

DANONE 2003

THE YEAR IN REVIEW

CHINA, HOD,
PROBIOTICS...
new frontiers



Interview with
Franck Riboud:

"The fastest
moving
food company"

The world we live in
Social responsibility

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Franck Riboud

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BSN-Gervais DANONE merger 30 years on



DECEMBER 2003 The 1973 merger of BSN and Gervais DANONE, initiated under the leadership of Antoine Riboud (right) and Daniel Carasso, was built on shared values, complementary know-how and common goals. At the time, the two businesses were mainly domestic, but the synergies generated by the tie-up have demonstrated their value over the past 30 years. And BSN—renamed DANONE in 1994—is now present in 120 countries.



Home and Office Deliveries expansion in Europe...

JULY 2003 DANONE and Eden Springs announce plans to set up a joint venture bringing together all their Home and Office Delivery (HOD) business in Europe to create a new market leader. Boasting top positions in 11 countries with special promise, the new business was launched in September and already holds around 20% of the total European market. In less than ten years, DANONE has moved up to the number-one place worldwide in this high growth segment.

... the new leader for HOD in the US

SEPTEMBER 2003 DANONE and Suntory Limited agree to set up a joint venture bringing together their home and office delivery businesses, and by the same token consolidating geographical coverage. In November this agreement leads to the creation of DS Waters LP. Sales of \$800 million place the new company first in the US for home and office deliveries.

Withdrawal from glass completed

JUNE 2003 DANONE sells its 44% interest in BSN Glasspack, the company resulting from the merger of the glass container operations of DANONE and Gerresheimer. DANONE no longer has any interest in glass, its original business.

Third DANONE International Nutrition Prize

NOVEMBER 2003 The DANONE International Prize for Nutrition is awarded to Dr. Ricardo Brassani from Guatemala's Universidad del Valle in recognition of over 40 years' research into malnutrition in his country. Malnutrition is a burning issue for the international community, and currently affects over 800 million people. The DANONE Prize, one of the most prestigious in the field of nutrition sciences, includes an award of €120,000 to support winners' research.

Tapping new potential in Egypt

OCTOBER 2003 Alongside local partner Rachid, DANONE opens its first biscuit factory in Egypt. Located at Borg El Arab, the new site aims to make the most of the Egyptian market's promise with an initial offering of five products adapted to local demand sold under the LU Tiger and Prince brands.



DANONE Children's Day

DECEMBER 2003 As in 2002, DANONE employees in over 30 countries take the initiative to help children suffering from poverty, illness, disabilities or mistreatment. The priority is to provide lasting support for projects selected by employees themselves.



Children of the world

SEPTEMBER 2003 South Africa comes out on top in the fourth annual DANONE Nations Cup, a soccer tournament for young players aged 10 to 11. This international competition is a showcase for fundamental DANONE values that include openness, enthusiasm and proximity. Two and a half million children from 32 countries took part, sharing their passion for the game. Presided over by the Cup's sponsor, soccer great Zinedine Zidane, the final in Paris drew a crowd of 25,000 including 120 journalists.



DANONE, number-one shareholder of Yakult in Japan

APRIL 2003 DANONE raises its interest in Japan's Yakult to 20%. Yakult has played a pioneering role in the development of probiotics, a field where it is now number one worldwide. With this unopposed move, DANONE becomes the largest shareholder of a leader in dairy products for the Asia-Pacific region. Present in over 20 countries, Yakult reported sales of around €1.8 bn in 2003.

Bolstering Groupe presence in Turkey...

DECEMBER 2003 DANONE acquires Nestlé's dairy business in Turkey, doubling its sales on a market where dairy products are very much in demand. At the same time, DANONE buys out the interests of Turkish group Sabanci in the Danone SA joint venture to take full control of operations.

... and the US, too

DECEMBER 2003 DANONE raises its interest in Stonyfield Farm, the US leader for natural and organic dairy products, to 80%. DANONE first took an interest of 40% in the company in 2001, and the new acquisition reflects the success of cooperation between the businesses.

New corporate headquarters

OCTOBER 2003 DANONE management moves into modern new premises featuring spacious open areas that favor contacts among staff. The building is located in the heart of Paris, close to the Opera and major department stores.



⊖
 Franck Riboud, 48, has been
 Chairman and CEO of Groupe
 DANONE since May 1996.

Franck Riboud :

“Our three businesses
 hold enormous
 potential”

With sales reaching new records, gains in market share, a steady stream of new products and partnerships and profit margins on the rise, 2003 was right on track. And 2004 is set to bring more of the same.

INTERVIEW WITH FRANCK RIBOUD
 PHOTO GRÉGOIRE KORGANOW - MÉTIS/IMAGES

→ For a start, how would you sum up business in 2003?

FRANCK RIBOUD: It was a very good year for DANONE, with organic growth reaching 7.2%—our highest in ten years. With that, we posted the strongest growth in our sector for the fifth year in a row, which I think shows the effectiveness of our business model over time. Since 1997, organic growth has consistently come in it at between 5 and 7%, and we have raised operating margin by 40 to 50 basis points on average each year⁽¹⁾. And over the past three years, we have nearly doubled operating cash flow. That is definitely no accident. It rewards the

⁽¹⁾ or 0.4 to 0.5 point (100 basis points: 1 percentage point). ⊕



⊙ strategy we adopted back in 1996, which means three things:

- a focus on three businesses—water, fresh dairy products and biscuits—benefiting from an association with nutrition and health to show some of the strongest growth in the food industry.
- a more balanced geographical presence, with greater involvement than our competitors in high-growth emerging markets, particularly in China and other parts of Asia.
- local leadership on nearly all the national markets where we operate, so that in each case we have the resources we need to build for the future.

→ **And Fresh dairy products are still driving growth. How do you explain this?**

F R: Performances from this line of business have been impressive—a real driver. Our worldwide position has improved steadily from year to year, and our share of the market is now higher than the total for our three closest competitors. But while our share has risen by around one percentage point each year, it is still only around 18%—which leaves plenty of room for continued expansion. And the potential is all the greater since the segment is growing at an annual rate of 4% worldwide, one of the strongest rises in the food industry.

In this, we can count on two key strengths. First, DANONE's proven and unrivalled capacity to bring out a steady flow of attractive new products. And, second, our ability to deploy and adapt winning concepts in the 40 countries we now operate in. Today, our top performance in dairy products is founded on nine basic product concepts, all of them launched or totally revamped over the past ten years. These already account for 50% of the business line's sales, and they are continuing to show sales growth averaging over 15% a year. Fresh dairy products also have a special advantage that is not often mentioned—since they only keep for a period of 28 days at the most, there are no inventories. Which means that they represent one of the only major segments of the food industry with a structurally negative working capital requirement. And that is not just a technical advantage—every extra euro of sales revenue adds rather than demands cash.

→ **Beverages also did very well, with organic growth at 9.9%. How far is that attributable to the heatwave in Europe?**

F R: Beverages were the other main contributor to growth, with sales up nearly 10% and operating margin significantly better. The heatwave obviously gave business in Europe a lift, but the weather worked the other way in the US and Japan. And the SARS outbreak hit water sales in Asia for several months. Overall, the structure of growth in water sales thus involved much more than the heatwave. Markets are generally expanding, which naturally helps, but our growth owes even more to the quality of

product innovation. Examples include our energy drink Mizone, an enormous success in China where it is sold as Maidong, and flavored waters in general, which are benefiting from their position as healthy alternative to sodas and showing very firm growth. Levite, a range of flavored waters that is contributing to strong growth in Mexico, is an excellent example.

→ **What about the US?**

F R: Our water operations there were not big enough and we had no control over distribution. So we have teamed up with Coca-Cola on its home turf to continue the development of our brands. The price war now raging and rapid rises in sales of Dannon water prove we were right, although it is true that sales of Evian have still to get back onto an upward track.

→ **Big soft drink makers are now moving onto the water market in Europe. Does that change your way of looking at things?**

F R: That is a development we had been expecting for a long time. And we can certainly be satisfied about the way things have gone so far in Spain—despite the new competition from the two US soft-drink majors, our water sales there have remained on the rise and we have consolidated our market share.

So we feel reasonably confident and take a fairly serene view of the future. More specifically, we have no plans to cut our growth and earnings targets for 2004.

→ **Over the past year, you made new investments in Home and Office Deliveries the safe of water in jugs. What is your approach to this market?**

F R: The market for home and office deliveries is the fastest-growing segment of the packaged water market. We have already won world leadership in the field where our presence was negligible just five years ago. In keeping with our usual strategy, we have built strong positions both on today's big markets and on those that will drive growth in the future. So we naturally operate in the US and Mexico, the world's two largest markets, and in Europe, where the sector is expanding rapidly.

But we have also staked out positions in China and Indonesia, where big populations and rapidly increasing favor for HOD make for very promising potential.

In Europe and the US, I think we have made the right choices for expansion in this area. Instead of new acquisitions, we have opted for joint ventures—with Eden Springs in Europe and Suntory Water Group in the US. That has enabled us to rapidly achieve critical mass with practically no cash outlays. And we will also be freer to make decisions further down the road.

→ **Biscuit sales, in contrast, did not grow in 2003. How do you see prospects for that business?**

F R: It is true that business was nearly flat overall, with organic growth limited to 0.4%. But trends were very different from one market to the next. In Asia, growth is in double digits and performances have been good

Executive Committee

- Franck Riboud**
Chairman and Chief Executive Officer
- Bernard Hours** (1)
Executive Vice-President
Fresh Dairy Products
- Franck Mouglin** (2)
Executive Vice-President
Human Resources
- Georges Casala** (3)
Executive Vice-President
Biscuits and Cereal Products
- Jean-René Buisson** (4)
General Secretary
- Jacques Vincent** (5)
Vice-Chairman and Chief
Operating Officer
- Pierre Cohade** (6)
Executive Vice-President
Beverages
- Emmanuel Faber** (7)
Executive Vice-President
Finance, Strategy and
Information Systems
- Simon Israel** (8)
Executive Vice-President
Asia-Pacific

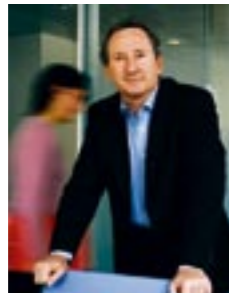


→ **Leading positions worldwide**

- No. 1** in Fresh Dairy Products
- No. 1** in Bottled Water (by volume)
- No. 2** in Biscuits and Cereal Products

“We posted the strongest growth in our sector for the 5th year in a row”.





in Russia, Northern Europe, the Benelux countries, Greece and Spain. Things were more complicated for a variety of reasons in Brazil and France, the latter our largest single market for biscuits. Generally speaking, biscuit markets are very local, and that means we

have to take a differentiated approach, with solutions adapted to local conditions.

We will be reporting to our shareholders on that in the second half of 2004, when we will be able to give more details of plans to revive growth and earnings. We have made it clear that we need time. We want our people to put all they have into making sure there is a return to growth—but we also want them to go about their job calmly.

That is what has been happening for the past few months under the leadership of the new head of the business line. The aim is to put new life into the market, in particular by developing new occasions for consumption, and to rebuild our lead on competitors. Biscuits clearly have their place in DANONE's business strategy. We must not forget that they are a major driver for growth in Asia and offer overall potential for improvement in our operating margins.

→ *A few years ago you explained how the Thémis project for the worldwide deployment of an integrated information system based on SAP solutions would help raise margins. How far along is that now?*

F R: Thémis is helping us streamline our operating procedures. As such, it is crucial to the competitiveness of the Groupe and we expect margin to benefit from 2004 on. The first stage in the project was completed rapidly and three-quarters of our fresh dairy product sales are now administered within the system. We are on course to meet our target completion date.

→ *DANONE shares didn't rise much in 2003.*

F R: I generally don't comment on share prices. Although I would point out that DANONE shares have continued to show a healthy premium on the sector ever since we adopted our current strategy seven years ago. And I believe it has never been better deserved, since DANONE really stands out in terms of potential for profitable growth.

→ *What about the possible threat of a takeover bid that you sometimes read about in the papers?*

F R: DANONE has been placed among the top five potential targets for the past 20 years, so we take rumors with a grain of salt. More fundamentally, my answer is the same as always: our business project has nothing to gain from a tie-up with any other business. Our aim is to confirm the place of DANONE as a leader for growth from one year to the next, building on the businesses we have today. We have all the human and financial resources we need to do that unaided. On top of that, our business has everything to do with our form of organization and a very special corporate culture. That culture means quick responses, flexibility, distrust of unwieldy structures and no doubt even a bit of anti-conformism. It is very strong, but could also prove fragile. I do not believe it can be taken over.

→ *You often talk about speedy responses, about staying on the move. Why do you think that is a special feature of DANONE and why do you believe it is so important?*

F R: We are the world leader in each of our three businesses, but we are still only a third or a quarter the size of less focused competitors operating across a wider range. We cannot go about things in the same way as they do. Instead, we look for another type of competitive advantage rooted in our culture. And that is speed—something our competitors find much more difficult to copy. It concerns the pace of growth in our business, and the way we implement strategy and operate on a day-to-day basis. And it is part of my day-to-day job to clear away potential obstacles and ensure that we remain agile and on the move.

→ *What do you think about growth prospects for the years ahead?*

F R: The potential of our three businesses is enormous. Levels of consumption vary widely from one market to the next, which means there is plenty of room for them to rise in many countries, including the developed world. To take an example, per capita consumption of fresh dairy products is only 5 kg a year in the US compared with 30 kg in France. Which explains how we are making rapid gains in the former. We have also chosen to focus on categories associated with nutrition

and health, enabling us to benefit from the continuing shift in consumer preferences to this type of product on mature markets.

And of course we have opened up our businesses to new horizons in terms of both products and geography. The fresh growth potential that results is already beginning to yield benefits. To take geographical expansion alone, in the space of just a few years we have developed a significant presence in three new regions, each of which now contributes around €1 billion to consolidated sales. These are Central and Eastern Europe including Russia,

where performances have been excellent; China, where we now have nearly 23,000 employees and growth has been in a range of 10 to 15% in recent years; and, finally, regions around the Mediterranean, where we now have leading positions in all countries.

→ *Do you plan to move ahead with acquisitions and alliances?*

F R: Over the past five years we have been involved in over 50 transactions for a total of more than €7 billion. Often narrowly targeted and sometimes very small, these were made to round out our product offerings and geographical reach.

In our core businesses, 70% of contenders are independent, very often family-owned operations. It is only natural for us to be the prime mover for consolidation in these sectors.

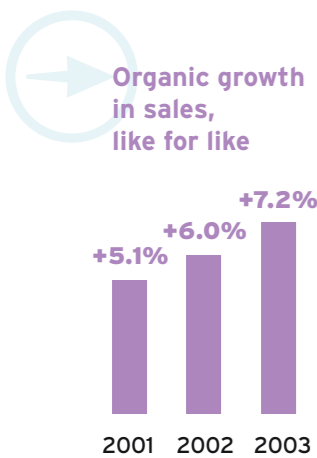
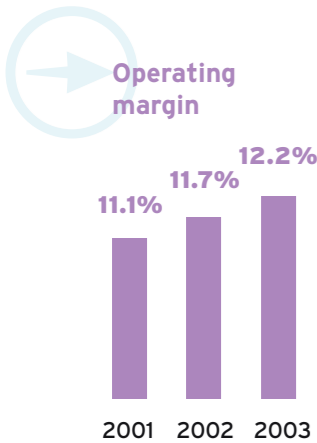
In this, we can also count on a special strength. We know how to work with local partners, and we feel comfortable with them. We do not necessarily want to take a majority interest from the start. In our businesses, that gives us a real edge on competitors, as shown by our rapid success in North Africa and Middle East, where partnerships have been our main form of business expansion. Not many companies know how to operate in this way.

→ *And, finally, what are your goals for 2004?*

F R: It will be another year of profitable growth for our model. Admittedly, growth in biscuits is likely to remain slack, with a big gap between the first and second half. But that is not going to stop us from achieving our targets. Organic growth should be between 5 and 7% for the sixth year in a row, placing us at the front of the

field once again and perhaps leading the industry as a whole. And I am confident that the annual rise in margin should be at the upper end of our target range, which is from 20 to 40 basis points. Earnings per share should be close to double the figure for last year (thus up around 10%), provided the dollar does not go on sliding too far below current levels. Finally, we expect cash flow from operations to continue to rise. So the adventure that started with the launch of the new DANONE seven years ago goes on. Or, better said, is only just beginning.

"Our culture is based on quick response and agility—we're quick on our feet."



Corporate governance at Danone

In 2003 DANONE continued efforts to enhance standards of corporate governance with moves including reinforcement of Board involvement and new internal audit procedures.

PHOTOS GRÉGOIRE KORGANOW - MÉTIS/IMAGES



1 Michel David-Weill • 2 Benoît Potier • 3 Richard Goblet d'Alviella • 4 Jérôme Seydoux • 5 Jacques Vincent • 6 Emmanuel Faber • 7 Jacques Nahmias • 8 Christian Laubie • 9 Jean Gandols • 10 Bruno Bonnell • 11 Umberto Agnelli • (not featured in photos: Hakan Mogren)

Questions to DANONE Director Jean Gandois

PHOTO GRÉGOIRE KORGANOW - MÉTIS/IMAGES

→ Are you satisfied with the procedures now applied at DANONE?

JEAN GANDOIS: I would say they are generally very good, and in some cases excellent. DANONE is a very fast-moving business. Our strategy involves a large number of partnerships and joint ventures, and we have had to adapt procedures to the new situation this entails. Today these procedures are among the most effective I know of.

To back up internal control, which is an ongoing process, we have reinforced internal audit resources, considered that the team was no longer big enough to deal with a larger, more complex business.

So last year we signed an outsourcing agreement with KPMG to send joint teams to work in the field. We are also moving ahead with Thémis, an SAP project to ensure consistency of data throughout the group. This should be completed by 2006.

→ What points are particularly important for the Audit Committee at present?

JG: Risk management is definitely a top item on the agenda. In addition to the risk facing all major international companies, DANONE has to deal with the special kinds of risk associated with our businesses, starting with consumer health and food safety. Another



⊖ Jean Gandois, head of the Audit Committee, was formerly Chairman and CEO of Rhône-Poulenc and Pêchiney, and President of the National Council of French Employers from 1994-1997. He is currently the Vice-Chairman of the Supervisory Board of Suez.

major concern of the Committee is the valuation of intangible assets. We have to make regular, in-depth examinations of the goodwill on our balance sheet to see whether the amounts are justified and ensure that they are written down where necessary.

