZIARIA IMPERIESE	Italy	100.00	99.98

Companies	Country	Percentages	
		Group's control	Interest
SCIA	Italy	92.97	92.97
SIFIT	Italy	100.00	100.00
DANONE RE	Luxembourg	100.00	100.00
DANONE FINANCE NETHERLANDS	The Netherlands	100.00	100.00
SELBA	The Netherlands	100.00	100.00
LODAHLIM BV	The Netherlands	100.00	89.00
SETECSOBELPAR	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	100.00	90.34
ASIA HOST	China	100.00	90.34
SHANGHAI DANONE CONSULTING	China	100.00	90.34
BANNATYNE / DOWBIGGIN / NACUPA / SPARGO / VALLETORT	Singapore	40.00	18.07
BHPL	Singapore	100.00	100.00
DANONE ASIA / KUAN / BRITANNIA BRANDS KUAN / PEERLESS	Singapore	90.34	90.34
CALVON	Singapore	96.00	86.73

Companies accounted for under the equity method

Companies	Country	Percentages	
		Group's control	Interest
FRESH DAIRY PRODUCTS			
CLOVER	South Africa	22.75	26.15
AL SAFI DANONE	Saudi Arabia	50.10	50.10
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	28.76	28.76
BAKOMA	Poland	18.15	52.43
STIAL / SOCOGES	Tunisia	50.00	50.00
DANONESA TIKVESLI	Turkey	50.00	50.00
BEVERAGES			
MAHOU	Spain	33.34	33.34
SAN MIGUEL	Spain	33.34	33.34
DASANBE	Spain	50.00	50.00
POLSKA WODA	Poland	50.00	50.00
AGA	Mexico	50.00	50.00
DANONESA DANONE SABANCI	Turkey	50.00	50.00
BISCUITS			
GRIESSON DE BEUKELAER	Germany	39.97	39.97
GALLETAS NOËL	Colombia	30.00	30.00

Companies	Country	Percentages	
		Group's control	Interest
BIMO	Morocco	50.00	50.00
SOTUBI	Tunisia	20.00	20.00
CONTAINERS			
BSN GLASSPACK	France	44.00	44.00

NOTE 30—Subsequent events

Sale of Galbani cheese and cured meat businesses

On February 27, 2002, the Group entered into an agreement to sell the businesses of Italian cheese, cured meat and other dairy products of its subsidiary Galbani to investment funds advised by BC Partners for a total consideration of € 1,015 million. Of the total proceeds, € 808 million will be paid in cash and a Group's subsidiary will provide loan financing of the remainder for € 207 million. Net sales attributed to the sold businesses amounted to € 1.1 billion in year 2001. The Group does not expect to record any material gain or loss on this disposal, once completed in April 2002.