And thirdly, there are off balance sheet items and their possible impact on our financial statements.

→ How do you think the Audit Committee could best move forward?

JG: That is a matter of will. The Audit Committee must not be satisfied to simply listen to what it is told; it has to take a proactive approach. I am convinced that the quality of corporate governance depends in large measure on the willingness of supervisory bodies to think of ways to contribute.

In corporate governance, the main developments of 2003 concerned the reinforcement of Board involvement following the Board's self-assessment at the end of 2002. Directors were asked to respond to a questionnaire designed not only to assess formal procedures but also to identify ways to ensure the genuine involvement of all Directors. There were six main headings: information supplied to Directors, Board procedures, compliance with regulatory requirements, relationships between the Board and management, the subjects discussed, and implementation of related decisions.

Reinforcement of the Board's mission

Board decisions in response to survey findings were implemented during 2003, in particular through amendments to its internal charter dated February 13. The overall effect was to reinforce the powers of the Board and the resources available to it, including:

- Prior consultation of the Board on all major transactions including acquisitions, divestments, investments in existing operations and internal reorganization, as set out in the appendix to the Board's charter.
- Five Board meetings to be held each year instead of four previously.
- Earlier and more comprehensive information to be supplied to Directors in preparation for meetings. In addition, Directors will be able to obtain information directly from management, in particular through an annual meeting with the Executive Committee. In September 2003, Directors were for the first time invited to the Evian Executive Meeting, an annual event bringing together 160 top managers from the Group and its subsidiaries. Finally, an induction program has been set up to assist new Directors, who are invited to attend Board meetings at subsidiaries as a means of better understanding Group businesses.
- A portion of Directors' fees made dependent on actual attendance at meetings of the Board and Committees.

"The quality of corporate governance depends on the willingness of supervisory bodies to think of ways to contribute."

Board activities in 2003

The Board held five meetings in 2003, with attendance averaging 85%.

The Board approved annual and half-year financial statements and conducted regular reviews of the Group's financial position, treasury and commitments. Meetings featured detailed presentations of major acquisitions and divestments, among them the joint venture with Eden Springs for home and office delivery of water in jugs (HOD) in Europe, the joint venture with Suntory Limited in the same business line in the US, negotiations with Wimm Bill Dann in Russia, acquisition of Nestlé's business in Turkey, strategic transactions in Asia, and the sale of DANONE's interest in BSN Glasspack. The Board also considered issues including Board regulations, variable Directors' fees, the move to new headquarters and the Vigeo audit report. Finally, it examined the main risks to the business and crisis management procedures (1).

Audit Committee

The Audit Committee has three members including two independent Directors. Its Chairman, Jean Gandois, considers that it has a threefold mission "to ensure that DANONE's financial statements reflect underlying realities fully and accurately, to assess risks, and to verify the adequacy and proper implementation of internal control procedures."

The Committee met four times in 2003, with members all in attendance. At these meetings, it examined proposed consolidated annual and half-year financial statements before their presentation to the Board. One meeting was entirely devoted to the organization of the internal audit function and proposed outsourcing of certain activities to KPMG teams. It also discussed plans to ensure compliance with new French legislation (the so-called *Loi de sécurité financière* or Financial Security Act) and procedures for the adoption of International Financial Reporting Standards (2). It reviewed the Statutory Auditors' audit plan



Audit Committee

Jean Gandois*
Chairman

Richard Goblet d'Alviella*
Christian Laubie

Compensation Committee

Michel David-Weill
Chairman

Jean Gandois*
Jérôme Seydoux*

Appointments Advisory Committee

Michel David-Weill
Chairman

Benoît Potier*
Jérôme Seydoux*

*Independent director

for the examination of 2003 financial statements and related fees, at the same time approving audit-related fees and non-audit fees. Concerning the reappointment of the Statutory Auditors, whose term of office expires in 2004, the Committee decided to request proposals from four firms, with those selected to be presented to the Board on February 10, 2004.

Compensation Committee

The Compensation Committee has three members, including two independent Directors. At its annual meeting in February 2003, the Committee approved guidelines for the compensation of DANONE management, in particular concerning criteria for the allocation of bonuses and stock options. It also defined compensation to be paid to the Chairman & CEO and the Vice-Chairman on the basis of results and objectives, and contributed the definition of compensation for the Executive Vice President, Finance, Strategy and Information Systems, who is also a Board member. "Simplicity and transparency are fundamental to a good compensation system," notes Michel David-Weill, the Committee's Chairman.

Appointments Committee

Following the arrival of three new Directors in 2002, the Committee, made up of three members including two independent Directors, met once in 2003.

Its mission is to put proposals to the Board for the appointment of new Directors. As regards managers not on the Board, whose appointment is a matter for the Chairman and Chief Executive Officer, the Committee's tasks is to verify that decisions are properly based and fair in light of the criteria applied, and that promotions are not unduly delayed as a result of internal constraints.

The Committee was charged with the assessment of Board operation conducted at the end of 2002. ⊖

⊖ Statutory Auditors

DANONE financial statements are audited jointly by PricewaterhouseCoopers Audit and Mazars & Guérard. In 2003, fees for the audit of financial statements and due diligence procedures for acquisitions and divestments accounted for 87% of the total amount; paid to these two firms while the remaining 13% related mainly to tax. The statutory auditors' services are closely supervised by the Audit Committee.

Vigeo Audit

In 2003, the Board charged rating agency Vigeo with an audit, which involved some 50 interviews within the Group and 20 outside to assess standards in key areas of corporate governance. These included powers of the Board and of shareholders and the way they are exercised; the efficiency of supervision through Board Committees, internal control procedures, relationships with outside stakeholders, and relationships with supervisory and regulatory authorities. Vigeo rated DANONE 3 or 4 on these points, level 3 meaning that "the business assumes its obligations to the full, takes recommendations into due account and has a firm grasp of the issues", while level 4 means that "the business is actively committed, anticipating challenges ahead,

"The Board of Directors fulfils its role in directing and supervising the business (Vigeo*)." and contributes alongside others to the promotion of social and environmental responsibility within its sector and at national, regional and/or international level."

and contributes alongside others to the promotion of social and environmental responsibility within its sector and at national, regional and/or international level."

Management compensation policies

Management compensation was a hotly debated issue in a number of countries in 2003. The general principles DANONE applies in this area are simple and consistent. The same set of rules applies to the nine members of the Executive Committee, the 160 Vice Presidents in charge of subsidiaries and major corporate departments, and the

500 members of subsidiaries' management committees as regards compensation, including the relative weighting of variable and fixed portions and a common policy for allocation of stock options. For Executive Committee members, the variable portion may range from 40 to 60% of total cash compensation (3).

Compensation policies are designed to meet the demands of business efficiency and match standards for major companies in each market. In this, comparative studies of systems used by businesses of similar size and with similar market capitalization in France, other parts of Europe and in the US provide useful guidance.

Compensation paid to the nine members of the Executive Committee is subject to review by the Board's Compensation Committee (see interview with committee chairman Michel David-Weill this page) and in the case of the Executive Directors is subject to Board approval. In 2003 payments to the three Executive Directors who are also members of the Board of Directors were as follows:

Franck Riboud, Chairman and Chief Executive Officer: €2,493,960, showing a rise of 3.9% from the previous year. Of this, €990,920 represented the fixed portion, which has been unchanged since 2001, and the remaining €1,503,040 the variable amount for the year. This bonus is based on performance relative to objectives defined at the beginning of the year and relating to key indicators for financial markets such as organic growth, operating margin and earnings per share.

Jacques Vincent, Vice Chairman: €1,560,280, showing a rise of 4% from the previous years. This included a fixed amount of €760,000 and a variable amount of €800,280 for the year.

Emmanuel Faber, Executive Vice President, Finance, Strategy and Information Systems: €752,800, showing a rise of 5.2% from the previous year. This includes a fixed amount of €400,000 and a variable amount of €352,800 for the years.

DANONE has for several years had a stock-option plan to motivate selected managers contributing to business development. Options are allocated annually without a discount on the market price. In 2003, the Board allocated options for the purchase of a total 952,425 shares to 1,094 staff members. Full details are set out in the annual report (Form 20F) accessible on the DANONE website.

(1) Main risks identified by the Group are described in the Document de Référence filed with the French market supervisor COB.

(2) Under the EU regulation referred to as "IFRS 2005", companies listed in the European Union will be required to use International Financial Reporting Standards for consolidated financial statements from 2005 on.

(3) Fixed and variable remuneration

* Vigeo is an agency that rates and assesses corporate practices.



⊖ Michel David-Weill is Chairman of Lazard-LLC, Chairman and CEO of Lazard Frères Bank and Chairman of the Supervisory Board of Eurazeo. He is also on the boards of the New York Metropolitan Museum of Art and of the Institut de France (Académie des Beaux-Arts).

Questions to DANONE Director Michel David-Weill

PHOTO GRÉGOIRE KORGANOW - MÉTIS/IMAGES

→ Management compensation is attracting a lot of attention in France and other countries. What do you think of this debate?

→ How would you say management compensation policies at DANONE compare with those in other countries?

MICHEL DAVID-WEILL: I think it is fairly normal, especially last year when we were living out the aftermath of the Internet bubble. At the beginning of the current decade, businesses found themselves in competition with others offering abnormally high rewards. To recruit and retain management talent, they were forced to make higher and higher bids themselves. With the result that compensation in general tended to get out of hand—all the more as everybody wanted to be at the top in their category. And, of course, there is question of stock options, which are exercised long after they are allocated, at a time when the financial condition of the company may no longer be what it was. All of that adds up to good reasons for debate.

M D-W: I consider management compensation at DANONE reasonable, and the system applied is simpler and more transparent than elsewhere. There are three components: salary, bonus and stock options. In some companies I have dealt with, in particular in the US, things are so complicated that even a financial professional can find it difficult to understand how they work.

→ What is most important for a good compensation system?

M D-W: The rules should be clear and widely known, so that everyone can refer to them. And of course a good system must take performance into account—which is why there is a variable component. It must also be internationally competitive to recruit and retain the best talent.

Board of Directors

Directors are appointed for three-year renewable terms of office. Their average age is 58. Three directors are from outside France and eight are independent as defined by the Bouton Report, whose recommendations are being applied by stages to board members in office for more than 12 years.

Franck Riboud

- Born 1955
- Chairman and CEO, Groupe DANONE
- Shares held: 40,372
- Member of Supervisory Board, Accor, Eurazeo
- Director, Renault SA, L'Oréal SA, Quiksilver
- Total compensation in 2003: €2,493,960
- Stock options granted in 2003: 50,000 (exercise price €118.15)
- Options exercised in 2003: 20,000 (exercise price €77.98)

Jacques Vincent

- Born 1946
- Vice Chairman and Chief Operating Officer, Groupe DANONE
- Shares held: 8,000
- Chairman, DANONE Vitapole SAS
- Director, DANONE SA
- Total compensation in 2003: €1,560,280
- Stock options granted in 2003: 30,000 (exercise price €118.15)
- Options exercised in 2003: 30,000 (exercise price €77.98)

Emmanuel Faber

- Born in 1964
- Director
- Shares held: 3 000
- Member of Supervisory Board, Legris Industries
- Chairman and CEO, Blédina SA
- Director, Ryanair Holdings PLC
- Total compensation in 2003: €752,800
- Stock options granted in 2003: 30,000 (exercise price €118.15)
- Options exercised in 2003: 14,000 (exercise price €77.98)

Umberto Agnelli

- Born 1934
- Independent director
- Shares held: 1,000
- Member of Supervisory Board, Legris Industries
- Chairman, Giovanni Agnelli e C. Sapaz, IFI S.p.A.
- Member of Supervisory Board, Worms & Cie

Bruno Bonnell

- Born 1958
- Independent director
- Shares held: 1,000
- Chairman of the Board of Directors, Infogrammes Entertainment SA
- Chairman of the Board and Chief Executive Officer, Atari Inc
- Member of Supervisory Board, Eurazeo, Pathé

⊖ For more information, see the DANONE 2003 Reference Document.

Michel David-Weill

- Born 1932
- Director
- Shares held: 40,468
- Vice Chairman, General Partner, Maison Mazard SAS
- Chairman, Lazard LLC
- President of Supervisory Board, Eurazeo
- Member of Supervisory Board, Publicis Groupe

Jean Gandois

- Born 1930
- Independent director
- Shares held: 2,328
- Vice Chairman, Suez
- Member of Supervisory Board, Eurazeo
- Director, Institut Curie, Vigeo SAS

Richard Goblet d'Alviella

- Born 1948
- Independent director
- Shares held: 1,000
- Member of Supervisory Board and Statutory Committee, Eurazeo
- Director and member of Audit Committee, Suez-Tractebel
- Executive Director, Sofina SA

Christian Laubie

- Born 1938
- Director
- Shares held: 53,692
- Chairman and CEO, Alfabanque
- Member, Haut Conseil du Commissariat aux comptes

Hakan Mogren

- Born 1944
- Independent director
- Shares held: 1,000
- Vice Chairman, General Partner, Chairman, Affibody AB
- Vice Chairman and Chief Operating Officer, Astra Zeneca plc

Jacques-Alexandre Nahmias

- Born 1947
- Independent director
- Shares held: 1,384
- Chairman and CEO, Pétrofrance Chimie SA
- Director, DANONE SA

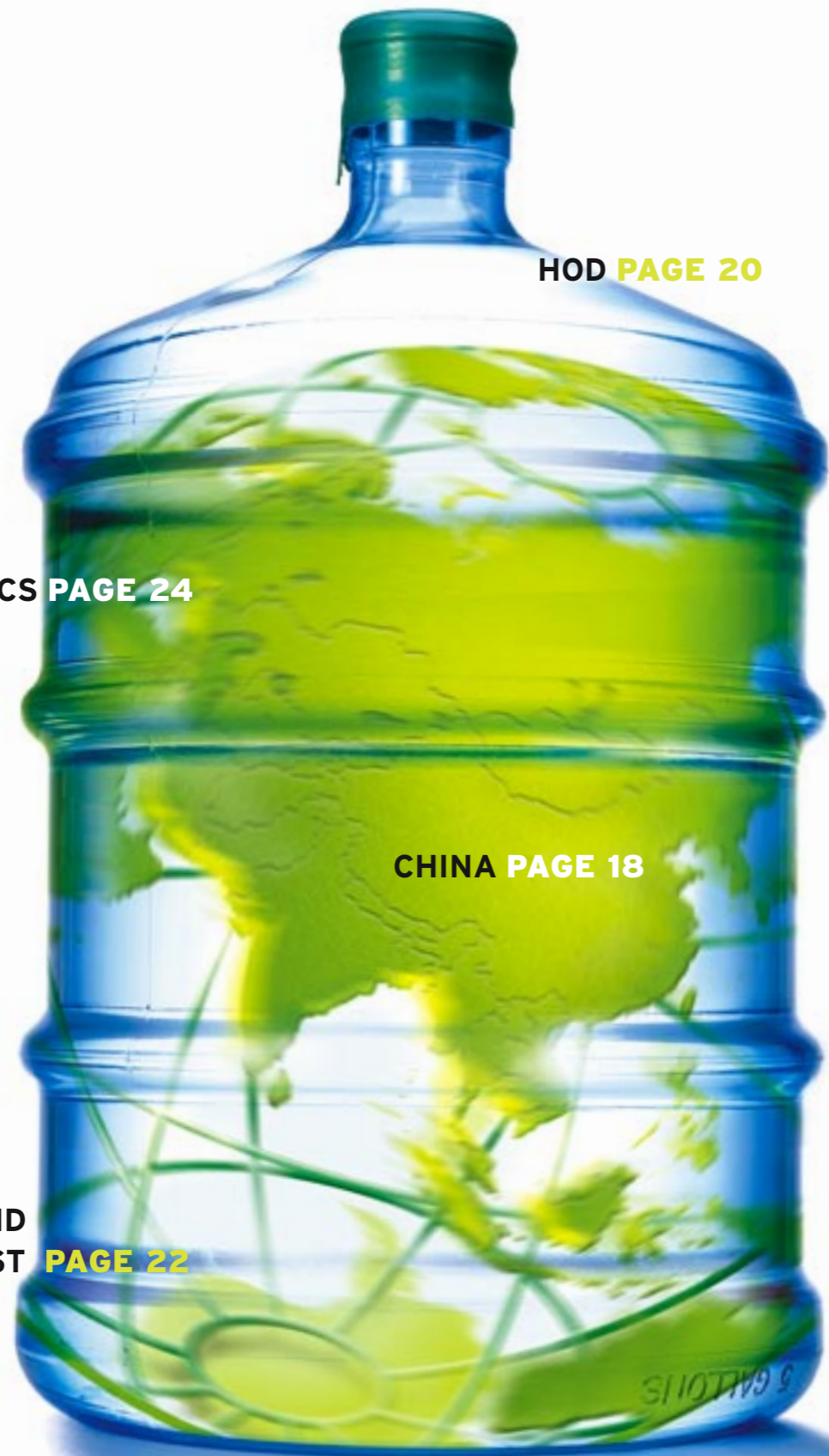
Benoît Potier

- Born 1957
- Independent director
- Shares held: 1,020
- Chairman of Management Board, Air Liquide SA
- Member of Supervisory Board, Michelin

Jérôme Seydoux

- Born 1934
- Independent director
- Shares held: 1,016
- Chairman, Pathé Distribution SAS, Pathé Renn Production SAS, Pathé SAS
- Executive Deputy Chairman, Chargeurs SA
- Member of Supervisory Board, Accor SA

⊖ Honorary directors:
Daniel Carasso, Honorary Chairman;
Yves Boël, Jean-Claude Haas.



HOD PAGE 20

PROBIOTICS PAGE 24

CHINA PAGE 18

NORTH AFRICA AND
THE MIDDLE EAST PAGE 22

Groupe Danone new frontiers

DANONE's new frontiers are not only geographic. While markets in China, North Africa and the Middle East hold promise for future growth, probiotics and HOD offer scope for expansion worldwide.

PHOTO GETTY-IMAGES

China

DANONE set out to conquer the Chinese market over 15 years ago. A look back.

PHOTOS STÉPHANIE TÊTU, GRÉGOIRE KORGANOW - MÉTIS/IMAGES, DANONE IMAGE BANK



Maidong is Beverage of the Year in China

In April 2003, Robust launched a new energy drink under the name Maidong in 13 Chinese cities. With 100 million liters sold in just eight months, Maidong can lay a claim to being the country's Beverage of the Year. Success was due to DANONE's ability to tailor a product that began as a New Zealand sports drink to the Chinese market, starting with positioning. In China, Maidong's vitamin content makes it a drink for

active, urban consumers. Bottle size was reduced from 800ml to 600ml for people on the move, and it was made slightly sweeter, in tune with Chinese tastes. Another factor in Maidong's success is its distribution through Robust's firmly established network in China's main cities. To reach young, trend-conscious consumers, the drink is also sold in universities and backed by local and national advertising campaigns.



Franck Riboud, adviser to the Mayor of Shanghai

In November 2003, DANONE Chairman and CEO Franck Riboud was named Vice-Chairman of IBLAC*, an advisory committee assisting the Mayor of Shanghai. Set up in 1989, IBLAC's brief is to favor the economic and cultural development of this city of 13 million people. Committee members are CEOs of major international companies with substantial operations in China, and the chairman for 2004 is CEO of General Motors. Franck Riboud's appointment as Vice-Chairman illustrates DANONE's clout in China: the group is clearly one of the leading Western companies in China.

* IBLAC: International Business Leaders' Advisory Council.



2003 key figures

€1,057 bn in sales

22,572 employees

China is DANONE's 3rd largest national market in sales, and 1st in terms of number of employees.

A photo taken in 1983 shows group founder Antoine Riboud on the Great Wall of China, offering a slightly bewildered Chinese youngster a spoonful of yogurt—a scene many thought incongruous. Yet twenty years on, nearly 23,000 of DANONE's 89,000 staff are Chinese and China is DANONE's third-largest market, with sales of over €1 billion. Proof that vision and determination pay.

DANONE's operations in China began in the late 1980s with a small and largely symbolic move into Guangzhou, one of the few cities open to foreign companies at the time. This came through a partnership with a regional dairy—a beachhead set up to observe local conditions and serve as base for expansion if opportunities arose.

The results convinced management that China was not yet ready for DANONE's fresh dairy products. Supplies of fresh milk and packaging were lacking, as was refrigeration for reliable production, transport and storage. Most important of all, consumers were simply not accustomed to drinking milk, much less eating yogurt.

But our 1991 acquisition of Amoy, a major Hong Kong producer of sauces and heat-and-serve dishes, helped us better understand the habits and preferences of Chinese consumers. And this information shaped our first major forays into the market. We focused on high-potential water and biscuit markets through majority stakes and outright acquisitions in beverages (Wahaha, Health and Robust), and two joint ventures in biscuits—one in Shanghai and the other in Jiangmen, near Guangzhou.

Today DANONE has leading brands in the Chinese water, dairy drink and biscuit markets, positions built up gradually through patient and unrelenting efforts. We spent several years learning the ropes, then in 1998 opted to concentrate on a limited number of segments with particularly promising potential. Initially, this meant focusing on some 30 cities, together accounting for 15% of China's population and 30% of its wealth. We also streamlined our brand and product portfolio, and launched products tailored specifically to the needs of Chinese consumers, particularly as regards nutrition.

Soda crackers, addressing the lack of calcium in local diets, enjoyed rapid success. Another example was Maidong, a vitamin-enriched energy drink that became a must-have product among young urban Chinese in just a few months.

Inside knowledge

DANONE's expansion in China is underpinned by in-depth knowledge of this very special market, which combines strong national features with stark contrasts: consumers in some regions have three times the purchasing power of those in others.

The gap is particularly wide between eastern and coastal China, where Beijing, Shanghai, Tianjin, Hangzhou, Guangzhou and other main cities are located, and the rural west. China as a whole, with a population of 1.3 billion, is nonetheless the world's largest food market in volume terms.

Given the size of the market and the country, we quickly realized that a firm grip on distribution was needed to take development to the next level—expanding into medium-sized cities and the rest of the country. While almost 80% of DANONE sales in the western world are made through hypermarkets, supermarkets and convenience

stores, these modern retail outlets make up only 20% of China's total retail network. Only in major cities in the east do they account for over half the market, and there are a staggering 4 million small outlets nationwide.

DANONE thus made extension of its distribution networks a priority in 2003. After an initial focus on eastern China, distribution of DANONE-brand biscuits was extended to the north, the country's second-largest region in terms of cereal-product consumption. The same strategy was applied to Robust brand products, now sold in all major cities—not just in the east—and produced by around 30 plants across the country. This approach rounds out that used for popular Wahaha, a water brand originating in Zhejiang province and now sold in over 2 million outlets through 10,000 distributors.

Wahaha sales have continued to grow in medium-sized cities and rural areas, giving DANONE in-depth market penetration across the country. The strategy has paid off, generating a sharp rise in DANONE sales in China, up over 10% full year despite the SARS epidemic.

Peng Qin, Chairman, DANONE China: "Almost all of our production in China is for local consumption, not export."



☹
In Europe, 98% of all water fountains are in offices, with home markets still untapped.



HOD

another side to bottled water

PHOTOS GRÉGOIRE KORGANOW - MÉTIS/IMAGES, DANONE IMAGE BANK

Previously confined to only a few countries, home and office delivery (HOD) of water in 15 to 20-liter jugs is now becoming a global business. In the space of a few years, DANONE has taken the number-one position on this worldwide market, expanding a presence that already reaches from Buenos Aires to Jakarta and from Montreal to Stockholm. We are now ready to take advantage of new opportunities.

DANONE's first steps in home and office deliveries date back to 1994 when we acquired Canada's Aquaterra. Our aim was to test the concept and better identify the structure of a business very different from the production and sale of water in small bottles. While there are clearly similarities—the object in both cases is to bottle and sell quality water—the

marketing, logistics, sales and finances are very different. Convinced of the potential, DANONE went on to consolidate its position in the sector, which remained fragmented and dominated by small, independent firms. Among our first moves was the acquisition of McKesson Water, an American company with top positions on the US west coast, followed by operations in Mexico—the world's largest water market by volume—and in Argentina.

These were associated with acquisitions in Asia that included Robust and other leading brands in China as well as Indonesia's Aqua, the world's biggest water business by volume with sales reaching three billion liters a year.

Europe came later with the acquisition of France's Château d'eau, followed by a joint venture with Eden Springs of Eden placing DANONE in second place Europe-wide.

The new entity, named DANONE Springs of Eden, is present in 18 countries and enjoys the top place on eleven high-growth markets including France, Spain, Switzerland, Finland, Norway and Sweden, as well as strong positions on others including Germany, the UK, Italy, and Poland. The latest development to date came at the end of 2003 when DANONE joined forces with the Suntory Water Group in the US to set up a joint venture posting the highest sales revenues of any HOD business in the world.



Mexico—the 19-liter standard

With a population of 100 million and per-capita consumption reaching 130 liters a year, Mexico offers extraordinary promise for bottled water. The market has been growing at an annual rate of 6% since the end of the 1990s, with demand driven by a general distrust of tap water. Highly fragmented, the sector counts around 3,000 local producers in addition to all major international contenders.

A good 90% of sales are in 19-liter *garrafones* with a refundable deposit. Three distribution networks co-exist, with home deliveries accounting for 52% of sales, office deliveries for 10% and resale for 38%.



DANONE first entered the market in 2001 through a partnership with Pureza Aga, a company present in 16 cities, later moving on to consolidate positions through acquisitions in main centers including Monterrey, Puebla and Tijuana. In 2003, business moved up a gear with the launch of containers under the Bonafont brand—already used for DANONE's sales in small bottles and particularly well placed in Mexico City, Monterrey and Toluca. With annual sales close to 2 billion liters, our group now ranks second on the Mexican home and office delivery market.

This is in keeping with a growth strategy founded on local partnerships in HOD. In Indonesia, we remained a minority shareholder of Aqua for several years before taking control, and business has developed in similar ways in Mexico, Europe and the US. By opting for joint ventures, DANONE has been able to reach critical mass while at the same time limiting cash outlays and leaving alternatives open for the future.

Now present worldwide, DANONE is well aware that home and office delivery is a far from homogeneous market. Business models and logistics in Beijing are not at all the same as in San Francisco.



☹
Storage, transport and delivery—logistics hold the key to successful HOD.

Thus in China, where the group has eleven factories and three brands—Aquarius in the Shanghai area, Robust in Guangzhou and other main cities, and Health in the south of the country—deliveries from franchised local stores are made by bicycle rickshaw. Ideally suited to sprawling towns with heavy traffic, this method is naturally in contrast with those applied in California, where hundreds of trucks ply the road, with on-board computers calculating and adjusting delivery schedules on the basis of orders placed through a call center. In other countries, deliveries as such hardly exist, since many customers come to pick up water jugs themselves.

Growth potential also varies significantly from one country to the next. The US, for example, is a mature market expanding at a moderate rate of 3 to 5% a year, although margins are healthy, whereas in other parts of the world sales are rising at a swift pace. This is in particular true of Europe, where growth is expected to be in double digits in many markets over the period from 2001 to 2006.

Following a period of acquisitions and expansion, DANONE now aims to make the most of its new size, at the same time learning from the many different situations in the business and identifying the practices most worth general application. In this, our group will be working towards its central aim, which is to realize the full potential for growth and earnings in home and office deliveries.



World market for HOD

15%
of annual growth

32%
of total bottled water sales worldwide and 50% in developing countries

2%
of coolers are installed in homes in Europe, compared with 50% in the US

DANONE is No.1
in the US, Indonesia, Turkey, Argentina, Canada and China

DANONE is No.2
in Europe and, since this year, in Mexico



North Africa and the Middle East



⌚ In Algeria as in most of the region, the bulk of sales are made through traditional family shops.

the rewards of partnership

PHOTOS DALIA BENAÏS, GRÉGOIRE KORGANOW - MÉTIS/IMAGES

Markets from Morocco to Turkey, and from Saudi Arabia to Greece and Israel make North Africa and the Middle East a promising base for a new stage in DANONE's growth. In this region, business development is almost entirely through partnerships with local businesses.

DANONE has steadily built up a network of partnerships with leading local businesses, many of them family-owned, around the Mediterranean and beyond. They include ONA in Morocco, the Djurdjura dairy in Algeria, Stial and Sotubi in Tunisia, Al Faisaliah in Saudi Arabia, Rachid in Egypt,

Strauss in Israel, and Delta and Papadopoulos in Greece. As a majority owner or simply the leading shareholder, DANONE considers such partnerships the most effective way to win a place for its brands on these markets, since local operators enjoy unrivaled familiarity with national markets and business conditions, high credibility and distribution networks already in place. In addition, top managers are wholly committed, in many cases because they themselves are shareholders. For its part, DANONE contributes high-profile brands, production and marketing expertise, and the support of its international network. Getting the full benefit of this potentially ideal combination nonetheless calls for a special kind of know-how.

As Flemming Morgan, head of Fresh Dairy Products for the region explains, "Many international businesses prefer to start from scratch, or take complete control of the businesses they buy into so they have free hand. But at DANONE we feel perfectly comfortable with our partners. We know that success hinges on mutual respect and willingness to listen. That demands personal commitment and flexibility, but it also helps us to act quickly and effectively."

Fitting in

The success of DANONE and its partners on these markets is based on products perfectly suited to local needs.



Algeria

DANONE Djurdjura, set up jointly with Algeria's Djurdjura, put in a robust performance in 2003, capturing 40% of the market with sales volumes up over 50%. This rewarded its fresh approach to distribution.

Traditional outlets—including 50,000 small shops equipped with refrigerated cases and 900 wholesalers—account for 98% of DANONE sales in Algeria. Which explains why understanding these clients' needs and consolidating loyalty were priorities in 2003. DANONE Djurdjura opted for direct communications, launching a quarterly newsletter and sweepstakes drawings based on reply coupons to

build up a database of nearly 13,000 retailers. A merchandising department was also set up and sales managers hired to reinforce ties to this all-important client base. "But wholesalers are also important," notes Nader Bassit, head of sales and marketing at DANONE Djurdjura. "And in 2003 we launched HI FI, Algeria's first customer-loyalty program, offering discounts to our best customers."

To raise its profile with consumers, the company has offered to paint wholesalers' trucks in DANONE colors for free. Initiatives have clearly paid off: already 560 out of 900 wholesalers work with DANONE Djurdjura.

Nader Bassit, head of sales & marketing at DANONE Djurdjura



Some are developed especially for one country, as was the case for Moufid budget yogurts in Morocco. Others are variations on international offerings such as Activia bifidus yogurts or Danao, a blend of milk and fruit juices. Danao was introduced on the Saudi Arabian market unchanged. But the concept was completely overhauled to match local conditions for its launch in Morocco, where the redesigned product, named Assiri, is sold in single-serve pouches instead of cartons and has quickly become a market favorite. To stay attuned to local habits and adapt to different tastes, DANONE also develops variations on existing products and even entirely new recipes, such as pistachio-flavored Danette dessert cream available only in Tunisia.

Production is always local to allow affordable prices, with factories nonetheless meeting our Group's international standards. This naturally entails large capital outlays, the case for two major projects in 2003. One was the construction of a new factory in Saudi Arabia, the largest of its kind in the Groupe, with annual capacity for the production of yogurt, milk and leben reaching 250,000 tonnes. The other was the startup of a biscuit factory in Egypt, also to supply local markets (more on page 46).

Serving sales outlets by the hundreds of thousands

Efficient links to distribution networks also make a critical contribution to DANONE's success in the region, where

large stores are the exception and the ability to make several deliveries a week to the small traditional shops that are the rule represents a decisive competitive advantage. Serving thousands and thousands of kiosks, stalls and small grocery stores to ensure the visibility of products and proper storage, employees of DANONE and its partners have developed a special kind of merchandising expertise that has clearly demonstrated its worth. Today, sales in the region top €1 billion and are growing at double-digit rates, with DANONE brands firmly in place and leaders on their markets in most cases. Which adds up to an ideal start to make the most of surging consumer demand driven by population growth and steady rises in income.

⌚ A key to success is mastering local distribution, says Flemming Morgan, head of Fresh Dairy Products for the region.



Probiotics, the food of the future

PHOTOS STÉPHANIE TÊTU - MÉTIS/IMAGES, DANONE IMAGE BANK

Some 25 centuries ago, Hippocrates made diet the first pillar of health—a view very much in tune with today’s concerns. And new interest in so-called functional foods and nutraceuticals that combine natural compounds with foods for added health benefits have favored the rediscovery of probiotics, a key part of many traditional diets. This is a main focus of research at DANONE, the world leader for probiotic dairy products.

In many countries, lactic cultures have long been considered a source of significant health benefits. But it was not until 1907 that Elie Metchnikoff, a Russian scientist working at the Pasteur Institute and later a Nobel-prize winner, was able to demonstrate these benefits scientifically. This led to the development of the concept of probiotics, or “substances favoring life”. Neglected for a time, Metchnikoff’s discoveries have in recent years been backed up with a large volume of research to identify and assess the effects of lactic cultures.

Yogurt—where probiotics began

The term probiotics refers to yeast and other living micro-organisms that benefit health when eaten in sufficient quantities. They do this in particular by reinforcing intestinal flora, easing digestion and favoring healthy functioning of the digestive tract. Millions of people over many centuries have unknowingly been taking probiotics every time they eat yogurt. Containing two species of healthy lactic bacteria, *Streptococcus thermophilus* and *Lactobacillus bulgaricus*, yogurt is both the oldest form of probiotic food and the most widely favored ahead of kefir, which combines lactic bacteria and yeasts.

The commercial development of yogurt has since led to the identification of many other cultures with probiotic effects. This is an essential component of the know-how of DANONE Vitapole, the Groupe’s research center based outside Paris. The center houses a team of nearly a hundred scientists and research engineers dedicated to the identification of bacteria and related health benefits—without neglecting the questions of taste and texture essential to consumer appeal.

Research expertise at DANONE

Over the past 85 years, DANONE has built up an unrivaled collection of more than three thousand strains. These represent not only an extraordinary scientific resource, but also a key competitive advantage.

To preserve this unique heritage, storage is naturally subject to stringent rules. As Jean-Michel Antoine, a probiotics specialist



at DANONE Vitapole, explains: “To qualify for the probiotic label, our cultures have to preserve their properties unchanged throughout the life of the product. And DANONE only selects

cultures that meet the strictest criteria in terms of safety, stability and health benefits, associated with an ability to survive in the digestive tract. The vitality of the strains throughout product life is fundamental to quality in probiotics.”

Working in close partnership with the scientific community and leading institutions such as INSERM, INRA and the Pasteur Institute in France, as well as the University of California, Harvard Medical School, the Beijing Center for Disease Control, and Munich University in other countries, DANONE research teams put their collection of cultures to good use in clinical studies and observations conducted over periods as long as five or ten years. These help to identify new probiotics with potential for product development.

To take one important example, *Lactobacillus casei* DN-114 001, used in the production of Actimel, was selected not only for its taste properties but—even more—for its capacity to interact with the intestinal tract and reinforce its all-important role as the body’s first line of defense. No fewer than 15 scientific studies now corroborate benefits that include balanced intestinal flora, the vitality of mucous tissues and efficient operation of the immune system. Another example is the *Bifidobacterium animalis* DN-173 010 strain used in the DANONE Bio range—sold under the Activia name in some countries. This offers special benefits in terms of intestinal transit, borne out by eight scientific studies.

Probiotics will be an important part of health and nutrition in the years ahead, all the more as they are perfectly attuned to the tastes of increasingly well-informed consumers who want food that not only tastes good but also offers nutritional quality, helping them to live longer, healthier and fitter lives. For Sven Thormahlen, DANONE’s head of research, “We are only just beginning to understand probiotics. Work now in progress provides evidence of beneficial effects on some types of infection and points to an enormous range of potential applications.”

Probiotics are living micro-organisms, strains often mixed in cultures, that can benefit human health. Today some 100 scientists and engineers are hard at work at the Groupe research center, DANONE Vitapole, expanding our knowledge of how they can best be harnessed.



Isaac and Daniel Carasso Pioneers in probiotics

Isaac Carasso, founder of the DANONE brand, began making yogurts in Barcelona in 1919. He took his cue from the work of Nobel-prize winning biologist Elie Metchnikoff, which sugges-

ted his products could help with the intestinal disorders then so frequent among local children. DANONE yogurts, distributed through pharmacies with the support of the Spanish medical profession, rapidly became a standard setter.

After completing his studies at the Marseilles Higher School of Business Studies, Isaac’s son Daniel Carasso did an internship in bacteriology at the Pasteur Institute, following it up with another at an Austrian laboratory specialized in lactic cultures.

With his newly acquired scientific knowledge, he went on to found the Paris-based DANONE yogurt company in 1929. DANONE rapidly formed close ties to the medical profession, interested by its focus on bacteriology and medical benefits. Yet in contrast to his father Isaac, who had promoted yogurt as a health product sold through pharmacies, Daniel Carasso took a new tack. He highlighted taste appeal in advertisements labeling yogurt “the dessert for trouble-free digestion.”



FRESH DAIRY
 PRODUCTS
 BEVERAGES
 BISCUITS &
 CEREAL PRODUCTS
 ASIA PACIFIC



With sales up nearly 10%, and operating margin of 13.7% and 15.1%, respectively, the Fresh Dairy Products and Beverages divisions drove growth in 2003. In contrast, it was a mixed year for the Biscuits division. Asia-Pacific proved our fastest-growing and most profitable region.

DANONE PHOTO-TECH

Financial indicators— all signs are good

Organic growth averaging 6.2% over the past five years

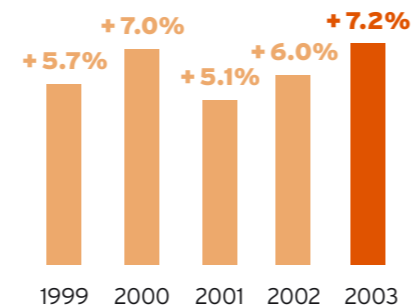
Organic sales growth of 7.2%

Consolidated sales came to €13.131 billion in 2003, down 3.1% on €13.555 billion in 2002. Changes in the scope of consolidation—principally the disposal of US domestic bottled waters business and Galbani—alone cut revenues by 3.6%. Exchange rate movements also had an adverse impact, with falls in the US dollar, Chinese yuan, Mexican peso, Brazilian real and UK pound accounting for another 6.7%.

At constant structure and exchange rates, sales rose by 7.2%, the strongest growth DANONE has experienced in the last ten years. Sales growth was particularly robust in Fresh Dairy Products (+9.6%*) and Beverages (+9.9%*), while Biscuit sales were flat (+0.4%*). In geographical terms, growth remained moderate in Europe (+5.4%*), but was vigorous in Asia (+10.4%*) and the rest of the world (+10.9%*).

* at constant structure and exchange rates

Organic growth in sales (at comparable scope)

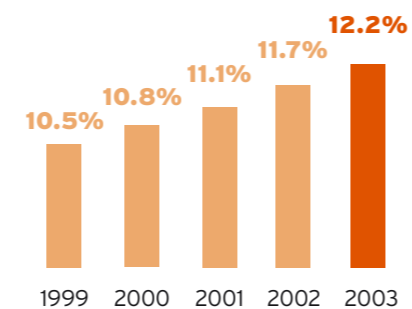


Steady growth in operating margin

Further rise in operating margin to 12.2%

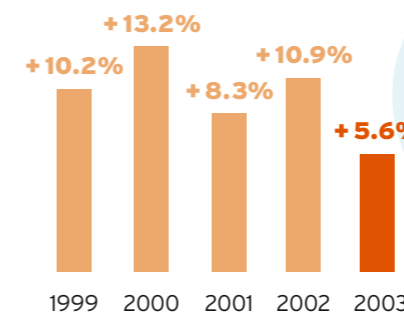
Operating profit reached €1.604 billion, up from €1.590 billion in 2002. It thus increased for the ninth consecutive year, rising by 48 basis points to 12.2%. Changes in the scope of consolidation—mainly the sale of Galbani and bottled waters business in the US—accounted for 21 basis points of this increase. The remaining 27 were due to operational improvements. Operating margin rose in all regions, from 13.5% to 14.0% in Europe, from 13.3% to 14.3% in Asia and from 6.6% to 8.5% in the rest of the world.

Operating margin



EPS growth

EPS: earnings per share, fully diluted, excluding exceptional one-time items.



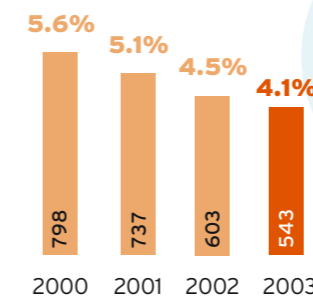
Earnings per share up 5.6%*

Net profit totaled €839 million, down from €1.283 billion in 2002, reflecting a net exceptional gain of €455 million in the 2002 figure. Stripping out exceptionals, net profit was up 1.3% in 2003. Earnings per share* stood at €6.45, an increase of 5.6%. The adverse impact of currency translation was partially offset by share buybacks representing 3.2 million shares at a cost of €368 million in 2003.

* excluding exceptional items

Capital investment

€ millions as% of Group sales

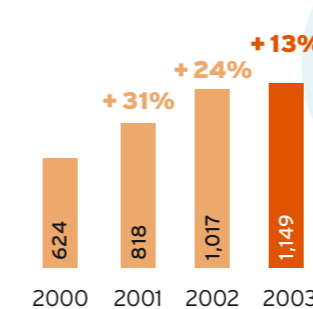


Sound financial position

Net debt rose from €2.269 billion at December 31, 2002 to €2.692 billion a year later for a net debt/equity ratio of 49%, down from 72% at year-end 2001. Capital expenditure amounted to €543 million, equal to 4.1% of sales versus 4.5% in 2002 and 5.1% in 2001. DANONE's aim is to achieve a structural reduction in the ratio of capital expenditure to sales, and the fall in 2003 resulted from a tight grip on investment projects.

Rise in free cash flow*

€ millions * excluding impact of securitization



Further improvement in free cash flow

Free cash flow continued to rise in 2003, reaching €1.149 billion or 13% more than in 2002. This was due to a reduction in both working capital requirement and capital expenditure. Free cash flow is a key performance indicator for both DANONE and its subsidiaries, and efforts to enhance it have been rewarded with a near-doubling (+84%) in the last three years.

Continued rise in return on invested capital

Return on invested capital, or ROIC, maintained its steady progress to stand at 12.7% in 2003 versus 11.8% in 2002 and 9.3% in 2001.

€ millions	1999	2000	2001	2002	2003
Sales	5,981	6,530	6,928	6,276	6,185
Growth (like for like)*	+5.4%	+6.7%	+6.8%	+9.4%	+9.6%
Operating income	655	712	790	802	845
Operating margin	11.0%	10.9%	11.4%	12.8%	13.7%
Cash flow from operations	615	667	742	746	756
Depreciation & amortization	233	259	293	233	193
% of sales	3.9%	4.0%	4.2%	3.7%	3.1%
Capital expenditure	312	308	286	200	195
% of sales	5.2%	4.7%	4.1%	3.2%	3.1%
Employees	22,023	23,692	24,129	20,126	21,266

*at constant structure and exchange rates



WORLDWIDE CONCEPTS, LOCAL PRODUCTS

DANONE IMAGE BANK



Fresh Dairy Products:

Unrivalled expertise and undisputed leadership

Fresh Dairy Products reported strong growth once again in 2003. The division continued its drive to dominate the world market through strong brands, universal association with healthy eating, international roll-out skills and local strategy.

PHOTOS YURI ABRAMOCHKIN/GAMMA, DANONE IMAGE BANK

In 2003, business remained buoyant in Fresh Dairy Products, with sales up 9.6% or 10.1% excluding infant foods. Since the global market grew by around 4%, DANONE's market share increased as well. The business line accounted for a full 47% of group sales, confirming the strength of our business model by maintaining growth regardless of geographical region, economic environment and competition.

Both mature and emerging markets buoyant
In Europe, Fresh Dairy Products achieved organic sales growth of 8% full year. Growth was driven equally by

Annual per capita consumption in kg (1 kg=2.2 lbs)

- 22.8 in Western Europe
- 8.8 in Eastern Europe
- 5.1 in North America
- 3.8 in Latin America
- 1.3 in Asia-Pacific
- 4.7 in Africa/Middle East
- 4.2 worldwide

Deployed in 18 countries, the Activia concept is based on fermented milk with active bifidus culture. In 2003, sales rose by around 30%.



2003 Highlights

Display cases raise profile
To increase the visibility of drinkable yogurt, especially Actimel, DANONE expanded its network of refrigerated display cases at point of sale to 30,000 worldwide.

New markets for Activia
Sales of Activia (sold as Bio in France) soared to around €500 million in 2003. It is now present in 18 countries.

DANONE-Stoneyfield Farm: a winning combination
DANONE raised its stake in Stoneyfield Farm—a partner of choice and number one in the US natural and organic market—to 80%.

Sales by region



Sales by segment



strong start in Saudi Arabia, where the general concept of bifidus dairy products was adapted to local tastes with success. Recipes were altered to include the region's traditional fermented milk and the media campaign adjusted to reflect the country's cultural values. Activia was also launched successfully in Mexico—again tailored to the local market—and in the Netherlands, now one of the world's most mature markets for fresh dairy products. The same strategy paid off handsomely in drinkable yogurts, launched in Belgium, Saudi Arabia, Germany, Argentina and Central Europe in versions tailored to local conditions. In each case, products made a substantial contribution to sales growth.

The Spanish launch of Danao is another example of successful localization. Made of milk and fruit juice, the product line was expanded with the introduction of new packages designed especially for the Spanish market. It was also positioned as a breakfast product and aimed at children.

DANONE uses “acceleration units” to identify best practice, formulate it clearly and distribute it globally. These teams play a major role in the rapid and successful roll-out of leading products in local markets. Each unit is responsible for promoting and developing a particular concept, an approach that ensures concepts

Petit Gervais aux Fruits
Petit Gervais aux Fruits (PGF)—a *fromage frais* product aimed at children—has been on the market for over 30 years in five major countries and is now our most international range. Sold in 35 countries, it generates sales of over €750 million through a strategy based on tailoring products to regional habits and markets. This approach has already enabled DANONE to move into infant food markets throughout Eastern Europe and North Africa. In countries where PGF has recently been launched—Argentina, the USA, Russia and Turkey, for example—growth has been spectacular. In each case, a strategy of constant innovation and full localization has proven its worth. And while PGF products carry different names in many markets—Danonino, Danimals, Petit Gervais, etc.—they share the same positioning (*fromage frais*-style products that help children grow). All are promoted by the same cartoon character, a mischievous little dinosaur.



We achieved profitable growth on all markets, with operating margin reaching 13.7%.

Adapting global concepts to local markets

Strong growth in the Fresh Dairy Products business line has a lot to do with our ability to roll out and adapt global concepts very rapidly across a large number of countries. Concepts playing a major role as growth drivers are low-fat products under the Taillefine, Vitalinea and Ser brands; bifidus-based products under the Bio and Activia brands; Actimel products; and *fromage frais*-style products for children (Petits Gervais aux Fruits and Danonino).

In 2003, this strategy's potential was borne out by successful product launches. Activia got off to a very

mature Western European markets and emerging markets in Central and Eastern Europe. The business line maintained and extended its lead in traditional markets, with market share steady at its record high in France, 8% sales growth in Spain and double-digit growth in Germany, Portugal, Italy, Belgium, the UK and Ireland. In Central Europe, growth accelerated in the second half. Key contributing factors were recovery in Poland on the back of product revamps and new advertising campaigns, and a very solid performance in Russia, where growth exceeded 20%.

Momentum in North America remained strong, driven by very rapid growth in Canada and a firm performance in the USA where, despite a market slowdown in the second half, we confirmed our position as joint leader. The trend was similar in Latin America. DANONE performed very well in Mexico and also Argentina, where the group's local Serenissima brand generated rapid volume growth. Africa and the Middle East also did well, with firm growth in South Africa and spectacular gains in North Africa and the Middle East. Although DANONE does not yet consolidate sales from the latter two regions, they are an increasingly important outlet and source of growth for the DANONE brand.

Last but not least, in all geographical regions, rising sales were accompanied by higher profitability. Operating margin came in at 13.7%, up 1 point relative to 2002.

Velouté Fruix—a new yogurt product with mixed fruit that has been adopted enthusiastically by families with youngsters in nine countries.



Probiotic Actimel has driven growth in all countries where it is sold, with sales up around 30% in 2003.



① Danao, a mixture of milk and fruit juice, achieved sales growth of over 20%. Success reflects the successful launch of a smaller carton in Spain, and the consolidation of market positions in France and Saudi Arabia.

② Special edition: yogurt sold in traditional stoneware jars celebrates the 1919 birth of DANONE yogurt in Barcelona.



③ are rolled out rapidly and consistently. It also gives local subsidiaries considerable operational autonomy, recognizing that teams operating at grass-roots level must have the freedom to adjust concepts to their own market. Given wide variations in taste, a precise understanding of each country's special features is needed when launching a new product.

Local focus spurs growth

"We want the DANONE brand to be present everywhere, in all sales outlets and situations," explains Bernard Hours, Executive Vice-President of the Fresh Dairy Products

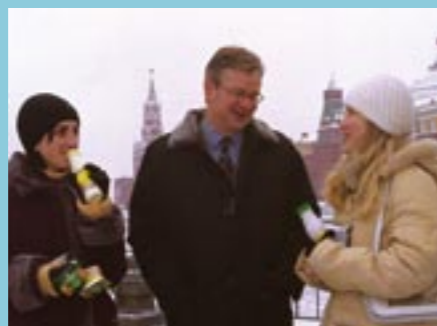
business line. "It may seem obvious, but this is a real challenge for products that must be kept refrigerated in transit and storage, and monitored extremely closely."

Developing a policy for distributing products to small retailers was one of the business line's main priorities in 2003. This included introducing new systems for optimizing delivery routes and installing compact refrigerated display cases in thousands of shops. Which gave the business another resource in its drive to cash in on huge growth potential in fresh dairy products—still underdeveloped in many regions of the world.

Potential in Russia

Present in Russia for 10 years, the DANONE brand is now well-known to local consumers. A population of 150 million with increasing purchasing power make this a promising market in which DANONE is making rapid gains. For Jim Dwyer, Executive Vice-President of DANONE Russia, "The double-digit growth seen in the last few years is the result of three factors: a focus on value-added brands, ambitious training programs,

and better understanding of Russian consumers." Brands like Activia and Actimel, for example, have been successfully tailored to the local market. As a result, says Dwyer, "sales of both brands have doubled in the past 18 months, and are likely to double again in the next two years." In 2003, sales volumes rose by 25%.



④ In 1992 DANONE entered the Russian market by opening a shop near Red Square. Today the company, managed by Jim Dwyer, has made the DANONE brand familiar to Russian consumers.

- ➔ **No.1** in North Africa and the Middle East
- No.1** in Argentina
- No.1** in the Benelux
- No.1** in Canada
- No.1** in Spain and the Canary Islands
- No.1** in Eastern Europe
- No.1** in France
- No.1** in Italy
- No.1** in Mexico
- No.1** in Turkey
- No.2** in the US

Based on volumes sold (yogurts and assimilated products)

€ millions	1999	2000	2001	2002	2003
Sales	3,565	4,141	3,796	3,691	3,557
Growth (like for like)*	+9.4%	+8.4%	+7.1%	+4.3%	+9.9%
Operating income	440	513	432	464	537
Operating margin	12.3%	12.4%	11.4%	12.6%	15.1%
Cash flow from operations	533	537	519	556	583
Depreciation & amortization	302	302	276	269	234
% of sales	85%	7.3%	7.3%	7.3%	6.6%
Capital expenditure	247	395	321	236	208
% of sales	6.9%	9.5%	8.5%	6.4%	5.8%
Employees	23,031	31,042	42,556	40,124	39,126

* at constant structure and exchange rates

ON THE BEAT: HOW DO YOU QUENCH YOUR THIRST?

PHOTOS STÉPHANIE TÉTU - MÉTIS/IMAGES

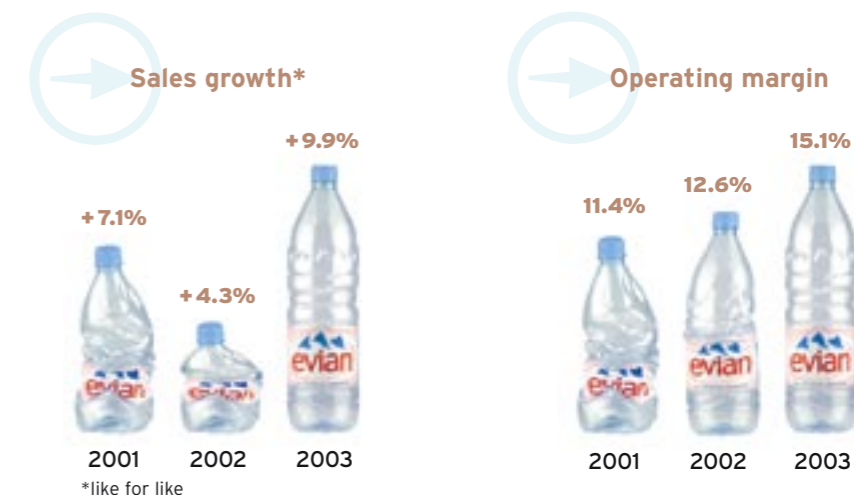
"I like to eat and drink, but I don't go overboard. I'm a bit of a fashion victim and very careful about my figure, so I try to stick to basic good habits. My personal formula? A good night's sleep and lots of water. I've always have a bottle of water with me—at the studio or on location—and I drink a big glass of water every morning when I wake up. It lets me indulge in my mom's tiramisu every now and then."

SANDRINE, 34,
PHOTOGRAPHER, ITALY



HIROYUKI, 19,
HIGH SCHOOL STUDENT, JAPAN

"After school, I never know where I'll end up. I like sports, but I also spend a lot of time just hanging out with my friends. In the old days, vending machines were stocked mainly with soft drinks. But now you can get water—and French water at that. Very classy!"



Beverages: new consumer markets

Organic growth was buoyant at nearly 10% in 2003, driven by very strong regional positions (No.1 in Asia, No.1 in Latin America and No.2 in Western Europe). Equally important were powerful brands—DANONE now owns three of the world's top five in bottled water—and expansion into new consumer markets.

PHOTOS DALIA BENAÏS, GRÉGOIRE KORGANOW - MÉTIS/IMAGES, DANONE IMAGE BANK

In 2003, beverages accounted for 27% of group revenues and generated very strong growth, with sales up 9.9% at constant structure and exchange rates. Gains were all the more striking in that growth was relatively even across all regions and continents, with the summer heatwave in Western Europe a contributing factor but not decisive. True, exceptionally hot weather gave sales a lift in main European markets—in France, Spain, the UK and Germany, this amounted to several tens of millions of liters over the summer months. But this had no major impact on full-year performance, not least because other events had the opposite effect. These included a cool summer in the USA and Japan and—most



FRANÇOISE, 60,
RETIRED, FRANCE

"Until just a few years ago, I wasn't very careful about food. But times have changed—expectations, too—and I've become quite fussy about the quality of what we eat and drink at home. And I'm the one who does the shopping, now that I'm retired."

→ What impact did last summer's European heatwave have on sales?

DOMINIQUE LEVACHER: In the four months from June to September 2003, we sold several tens of millions of liters more than in the same period of 2002. Which may sound like great news, but that kind

of sudden surge in demand is actually very hard to manage. Inventories became an issue as early as June, but we still kept service quality higher than our rivals.

→ Quite a feat—how did you manage?

PASCAL RIGAUD: In such exceptional circumstances, data on customer inventory levels and tight order management are crucial. With some big customers, joint procurement management systems gave us the information we needed. Organization was another plus, since we maintain permanent contact between customer

service and sales teams. This is particularly important when things get tough, and we held daily meetings to monitor developments throughout the heatwave. And it paid off: we maintained market share, despite the fact that many consumers traditionally switch to budget water brands in the summer.

→ Flexibility is also essential...

DL: Yes, you have to be prepared to review your procedures. For example, we stepped up direct deliveries to selected hypermarkets over the summer. We also postponed some projects to prioritize issues arising from the heatwave. Finally, we took

"Faced with a heat wave, we reacted by adapting our practices."

pre-emptive action in the supply chain, building up buffer stocks for customers and securing supplies of raw materials and packaging to cope with higher production levels.

Interview Dominique Levacher and Pascal Rigaud



Dominique Levacher,
Operations Director and
Pascal Rigaud, Sales Director,
DANONE Eaux France ☺

2003 Highlights

DANONE shakes up the Japanese water market

At the end of 2002, DANONE entered into a joint venture with the Mitsubishi Group and its subsidiary Kirin, the No.3 soft drink in Japan, yet barely present in the water market. One year later, Kirin's bottling factory was completely modernised and local water brand Alkali Ion was successfully re-launched. As for Volvic, Japan's No.1 imported brand, sales are raising fast.

Flavored water

represented 6% of division sales in 2003.

Winning innovations

2003 saw new products including Ser Lime Limon, now the No.2 lime soft drink in Argentina, and Evian's new Renaissance bottle, created in 9 months and a big hit with distributors.



Europe **43%**
Asia-Pacific **38%**
Rest of World **19%**



Still water **52%**
Sparkling water **9.5%**
Water in jugs **9.5%**
Other **29%**

Sales growth was accompanied by a marked rise in our profit margin.

☺ importantly—the SARS epidemic in Asia, which cut sharply into bottled water sales in China for several months.

Robust pace in Europe, Asia and Latin America

Regions where DANONE has traditionally been strong all contributed to growth. Sales in Europe rose 11%, driven by the key French, Spanish and UK markets, each reporting double-digit gains. DANONE's share of the water market continued to increase in Spain and the UK, and held steady in France even as main rivals were losing ground. Italian subsidiary Italaquae and Zywiec Zdroj in Poland both managed a slight increase in sales despite continued fierce competition, while growth in Germany was hit by new PET deposit bottles.

Despite the SARS outbreak, sales were vigorous in Asia (1), with organic growth of over 10%. This was due in particular to a steep 13% rise in sales in China, together with a strong showing by Frucor, market leader in New Zealand for energy drinks and fruit juice. Growth in Japan was hampered by the lackluster summer, although the joint venture set up with Kirin Beverage Corporation in 2002 is already starting to pay off. Volvic, Japan's leading imported water, was relaunched through Kirin's network of local retailers and distributors, and saw market share rise from 13% to around 20%. And Alkali Ion, a local brand featuring innovative packaging, reported very strong volume growth.

However, the most spectacular gains came in Latin America, where sales jumped 40%. The rise was driven by the second-half recovery in Argentina and, above all, DANONE's success in Mexico, where it owns the leading Bonafont brand. Mexican sales soared nearly 40%, due in particular to the success of Levite, a flavored water launched only a few months ago that has already captured some 40% of its market segment. In both Mexico and Argentina, DANONE water brands increased market share and strengthened leading domestic positions. The only region where sales growth has not yet recovered is North America, where the price war in bottled water continued to weigh on Evian. However Dannon packaged water achieved a significant increase in volumes and market penetration, meeting the main target set by DANONE in 2002 when it handed the management and distribution of this brand over to a joint venture with Coca-Cola.

Nor did growth in sales volumes come at the expense of margins. Higher sales were accompanied by a substantial increase in operating margin, up 12.6% to 15.1%. This rise, achieved despite higher PET prices, reflects volume growth, ongoing productivity efforts, the success of value-added product innovation and the removal from the scope of consolidation of DANONE Waters of North America.

"My job keeps me busy, but now that I'm in my forties I've learned to prioritize. And in some respects, I take better care of myself than when I was 20. I'm very aware that I need to stay in shape, if only to keep on beating my oldest son at tennis!"



KATHY, 43,
ARCHITECT, UK

- ☺ **No.1** in Argentina
- No.1** in China
- No.1** in HOD in the US
- No.1** in Spain
- No.1** in Indonesia
- No.1** in Mexico (1)
- No.2** in Germany (2)
- No.2** in France
- No.3** in Italy

(1) bottled water
(2) still water
Rankings based on sales volume

طبيعي لاشي، زاد... ولاشي، نقص



لبن الصافي، الاختيار الطبيعي.

على أي أساس تختار اللبن المفضل من بين الأنواع العديدة في الأسواق؟ عندما تتأكد أن هناك شركة ألبان تضمنه لك صافياً من الطبيعة كما هو، بدون مواد حافظة، ولا بودرة حليب، ولا حتى ماء.. لبن «الصافي» يعدك بكل هذه الميزات، ولهذا نقول: طبيعي أن يكون لبن «الصافي» اختيارك الطبيعي. لبن «الصافي» الطازج... لاشي، زاد، ولاشي، نقص.



Focus on Spain

Several months ago the world's top two contenders in soft drinks arrived in force on the Spanish water market, backed by huge promotional campaigns. Aguas DANONE España responded through its top-selling local brands Fontvella and Lanjaron, building on ties to 700 distributors with which it had built up long-term relationships. "We focused on category management," explains Filip Kegels, General Manager of Aguas DANONE España. "This enabled us to increase our store presence in the summer of 2003,

and raise market share from 22.5% to 23%." The unit adopted an aggressive promotional policy in the away-from-home market and traditional outlets, which account for a quarter of the Spanish market. The campaign paid off: by the end of the year, Aguas DANONE España sales volumes were up 12% on 2002.



⊙ Filip Kegels, General Manager of Aguas DANONE España, in the mineral water aisle of a supermarket.



Annual per capita consumption (liters)

101	in Western Europe
22	in Eastern Europe
69	in North America
52	in Latin America
9	in Asia-Pacific
10	in North Africa and the Middle East
22	Worldwide

⊙ Product adaptation and innovation pay off

Innovation is a genuine growth driver in beverages, with several water products introduced in 2002 achieving very high volumes as of 2003. An example is Ser,

launched in Argentina in 2002. By October 2003, the Ser range, which initially comprised a calcium-enriched still water and a low-sugar, lemon-and-lime flavored sparkling water, was already number two in its market. In Mexico, Levite, a flavored water launched in 2002, accounted for 20% of Bonafont's sales during the year. And in France, sales volumes of Taillefine flavored waters, also launched in 2002, more than tripled in 2003.

DANONE started developing flavored waters in France around 15 years ago, and they have gradually emerged as a beverage category in their own right.

With its Volvic, Salvetat and Taillefine brands, DANONE is a pioneer in this field.

In France, DANONE Eaux France now controls more than 60% of the flavored water market, and our other beverage subsidiaries have copied and adapted its successful business model on their own turf. Examples include Argentina, Mexico and Uruguay with the Salus brand. Thirst-quenching low-sugar water-based drinks are clearly a promising market. Such beverages—and flavored waters in particular—are set to account for a very large share of beverage sales growth in 2004. "These drinks are definitely a major source of growth," says Pierre Cohade, Executive Vice-President of the business line. "And rising demand bears out our strategy of pushing beyond our original market of bottled mineral water into new areas such as HOD (2) and flavored drinks."

(1) Beverage activities in Asia are described in the Asia-Pacific section; see also page 50.

(2) For a description of the market for water sold in jugs, see HOD article on page 20.



KAREN, 40, REAL ESTATE AGENT, USA

"Appearance counts in my line of work, and I want to look healthy and dynamic. So I work out regularly and watch what I eat—and also what I drink. For me, it's a lifestyle thing."

€ millions	1999	2000	2001	2002	2003
Sales	2,822	3,255	3,371	3,232	3,071
Growth (like for like)*	+3.4%	+6.4%	+0.4%	+2.4%	+0.4%
Operating income	222	282	316	317	280
Operating margin	7.9%	8.7%	9.4%	9.8%	9.1%
Cash flow from operations	263	315	308	295	232
Depreciation & amortization	154	172	183	155	145
% of sales	5.5%	5.3%	5.4%	4.8%	4.7%
Capital expenditure	88	83	93	118	110
% of sales	3.1%	2.5%	2.8%	3.7%	3.6%
Employees	27,849	28,835	30,553	27,361	23,996

* at constant structure and exchange rates



**BISCUIT CREATION
AT DANONE VITAPOLE,
DANIEL CARASSO
RESEARCH CENTRE**

PHOTOS STÉPHANIE TÊTU - MÉTIS/IMAGES



Biscuits: uneven performance

2003 was a year of transition for DANONE's biscuits division. While sales marked time overall, we are now the world's No.2 player in a business which still has major potential, as shown by good results in several countries and regions.

PHOTOS JEAN-CLAUDE AUNOS/GAMMA,
DANONE IMAGE BANK

In a fairly lackluster overall market, our biscuits business generated very little growth in 2003, with sales up only 0.4% at constant structure and exchange rates after a 2.4% increase in 2002. Full-year sales totaled €3.071 billion, equal to 23% of the group total, while operating margin eased from 9.8% to 9.1%, hit by lower volumes. Yet these aggregate figures mask wide differences from one country and market to the next. For biscuits are a market shaped by local preferences—more so, perhaps, than any other segment of the food industry. And consumer habits vary widely, with tastes heavily influenced by cultural tradition. Thus the French market,

©

Annual per capita consumption
(1 kg = 2.2 lbs)

- 7** in Western Europe
- 2.2** in Eastern Europe
- 7** in North America
- 4.7** in Latin America
- 0.9** in Asia-Pacific
- 2** in North Africa and the Middle East
- 2.2** Worldwide

- No.1** in Belgium
- No.1** in China (1)
- No.1** in Eastern Europe
- No.1** in France
- No.1** in India
- No.1** in New Zealand
- No.1** in the UK and Ireland
- No.2** in Argentina
- No.2** in Brazil
- No.2** in Italy

(1) DANONE is the No.1 brand in the country
Rankings based on sales volume

where cookies are a tasty snack, has little in common with India, where biscuits are often seen as a staple food. Closer to home, France has little in common with Italy, where most cookies are eaten at breakfast, dunked in milk.

Wide variations

This variety explains some of the variations in performance from one country to the next. Some markets were on a firm growth trend—the case for Belgium and Spain, and above all Greece and Finland, with DANONE increasing market share in the latter. Eastern Europe as a whole made a stronger showing than in 2002. In the Czech Republic, conditions remained difficult for market leader Opavia, and the market was also tough in Poland, although LU did better than in 2002. The main driver was Russia, where DANONE's Bolshevik brand reported growth of almost 20% with very promising prospects. Operations in Argentina were also encouraging, as sales volumes got back on a steeply rising track in the second half.

Stepping back, slack overall growth in 2003 was due above all to slowed pace in a few key markets. Sales fell

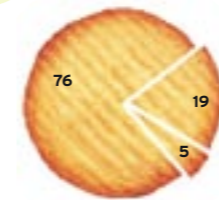
The division's objective is to revive growth and increase profitability.

back in the UK, which accounts for 8% of DANONE's total biscuit revenues. They also declined across the board in France, which accounts for almost 40% of total business line sales, although LU maintained its number-one position with a 34% market share.

Strong growth potential

Yet the biscuit business continues to show strong potential, with demand in some regions outstripping growth in other segments of the food industry by a wide margin. Thus in the Asia-Pacific region (1) as a whole, division sales were up no less than 10.5%. With the exceptions of Malaysia, where we started to streamline our brand portfolio, and New Zealand, where competitive pressure

Sales by region



Europe **76%**
Asia-Pacific **19%**
Rest of World **5%**

Sales by segment



Sweet biscuits **62.5%**
Savory biscuits and products **10%**
Crispbreads and crackers **16%**
Packaged cakes **11.5%**

increased, all Asia-Pacific countries generated double-digit growth. Sales rose 11% in India, more than 20% in China and over 30% in Indonesia, where a strategy based on developing nutritious yet inexpensive products is particularly well-suited to consumer expectations and needs.

DANONE is well aware of the market's potential in certain areas, and is continuing to invest to make the most of it. In Egypt, for example, we have just launched products under the Tiger and Prince labels, made locally in a brand-new plant that opened in October (see opposite). In Russia, DANONE negotiated the acquisition of Chupa Chups' rolled-cakes business in late 2003, signing the agreement in early 2004. Bolshevik previously had little exposure to the soft cakes segment—one of the fastest-growing areas of the Russian market—and this acquisition should underpin its rapid growth.

The challenge facing the business line is to return to growth. And rising to this challenge is naturally very important in France, DANONE's largest market. As a result, Georges Casala, who became the business line's new executive vice-president in the autumn of 2003, has also



DANONE in Egypt

In October 2003, DANONE entered the Egyptian biscuit market, opening a plant at Borg El-Arab near Alexandria. Egypt is a youthful country with 70 million inhabitants and low biscuit per capita consumption—just 1.2kg a year compared with an average 2kg for the region. And market potential is considerable: the

biscuit industry is fragmented, with no single national leader, rather a host of small companies making often low-quality products. To ensure the success of its move into this new market, in 2002 DANONE signed a partnership agreement with Egyptian company Rachid, setting up a joint venture called DANONE-Mashreq. And to guarantee output meeting DANONE's high standards, we opted to build a new plant near Alexandria. This facility, which

came on stream in October 2003, already has a production capacity of 10,000 metric tons and employs over 200 people trained at LU's Moroccan plants and on site by DANONE experts. "DANONE is now set to deploy its strategy in Egypt, launching products that have proven themselves in other emerging markets—Indonesia and India, for example. We will be backing them with heavy advertising," notes Chafiq Hammadi, plant manager of DANONE-Mashreq (photo opposite).

At DANONE Vitapole, our corporate research centre, teams are developing new biscuits and testing large-scale production—with no loss of nutritional value and taste—on a pilot line.



⊕ been directly in charge of LU France for several months. The company's industrial reorganization is now complete, and 71% of employees affected have already been transferred. As a result, staff can once again focus on growth targets. To achieve these, DANONE has introduced a new organization based on three business units, each a profit center dedicated exclusively to one market segment. This

will lead to greater focus, and forms part of a revival plan that includes a firm grip on costs, stepped-up marketing and a major quality drive. "Today, our line's aim is to achieve renewed growth," says Georges Casala, "and to start raising profitability again as of the second half of 2004.

(1) Biscuit activities in Asia are also described in the section on our Asia-Pacific business line.

→ 2003 Highlights
Europe

Industrial reorganization aimed at reducing surplus production capacity in Europe was well on its way to completion at the end of 2003. 86% of employees affected had already been redeployed, and redevelopment options were either identified, in the course of being introduced, or already up and running, for all sites concerned. In Calais, the Groupe has created 500 jobs.

Indonesia

Launched in 2002, Susu (milk in Indonesian) is the first milk biscuit that makes up for calcium deficiencies. It helped the Biskuat brand achieve record growth in 2003.

Finland

LU Finland is reaping the benefits of restructuring, introduced in 2003. With a rise in advertising and promotional expenditure, sales of Domino, LU Finland's largest brand, have taken off and consumer recognition of the brand has been strengthened.

Breakfast: the perfect time for biscuits

Long neglected in many countries, breakfast has regained its status as a vitally important meal in the last few years, underpinned by nutritionists' campaigns. Cereal-based products are a particularly healthy way to get the day off to a good start, making biscuits the perfect breakfast food. In some countries—Italy, for example—breakfast already accounts for most sweet biscuits sold. Catering to this segment, DANONE has developed a category of products intended

specifically for breakfast time, based on the concept of long-lasting energy (LLE) products. These comply with strict nutritional guidelines to ensure consistent content, give consumers a gradual and long-lasting release of energy throughout the morning. LLE products have been launched successfully in France, and are also being developed in Belgium, the Netherlands, Italy and Spain.



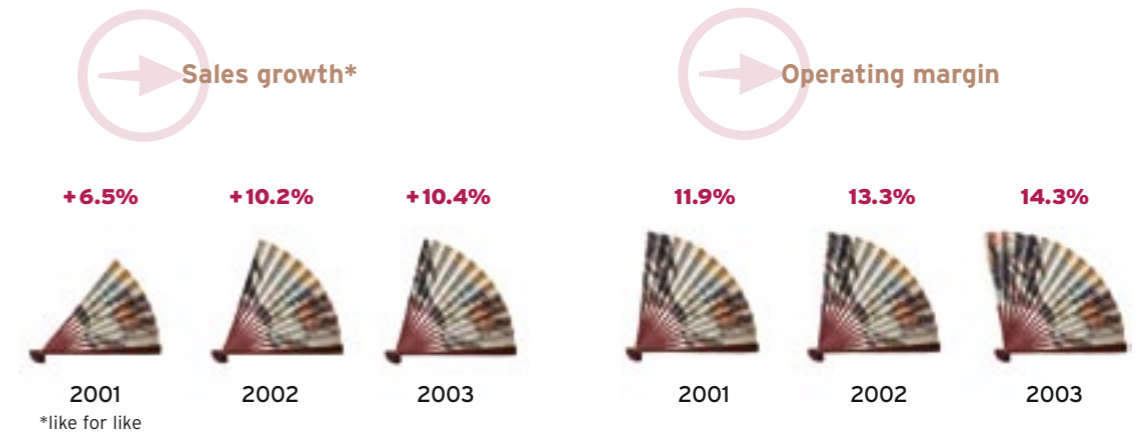
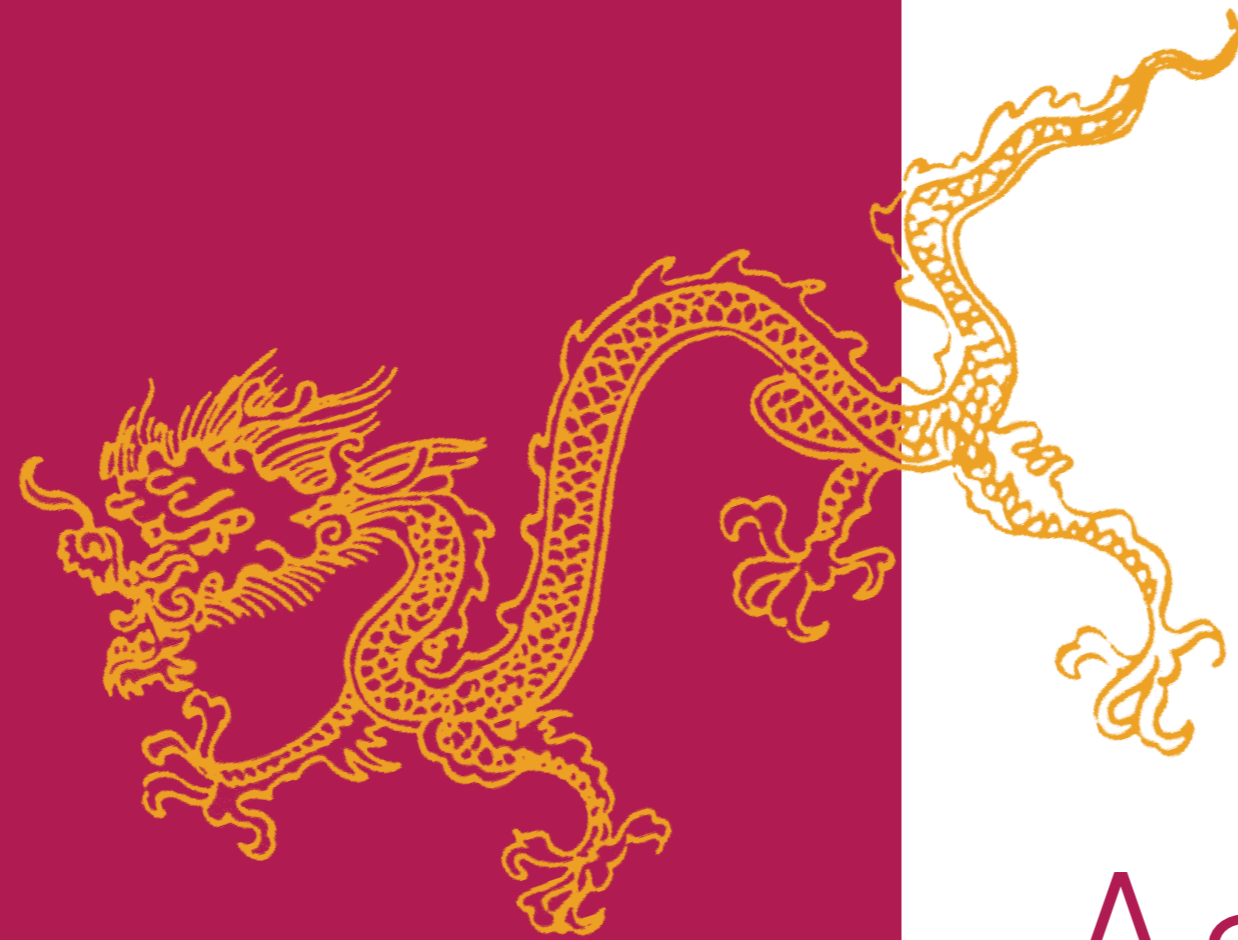
In the last few years, we have also made inroads in Eastern Europe, starting with Hungary, Russia, Poland and the Czech Republic. In the Czech Republic—Europe's third-largest biscuit market per capita—DANONE subsidiary Opavia owns the market-leading Bebe Dobre Ranno brand. Bebe Dobre Ranno holds 90% of the market segment, and has just launched new flavors (including muesli and four-grain) that have further strengthened its positioning as a supplier of products for health-conscious consumers.





A SUCCESS STORY—BEHIND THE SCENES

PHOTOS STÉPHANIE TÉTU - MÉTIS/IMAGES



Asia-Pacific: setting the standard for profitable growth

In 2003 sales in the Asia-Pacific region once again posted organic growth of over 10%. Growth that was also highly profitable, with operating margin in the region exceeding the Groupe average for the second time.

PHOTOS GETTY-IMAGES, AFP, DANONE IMAGE BANK

Asia-Pacific, which accounts for 15% of Groupe sales, is a special market for DANONE, forming a distinct business unit with its own management team. This decision was made a decade ago to take into account the region's highly specific local characteristics and gain a tighter local grip on operations. And it has proven its worth, becoming one of the reasons why DANONE is so successful in Asia-Pacific. In response to development and continuing growth potential, DANONE bolstered the local management team in 2003 by appointing three new executive vice-presidents,

€ millions	2001	2002	2003
Sales	1,934	2,080	1,957
Growth (like for like)*	+6.5%	+10.2%	+10.4%
Operating income	231	277	279
Operating margin	11.9%	13.3%	14.3%
Cash flow from operations	261	293	299
Capital expenditure	128	152	126
% of sales	6.6%	7.3%	6.4%
Employees	44,218	41,961	40,960

* at constant structure and exchanges rates

→ Sales by country as % of regional sales



China 59%
Malaysia-Indonesia 14%
India 14%
Australia-New Zealand 13%
 Excludes Evian-Volvic exports to Japan

⊕ one for each of our three product categories. 2003 marked a new advance in DANONE's drive in Asia. Not only were sales strong—up 10.4% organically—but operating margin (14.3%) was higher than the group average (12.2%) for the second year running. This is especially good news given that, until recently, many observers regarded Asia-Pacific as a major source of growth, but one that would be slow to deliver profits.



⊕ China, where growth in household consumption is increasingly rapid, represents 59% of the region's sales.

Growth driven by China

Another welcome development has been consistently strong performance throughout the region and across all product categories. All countries contributed to growth, particularly China, India and Indonesia, which are DANONE's main priorities. And although the SARS epidemic weighed on sales for several months and led to mixed results in the second quarter, it was offset by a sharp rebound in Chinese business in the third and fourth quarters. Sales in China totaled more than €1 billion in 2003, and the country continues to drive growth. Performance was boosted by product innovation and successful launches including Maidong energy drink (see page 19), confirming the emergence of new local consumer trends. For the Chinese market is changing rapidly, leading to increasing segmentation of the product range. Consumers are now looking for different, more sophisticated products, and are increasingly prepared to pay a premium for products that offer a genuine benefit. Local brand Wahaha maintained its lead in China, and found a new source of growth in the tea drinks and fruit-juice segment, complementing lactic acid beverages (LAB), which are popular milk and water drinks.

DANONE also leads the Chinese bottled water market. Alongside beverages, biscuits are the other main source of DANONE's Chinese growth. Biscuit sales grew by around

→ Sales by segment as % of regional sales



Water (1) 68%
Biscuits and cereal products 28%
Heat-and-serve dishes/sauces 4%

(1) including non-alcoholic beverages



China: Combating SARS

In 2003, like all companies operating in China, DANONE had to deal with the SARS* epidemic. Our first concern was to protect staff and their families. When the epidemic began in January 2003, DANONE immediately introduced strict measures to protect those working for its subsidiaries.

Two of these measures—a daily temperature check on arrival at work and anti-virus protective clothing—remained compulsory until June. At the peak of the crisis, DANONE even banned employees from travelling within China and abroad, and suspended supplier visits. Some staff were allowed to work from home part-time, to avoid travelling on public transport. We also launched a campaign to inform staff about the disease and provide personal hygiene advice. Our local companies also raised morale by holding competitions for the best

anti-virus mask and group exercise sessions on their premises. They remain prepared to reintroduce strict measures if needed. And when three isolated cases of SARS were diagnosed in China in January 2004, all employees were again required to check their temperature before coming to work. Today, seven months after the official end of the epidemic, none of DANONE's 23,000 Chinese employees have been infected, and staff commitment has never wavered. As a result, DANONE was able to resume its strong growth

momentum from July, particularly in beverages. "The SARS epidemic seriously disrupted our activities in China," says Simon Israel. "We had to cope with an economy that was paralyzed for several weeks. But during this period, we did a lot of thinking about how to optimize our organization, and this allowed us to streamline our cost base and production capacity. So we were able to take full advantage of the upturn in activity in the third and fourth quarters, as our figures demonstrate."

* Severe Acute Respiratory Syndrome

China, India, and Indonesia—all priority countries in the region contributed to growth.

20% in 2003, and here too, growth was driven by product innovation and a focus on new areas of demand among the middle classes. DANONE is working hard to meet increasing demand for products with high nutritional value, a fundamental consumer trend in the region. The "healthy enjoyment" positioning of DANONE's range is ideally suited to this trend, giving us a major competitive edge.

India, Indonesia and New Zealand

Biscuits sales also showed a vigorous rise in India and Indonesia. Volumes continued to grow at a rapid pace in India, where Britannia is the leading brand, but surged by over 30% in Indonesia. DANONE's strategy in Indonesia is based on offering affordable biscuits with clear health and nutritional benefits. Biskuat—meaning "strong biscuit" in the local language—is distributed through more than 600,000 outlets and extended its lead in this segment.

DANONE also owns Aqua, Indonesia's leading packaged water brand in volume terms. Bottled water sales continued to rise in Indonesia despite slower sales of water in large jugs.

In New Zealand, stiff competition prevented Griffin's—the country's leading biscuit maker—from raising sales. However, Frucor, which leads the market for energy drinks and fruit juices, achieved sales growth of around 15%. This strong showing was driven mainly by product

- **No.1** in bottled water *China*
- No.1** in energy drinks *New Zealand*
- No.1** in bottled water *Indonesia*
- No.1** in biscuits *India*
- No.1** in biscuits *Malaysia*
- No.1** in sweet biscuits *New Zealand*
- No.1** in biscuits *China*

Guess where 70% of her Immune System is?

Reinforce your family's Immune System

Did you know that 70% of the immune system is in the intestine? Every day it's under attack from the hectic lifestyle we lead. Stress, fatigue, irregular meals, changeable weather and antibiotics can upset the body's delicate balance and affect our natural defences. The gut acts as an internal barrier against bad bacteria and harmful substances so it's important to keep this natural defence mechanism in tip top condition.

Actimel is a delicious daily probiotic drink that the whole family can enjoy. Because it contains a unique live culture – L. casei Imunitass – which works naturally in the intestine to help maintain the right balance of bacteria, Actimel can help support your defence system making a real difference to the way you feel.



⊕ innovation and new brands like h2go, a flavored water for women sports enthusiasts that is distributed in a novel way—on the street, as close as possible to the consumer. Frucor also strengthened its position in Australia, where the water market was boosted by the launch of a sugar-free version of V.

“Our results were very good in 2003, but bear in mind that the SARS epidemic could have taken a heavy toll,” notes Simon Israel, Executive Vice-President, Asia-Pacific. “Our success in dealing with this extremely serious crisis shows how solid our foundations are. Which means that we are all set to take full advantage of Asia-Pacific’s growth potential.”

From China to India, Asia ⊕ is DANONE's fastest-growing market, offering impressive scope for future growth.



New Zealand: DANONE on top down under

Groupe DANONE has operated in New Zealand for several years through Griffin's (biscuits) and Frucor (beverages), each leader in its market in 2003.

With sales of €130 million, Griffin's ranks number one in biscuits and number two in crackers. The company has a high profile, built up over 100 years via 25 brands that are firmly established in all high-potential segments, one example being chocolate biscuits.

Frucor is an extraordinarily innovative business and leads the energy drink and fruit-juice market with sales of €150 million. New Zealand has 4 million inhabitants, and penetration rates for both beverages and biscuits are high—a full 96% of New Zealanders eat biscuits, for example. Both Griffin's and Frucor owe much of their success to their distribution and customer relationship management strategy. Whereas rivals sell to wholesalers, Griffin's and Frucor have adopted the direct store delivery approach. Although this

requires major logistics skills, it gives both a strategic edge in markets dominated by independent retailers, allowing them to build the close relationships that ensure loyalty.



⊕ Anthony Nowell, General Manager, and Vicky Taylor, Vice-President Marketing of Griffin's, the sweet biscuit leader in New Zealand.



In recent years, DANONE has adopted structures and procedures to strengthen our links to the world around us. In this section, we set out our positions on three key issues facing society—water, health, and globalization.

ILLUSTRATION ÉRIC GIRIAT/VIRGINIE.

The world we live in

A broader view Danone's commitment

"Growth must never be an end itself. It is a tool that should never diminish quality of life, but instead enhance it."

ILLUSTRATIONS ÉRIC GIRIAT/VIRGINIE

This statement, made by Groupe DANONE founder Antoine Riboud over 30 years ago—when sustainable development was in no way the issue it is today—remains an apt summary of the principles guiding our Groupe and underpinning our commitment to corporate responsibility.

DANONE has for many years been committed to simple yet essential principles structuring our responsibility to employees, the community at large and the environment. We believe that people are at the center of every business, that checks and balances are essential inside and outside the business, that businesses must be attentive to the needs of local communities, and that each and every business is directly responsible for environmental quality.

Widely known and shared throughout DANONE and its subsidiaries, these principles nonetheless entail significant challenges in day-day practice. In response, we have for

several years drawn on the support of a specialized Sustainable Development department to structure and guide corporate responsibility policy and its implementation. Five key themes central to our concerns include labor relations and the environment, but also relationships with suppliers, customers and consumers, and initiatives in favor of local communities. And each has important implications for the business as a whole. DANONE now enjoys worldwide recognition for commitment to sustainable development, as illustrated by our inclusion in almost all international sustainability indices, among them the Dow Jones Sustainability Index, Ethibel Sustainability and Aspi Eurozone indexes.

Many of these indexes also rate the quality and transparency of information. At DANONE, we make a special effort by publishing, alongside our annual report, a social responsibility report that reviews in detail Groupe initiatives in this area and the indicators used to track progress. Widely distributed in print form, this report can also be downloaded from our internet site.

Several examples illustrate our commitment to social responsibility, starting with strict adhesion to the International Labour Organization's

seven fundamental principles. These concern issues such as the minimum working age, working hours, forced labor and wage standards. DANONE not only insists on compliance with these principles by its own subsidiaries, but also considers them minimum standards to be met by suppliers and sub-contractors. The same principles are also now a pre-condition in acquisition and joint-venture negotiations.

Turning to the environment, in 1995 we initiated a drive to reduce use of water and energy, with progress in this area making a significant contribution to general compliance with ISO 14001 standards. Today, 64 of our factories have already been certified, while the certification process is under way at some 30 and is to begin at a later stage at 15.

Other examples of corporate responsibility include support for the Ramsar Convention protecting wetlands under the aegis of Unesco, encouragement for environment-friendly farming with reduced reliance on pesticides, and the many initiatives taken by subsidiaries to help children at local level, in particular as part of DANONE's annual international Children's Day. These initiatives and other aspects of DANONE corporate responsibility policies are described in more detail in our annual Social and Environmental Responsibility report, which also includes the various indicators adopted to track progress in this area objectively.

DANONE Way—a management tool for translating responsibility into practice

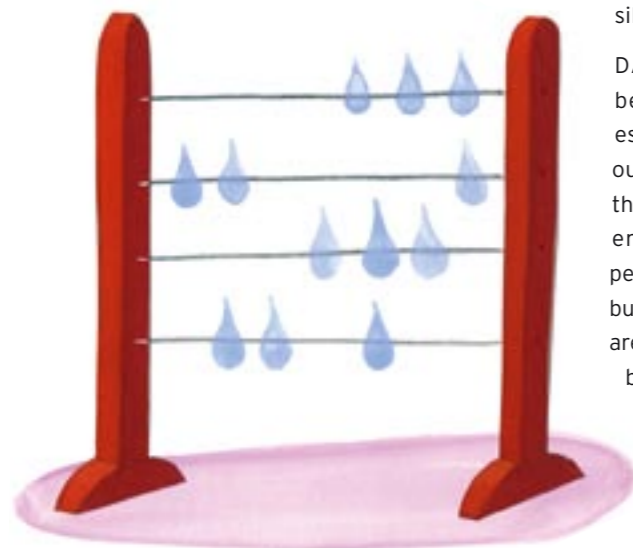
As DANONE Chairman and CEO Franck Riboud has often stressed, corporate responsibility is a matter of day-to-day practices in and around factories and other sites, not just at headquar-

ters. To meet the challenges this entails, we have rounded out the initiatives taken—and in some cases supervised at Groupe level—with DANONE Way, a unique program designed to ensure that all subsidiaries share this responsibility and play their part in implementing Groupe values concerning food safety, human-resource policies, environmental standards, relationships with customers and suppliers, and other areas of corporate responsibility.

In practical terms, DANONE Way calls on all Groupe subsidiaries around the world to assess their own performances in terms of some 100 clearly defined practices. These self-assessments are designed to ensure the practical involvement of teams at local level and foster a sense of emulation in the areas addressed. As Bernard Giraud, Sustainable Development Director explains, "DANONE Way is more than a method of assessment. It is a shared endeavor encouraging each subsidiary to review, at its own level, sustainability issues and adopt relevant action plans." Groupe DANONE has also commissioned audits from PricewaterhouseCoopers and Mazars to assess practical commitment to these principles, including deployment of DANONE Way at subsidiaries. Over the past three years, 14 have been audited.

DANONE Way started up with a pilot phase at a dozen subsidiaries in 2001, and by the end of 2003 a full 74% of all Groupe companies were involved. Which is a promise of continued vitality for DANONE's defining values.

Franck Riboud:
"DANONE Way comes as a response to a clear need. This is to preserve DANONE's culture, founded on a dual commitment to business success and social progress—and pass it on to others."



© Groupe DANONE Initiatives in social responsibility programs and initiatives are reviewed in our 2003 Social and Environmental Responsibility report.

Water

Long seen as inexhaustible, supplies of fresh water are increasingly rare and fragile. So much so that securing access is one of the great challenges of the new century.

ILLUSTRATIONS ÉRIC GIRIAT/VIRGINIE

While bottled water accounts for only a tiny part of total consumption, businesses in the sector are often asked what they are doing to preserve resources, ensure optimum quality and make their products accessible to as many people as possible.

→ Can large producers of bottled water really help manage the world's water resources?

DANONE produces some 12 billion liters of water in bottles and large containers each year. Which is a lot, but still represents no more than 0.004% of total fresh water consumption worldwide. DANONE has nonetheless always considered that we have special responsibilities of several kinds where water resources are concerned.

In developing countries, some 80% of all illnesses are attributable to contaminated water or lack of hygiene. It is thus absolutely essential to ensure that the water DANONE offers to consumers remains pure from the time it is collected until it is drunk. Which in turn calls for stringent rules of hygiene,

particularly at the bottling stage, backed up by a battery of tests and quality control procedures. Safety standards in bottled water are no doubt more rigorous than for any other kind of food or drink.

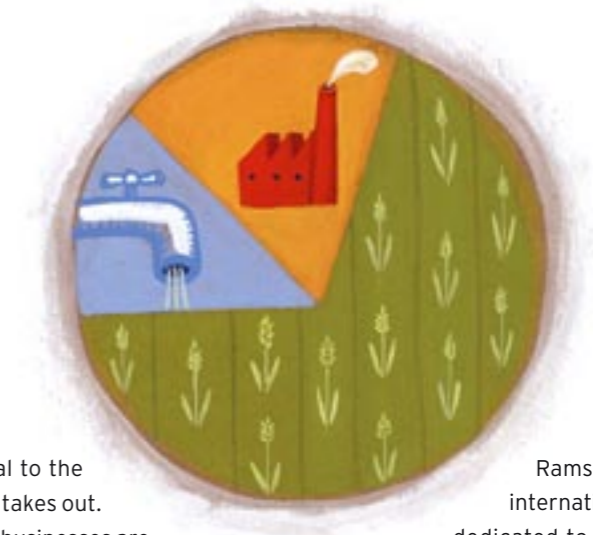
Preserving springs and other sources of supply is another prime responsibility, and is also essential to the future of our business. Significant investments are required to protect catchments and the areas the water flows through before it is tapped, in large part through measures to preserve the natural environment and support non-polluting economic activities in the vicinity. (1)

A third essential concern is not to take more from nature than it can give, and to maintain resources at a constant level. In practice, this means that the volume of water DANONE takes out of each of its springs every year is lower than the volume of natural renewal.

→ How does DANONE pay society back for the water it bottles and sells?

In addition to looking after the water resources we use, in most countries DANONE pays

In some parts of the world, there is no real alternative to bottled water.



rights proportional to the amount of water it takes out.

In some cases, our businesses are required to maintain stocks of water that local authorities can call on if there is a shortage.

DANONE is also actively committed to protecting water resources in general—not only those we operate—by proving financial support for major initiatives in this area. Since 1998, DANONE has been a partner of the

Ramsar Convention, an international organization dedicated to the conservation and restoration of wetlands, which play an essential role in replenishing groundwater and preserving biodiverse ecosystems. (1)

→ How does DANONE help bring healthy water to more people around the world?

By making water more accessible. Producers of bottled water are always on the lookout for new sources of supply, standing ready to invest in surveys, drilling and collection equipment to increase the overall amount of water available. This is particularly the case in regions where water does not naturally rise to the surface and there is no alternative to drilling and bottling.

In some countries, too, the investments needed to pipe water to homes are too high, and bottled water is the only form of supply. Here growth of home and office deliveries in large jugs and containers offers new promise.

But price is clearly just as important as availability, which is why DANONE offers not only premium brands but also more affordable ranges on its strategic markets. In countries such as Mexico and Indonesia, distribution is through small shops, which means that quality drinking water is readily available to a majority of people—even away from city centers.

(1) For more details, see our Social and Environmental Responsibility report.



Health and nutrition

Health and nutrition came in for plenty of attention in 2003. Issues included obesity—a growing concern in the developed world and the subject of much debate. At times, the global responsibility of the food industry has been questioned.

ILLUSTRATIONS ÉRIC GIRIAT/VIRGINIE

In this fast-moving field, DANONE has played a pioneering role and continues to stand out from the crowd.

→ **On what grounds can DANONE claim to have positioned itself as favoring health and nutrition?**

It is now seven years since DANONE took the strategic decision to concentrate exclusively on three core businesses with special significance for health: fresh dairy products, water and biscuits—the last an important foodstuff rather than an indulgence in many countries. This decision was consistent with the efforts DANONE has made to expand knowledge of nutrition fundamentals, the focus of our dedicated research center, as well as a wide range of scientific initiatives taken over many years.

Illustrating this special commitment, the DANONE International Award for Nutrition, made every two years, offers top nutrition scientists a €120,000 prize to continue their work. In addition DANONE Institutes, first set up in 1991, have so far supported over 500 research programs and provided funding in excess of €8 million. As a result, DANONE is now generally recognized as the world's most credible food business on health issues, as is borne out in studies conducted by Morgan Stanley, JP Morgan and Ipsos, the French market research institute (see opposite).

→ **What is your position on obesity?**

Obesity is on the rise and is a serious concern. The causes are many and complex, including genetic factors and increasingly sedentary lifestyles as well as diet. Yet while diet is far from the sole explication, the food industry cannot shrug off all responsibility. Which does not mean denying the pleasures of eating—DANONE has every intention of continuing to develop and market products designed for taste appeal. But we also uphold a responsible



approach. First of all, this means continually enhancing the nutritional value of existing products. This is illustrated by efforts to reduce the sugar content of some dessert creams and fruit yogurts without any loss of eating pleasure.

Just as important is the principle that consumers must not be misled—which means, for example, that DANONE does not attribute health benefits to products designed for pleasure.

Finally, DANONE is continuing its longstanding support for nutrition research and the promotion of a healthy, varied diet. This is central to the mission of DANONE Institutes, which have

already initiated over 40 educational programs extending well beyond the promotion of Groupe products and reaching millions of people.

→ **Do you take ethical advertising seriously?**

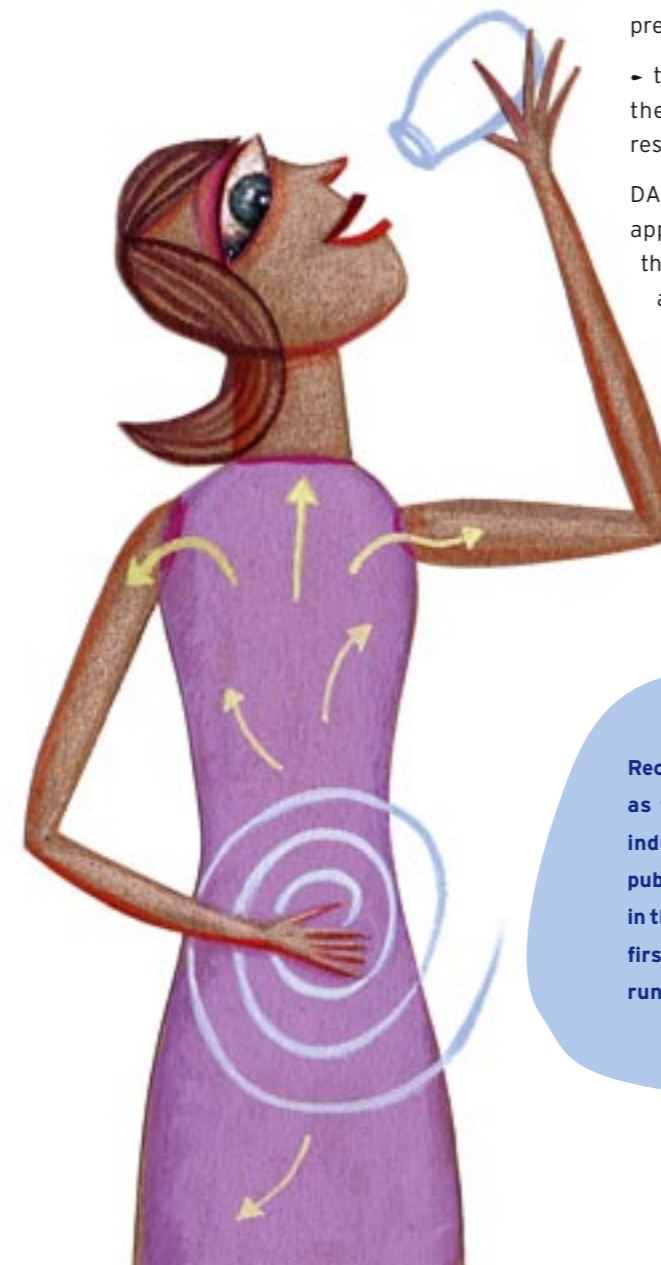
DANONE's policy on advertising and other communication is built on a continuing commitment to responsibility, especially in messages addressing children. All advertising for Groupe brands must comply with these basic principles:

- consumers must not be misled about product benefits
- advertisements must not encourage over-eating or excessive snacking during the day
- inactive or unhealthy lifestyles must not be presented in an attractive light
- the authority of parents and the advice they give their children on food must be respected.

DANONE has adopted a set of procedures applying to all group business throughout the world to ensure that health claims and arguments in advertising, on wrappings and in brochures are properly documented and presented.



An exclusive focus on three types of product gives Groupe DANONE special credibility on health issues.



Recent studies confirm the position of DANONE as the leading name for health in the food industry. In October 2003, Morgan Stanley published the results of a survey of consumers in the US, the UK and France. This put DANONE first for healthy products, with our lead on the runner-up a wide 20 percentage points. The

result is consistent with the findings of another study published by JP Morgan in April 2003. Based on a review of the product portfolios of the world's 16 leading food businesses, that report rated DANONE the best placed by far to address health issues.

Close to home around the world

Economic globalization has come in for violent criticism from some sectors of public opinion, and big international businesses have been accused of wanting to relocate production, impose their culture or cut employee rights to the bone. Here's what DANONE has to say.

ILLUSTRATIONS ÉRIC GIRIAT/VIRGINIE

In the space of a few years, DANONE has seen spectacular international expansion. Just ten years ago, only 7% of our workforce was based outside Western Europe, a proportion that has now reached 70%. Since 1997, DANONE has been involved in over 40 acquisitions and joint ventures, mostly

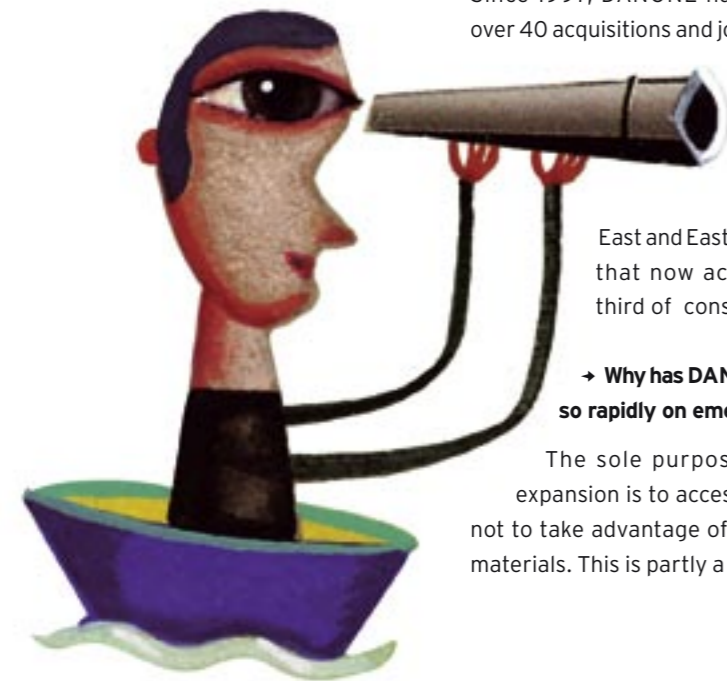
in developing countries in Asia, Latin America, North Africa, the Middle East and Eastern Europe—markets that now account for nearly a third of consolidated sales.

→ Why has DANONE been expanding so rapidly on emerging markets?

The sole purpose of international expansion is to access new markets, and not to take advantage of cheap labor or raw materials. This is partly a matter of corporate

culture and partly due to the nature of our businesses. Fresh dairy products, for example, cannot be kept for more than 28 days, so they cannot reasonably be transported more than a few hundred miles—which means that they can be exported to a neighboring country, but not from one continent to another. In the case of bottled water, transport over long distances makes for significantly higher costs, and export sales can only concern top-of-the-range brands such as Evian.

DANONE has thus moved into new markets to make and sell its products locally, not to relocate existing production. This is true of our businesses in China, as it is in Morocco and Mexico. Moreover, markets where culture and deeply rooted national traditions play a crucial role—as is generally the case with food—cannot be successfully won over with a single type of product. And differences of purchasing power make it doubly impossible to simply replicate products developed in Europe.



When DANONE moves into emerging markets, it does so to produce and sell locally, developing products within reach of the largest possible number of consumers.



These factors make in-depth understanding of local conditions and demand all-important. Which is why DANONE's expansion relies so much on equity investment, including acquisition of minority interests in local companies, many of them family owned. Similarly, management committees of Groupe companies are made up of a majority of local staff and enjoy considerable latitude in implementing policies. To take an example, DANONE has nearly 23,000 employees in China, but only 30 of them are expatriate managers. This approach allows us to better appreciate factors specific to each market and put one of our fundamental values, proximity, into practice.

→ How do DANONE subsidiaries fit into the local environment?

First of all, by adapting to the needs and expectations of local consumers. In countries where standards of living remain low and where nutrition is often inadequate, our companies develop affordable products, available through traditional retailing outlets, that also make up for some of these dietary shortcomings. Calcium-enriched biscuits on sale in Egypt, India, Indonesia and Malaysia are an example.



As regards purchasing, our strategy is to favor local suppliers. Here partnerships with local producers play an important role, and financial

support is in many cases offered to help these producers achieve optimum quality. Assistance is also available for animal nutrition and veterinary care, as was the case this year in Portugal, where the development of specially designed software helped producers raise profitability.

Looking beyond the relationships that directly concern our business operations, all subsidiaries are actively encouraged to contribute to local development, offer training programs for young people, and support local associations. A large number of initiatives are undertaken in these areas each year, most of them described in our Social and Environmental Responsibility report.

→ How does respect for local conditions fit in with efforts to harmonize human resource policies?

Our immediate aim is not to bring conditions in all parts of the world into line with human resource practices in Europe. Instead, we are working to achieve concrete progress step by step, beginning with the fundamental rights defined by the International Labour Organization. DANONE also makes dialog and employee representation an essential requirement. In 2003, we thus conducted a survey of 60 subsidiaries, focusing in particular on recently acquired businesses in developing countries. Results showed that employee representation is assured in nearly all cases and collective labor agreements are negotiated at 70% of Groupe companies.



Human Resources: Personal progress for business success

“There can be no lasting business success without progress for people” is the conviction underpinning the dual commitment to business performance and social progress that DANONE has fostered and developed for three decades. And in keeping with this conviction, developing employee skills from the executive office to the factory floor remained a top priority in 2003.

PHOTOS DALIA BENAÏS

Consolidation of know-how and expertise is an area where the interests of employees and those of the business clearly converge. Staff members naturally want to get ahead, acquire new skills and, in so doing, expand their career opportunities. Equally, every business needs skilled, committed workers to drive performance. DANONE has thus always made it a prime responsibility of all managers to develop know-how among their team members and win their loyalty.

Odyssée—building management resources for the long term

DANONE management practices, attuned to our values and employee expectations, are essential to the role of the 160 executives heading subsidiaries and corporate departments, as they are for our

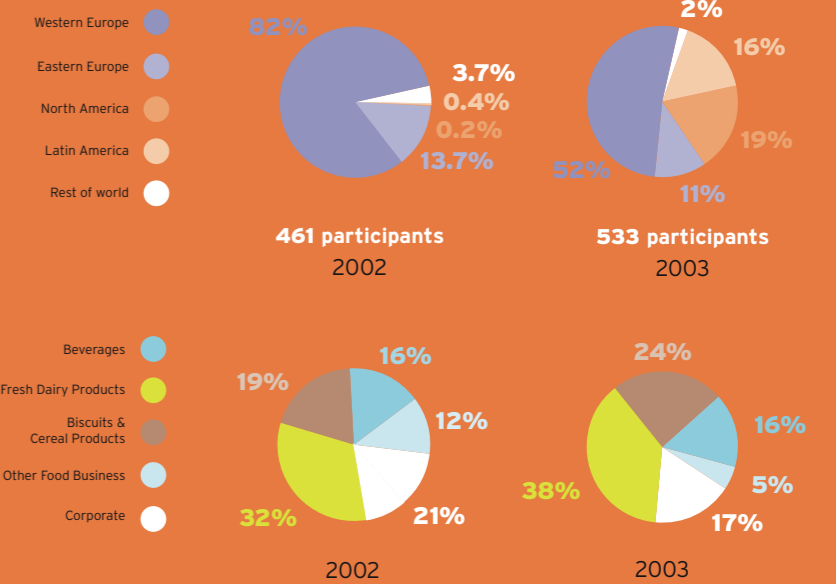
Campus

Campus, DANONE’s mobile corporate university, serves a dual purpose, developing management know-how while at the same time providing a focus for networking among managers from different countries working in different areas of business. Five or six times a year, Campus brings together up to 250 managers, each time in a different location, for a week of training in specific areas of expertise and general management. Programs at three levels—Fundamentals, Advanced, Excellence—are designed to meet the needs of both recent recruits and more experienced staff, ensuring that all share the practices and approaches that are the hallmark of DANONE. In 2004, three Campus sessions will be held in Europe, one in New York and one in Buenos Aires.



MANAGEMENT

Campus participants



8,300 operational managers and 600 members of management boards throughout Groupe DANONE.

In view of their importance, a special program has been set up under the name Odyssée to promote these practices and, by the same token, develop management resources.

Launched two years ago, Odyssée saw a number of important initiatives in 2003. They included individual plans for 200 management committee members using 360° assessments, which have been carried out for nearly 700 staff members since 2001. Other new developments were the introduction of coaching available to executives on request and the launch of general management training options. In 2004, highlights will be a seminar to help newly recruited or promoted managers fulfill their role and a second seminar, developed with input from an international consultancy, focusing on strategy. Other management training will include two programs devoted to fundamentals, one covering interpersonal relationships and the other devoted to staff assessment and development.

Networking for new efficiency

Training is not the only way to develop know-how and enhance performance. In a business as large as ours, the exchange of information and good practices among managers in different parts of the world is also vital. This type of networking is an effective way to make the most of expertise available from individuals and teams throughout the group and thus avoid needless replication of efforts already made.

A program to encourage networking reflexes was first launched at the end of 2002 and in spring 2003 was given a formal structure. Franck Mougins, head of Human Resources, has special responsibility in this area. As he explains, “Sharing good practice is a form of transaction—the provider is someone with a solution and the person encountering difficulties and seeking to improve performance is the recipient.”

While this approach is already intuitively adopted to varying degrees in many countries, there is a need to place it on a more systematic footing. Moves in this



Training

7,981
managers trained

40,746
non-managers trained

366,054
hours of management training

835,752
hours of non-management training



2003 Highlights

DANONE Spain is rated the country's second best employer

by the Great Place to Work Europe Consortium and the European Commission (Employment and Social Affairs).

DANONE signs an agreement with France's Education Ministry to set up training programs leading up to recognized qualifications for over 800 non-management staff members in July.

Young International Graduates: In its third year, the program—designed to promote recruitment of international staff—shows fresh progress, with 80 young graduates recruited for their first position outside their native country and 75 internships conducted outside France.

RH Maturity gets under way in Africa and the Middle East, helping local subsidiaries set priorities for labor relations.

December launch of Trust by DANONE, a business strategy game that is the first to factor in social responsibility. The game is initially being made available to business schools and engineering institutes in six countries.



Maintaining close links with students is essential in making DANONE an employer of choice in all the countries where we operate.



direction have included a wide range of communications initiatives and the development of practical tools. The 2003 management survey (see next page) showed that 70% of respondents were not involved in a networking process. The current aim is to inverse that trend, achieving the same proportion of positive answers by 2007.

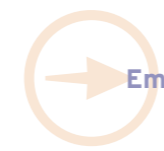
Production workers—organization built on skills

Commitment is important not only for managers but at all levels. In production, too, overall business results hinge on personal performances and the individual commitment of operators. Expanding and enhancing the skills of production workers, by the same token opening up new career opportunities for those concerned, is now a critical challenge—and one where everyone stands to gain. The first essential step is to define precisely the type and level of skills required for each production job. As Sylvain Lobry, Assistant Human Resources Director explains,

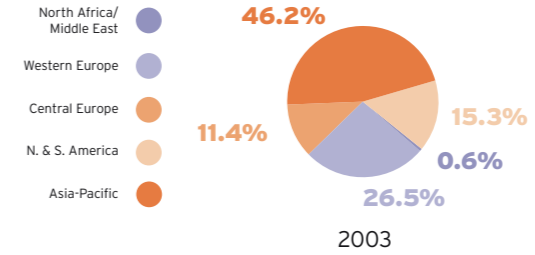
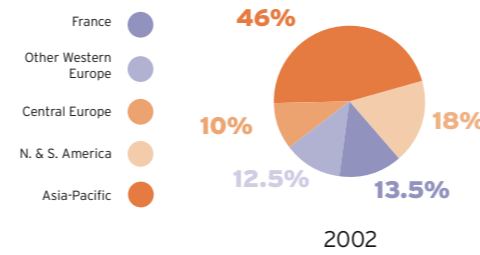
"A manager's first responsibility is to help the whole team advance."

"At LU France, which employs 3,500 people including 2,000 operators at ten factories, some 300 people were involved in the development of job specifications through working groups bringing together operators, supervisors and employee representatives."

Once job specifications have been drawn up, the really important part can begin—assessing the skills of individual operators and agreeing with them on ways for them to progress and in so doing increase their incomes. This process got under way at LU France in the second half of 2003 following the signature of an agreement with unions. A major innovation was to introduce individual performance reviews for operators. This includes interviews with their direct supervisors, a procedure previously reserved to managers and supervisors. The next step was the launch of personalized training programs covering themes such as maintenance diagnosis, problem



Employees by region



solving, and machine operation and safety procedures. The system is to be extended group-wide from 2004 on.

While skills development is only one aspect of the human resource policies deployed in 2003, it is particularly significant and a focal point for many key concerns. These include internationalization and ways to reconcile general principles with the demands of varied social systems, enhancing management performances to underpin profitable growth, and employment security at a time when jobs cannot be guaranteed forever. Which in turn means providing training to enable workers to move on to new positions or find a new employer. And all this, of course, relates to our broader commitment to social responsibility.

Management Survey

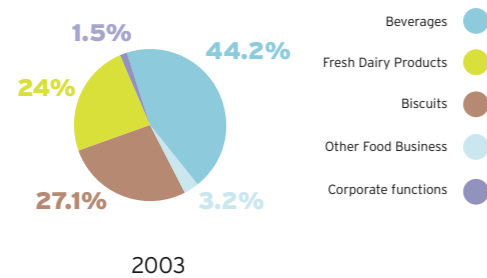
The DANONE Management Survey plays a key role in guiding decision makers at operational level as well as in human resources. The 2003 survey, conducted by ISR of the US, called on 8,300 managers to give their views of how the business operates. The first strong point for this third survey was a 78% response rate, compared with 71% in 2001 and 73% in 1999. Findings also pointed to some improvements from the

previous surveys, particularly as regards values—now clearly an integral part of our corporate culture and identity. The concept of social responsibility is also viewed more favorably, and a growing number of Business Units are taking up the cause. Finally, performance reviews and skills assessments are now better understood and more favorably perceived, although demand for added training remains very strong.

Results of the 2003 Managers Survey were sent to each manager individually.



Employees by business line



Developing production workers' skills is a key challenge.



★ BETC Euro RSCG 402 521 314 RCS Evry



TUC DE LU = 71% DE BLÉ.

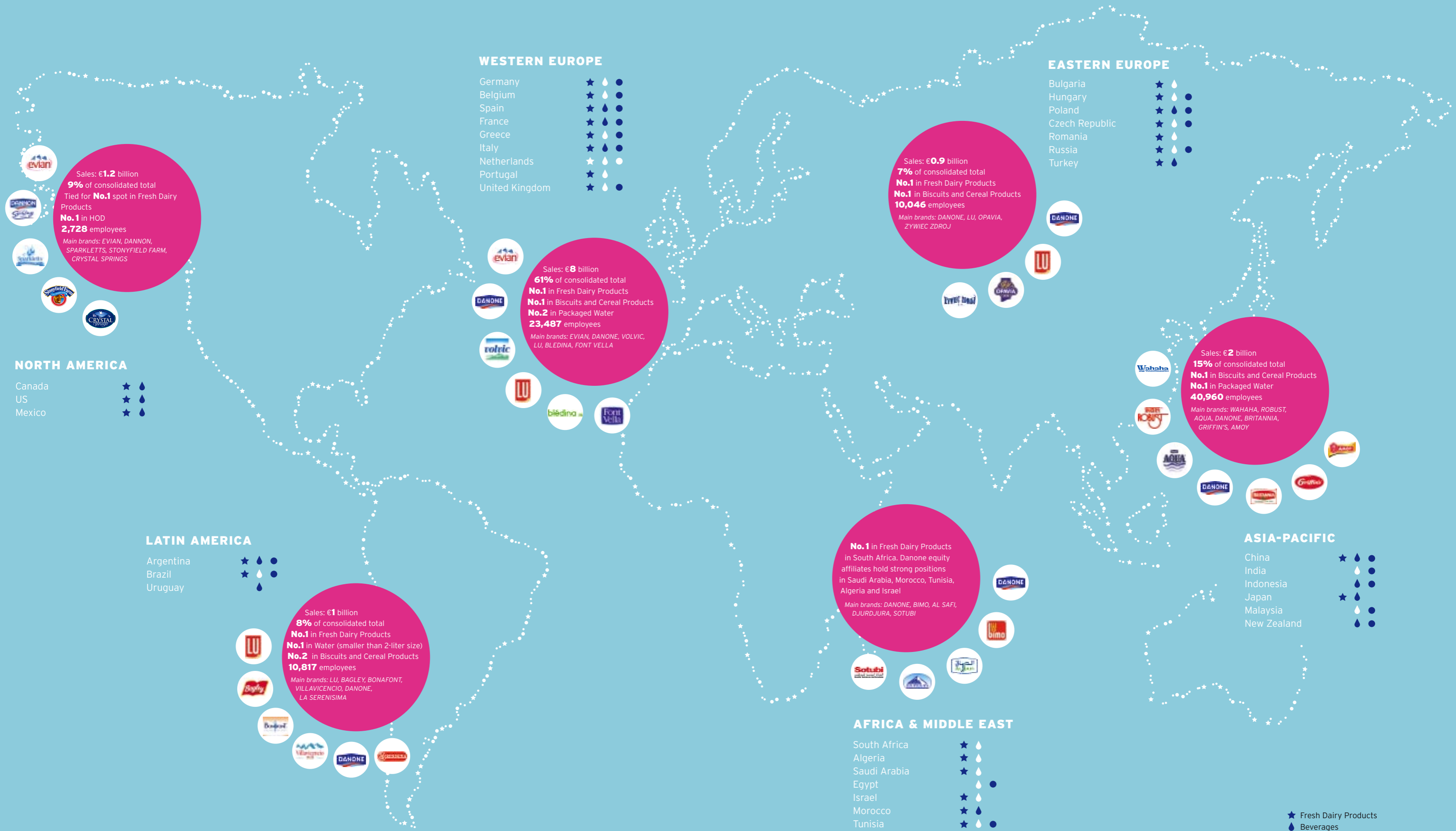


Key Figures

2003

- 70 Groupe DANONE worldwide
- 72 Groupe DANONE performance
- 76 Groupe DANONE and shareholders

© For more information, see the DANONE 2003 Form 20-F.



WESTERN EUROPE

- Germany ★ ● ●
- Belgium ★ ● ●
- Spain ★ ● ●
- France ★ ● ●
- Greece ★ ● ●
- Italy ★ ● ●
- Netherlands ★ ● ●
- Portugal ★ ● ●
- United Kingdom ★ ● ●

EASTERN EUROPE

- Bulgaria ★ ● ●
- Hungary ★ ● ●
- Poland ★ ● ●
- Czech Republic ★ ● ●
- Romania ★ ● ●
- Russia ★ ● ●
- Turkey ★ ● ●

North America

Sales: €1.2 billion
 9% of consolidated total
 Tied for **No.1** spot in Fresh Dairy Products
No.1 in HOD
 2,728 employees
 Main brands: EVIAN, DANNON, SPARKLETT'S, STONYFIELD FARM, CRYSTAL SPRINGS

Western Europe

Sales: €8 billion
 61% of consolidated total
No.1 in Fresh Dairy Products
No.1 in Biscuits and Cereal Products
No.2 in Packaged Water
 23,487 employees
 Main brands: EVIAN, DANONE, VOLVIC, LU, BLEDINA, FONT VELLA

Eastern Europe

Sales: €0.9 billion
 7% of consolidated total
No.1 in Fresh Dairy Products
No.1 in Biscuits and Cereal Products
 10,046 employees
 Main brands: DANONE, LU, OPAVIA, ZYWIEC ZDROJ

Asia-Pacific

Sales: €2 billion
 15% of consolidated total
No.1 in Biscuits and Cereal Products
No.1 in Packaged Water
 40,960 employees
 Main brands: WAHAHA, ROBUST, AQUA, DANONE, BRITANNIA, GRIFFIN'S, AMOY

Latin America

Sales: €1 billion
 8% of consolidated total
No.1 in Fresh Dairy Products
No.1 in Water (smaller than 2-liter size)
No.2 in Biscuits and Cereal Products
 10,817 employees
 Main brands: LU, BAGLEY, BONAFONT, VILLAVICENCIO, DANONE, LA SERENISIMA

Africa & Middle East

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

LATIN AMERICA

- Argentina ★ ● ●
- Brazil ★ ● ●
- Uruguay ★ ● ●

AFRICA & MIDDLE EAST

- South Africa ★ ● ●
- Algeria ★ ● ●
- Saudi Arabia ★ ● ●
- Egypt ★ ● ●
- Israel ★ ● ●
- Morocco ★ ● ●
- Tunisia ★ ● ●

ASIA-PACIFIC

- China ★ ● ●
- India ★ ● ●
- Indonesia ★ ● ●
- Japan ★ ● ●
- Malaysia ★ ● ●
- New Zealand ★ ● ●

★ Fresh Dairy Products
 ● Beverages
 ● Biscuits and Cereal Products
 (white: imports only)

Financial Highlights

(€ millions)

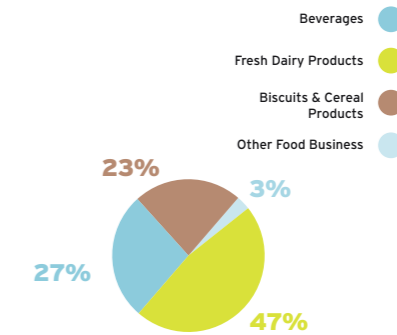
	2002	2003	Change
Net sales	13,555	13,131	7.2% (1)
Operating income	1,590	1,604	
Operating margin	11.7%	12.2%	48bp
Net income (excl. exceptional one-time items)	828	839	+1.3%
Exceptional one-time items (net)	455	0	
Net income (excluding minorities)	1,283	839	
Cash flow from operations	1,578	1,460	
Capital expenditure	603	543	
Free Cash Flow	1,017	1,149	
Investments in subsidiaries and affiliates	495	1,088	
Net earnings per share (excluding exceptional items)	€6.11	€6.45	+5.6%
Net dividend per share (€)	€2.30	€2.45	+6.5%
Return on capital invested	11.8%	12.7%	
Net financial borrowing	2,269	2,692	
Stockholders' equity (including minority interests)	5,816	5,528	
Debt/equity ratio	39%	49%	
No. of shares at Dec. 31 ('000)	137,335	134,975	
Share price at Dec. 31 (€)	128.2	129.4	
Market capitalization at Dec. 31 ('000,000)	17,606	17,466	

* submitted to the Annual General Meeting of Shareholders (April 15, 2004) for approval
 (1) at constant structure and exchange rates

Sales by business line

(€ millions)

	2002	2003
Fresh Dairy Products	6,276	6,185
Beverages	3,691	3,557
Biscuits and Cereal Products	3,232	3,071
Other Food Business (1)	356	318
Groupe total	13,555	13,131

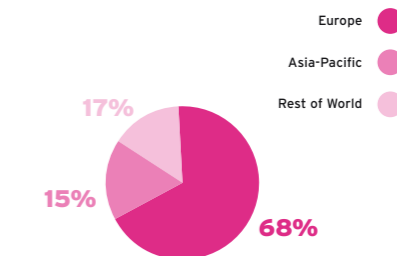


(1) Other Foods Business comprises sauces in the UK, the US and China. In 2003, sales rose 1.8% like-for-like to account for account 2.8% of the Groupe total.

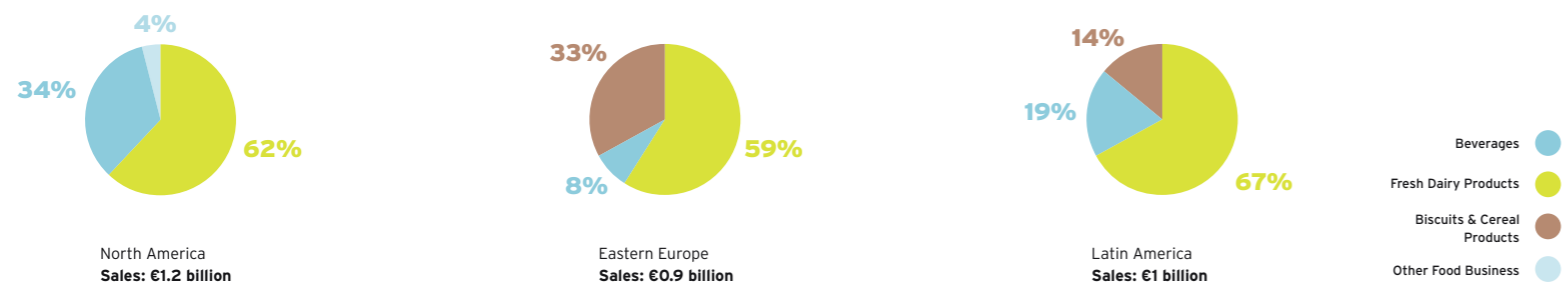
Sales by region

(€ millions)

	2002	2003
Europe	8,841	8,876
Asia-Pacific	2,080	1,957
Rest of World	2,634	2,298
Groupe total	13,555	13,131

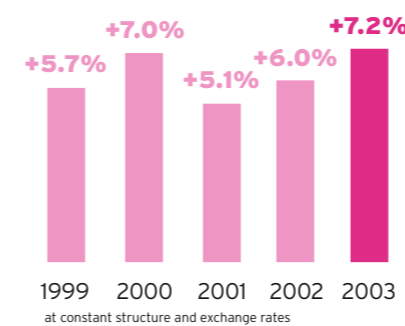


Sales by region and business line

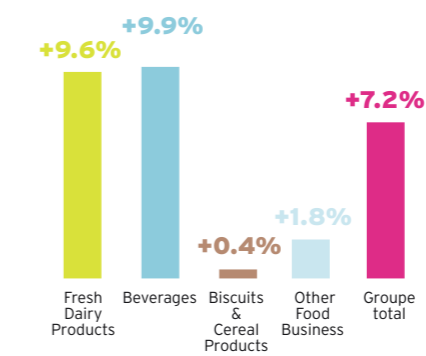


Sales growth at constant structure and exchange rates

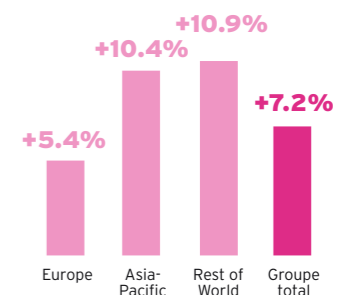
Groupe total past 5 years



By business line



By region



Sales and operating margin over 5 years (€ millions)

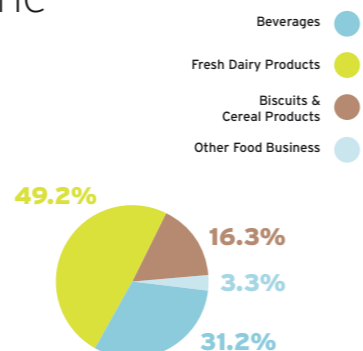
	1999	2000	2001	2002	2003
Sales	13,293	14,287	14,470	13,555	13,131
Published change	+2.8%	+7.5%	+1.3%	(6.3%)	(3.1%)
Like-for-like change (1)	+5.7%	+7.0%	+5.1%	+6.0%	+7.2%
Operating margin	10.5%	10.8%	11.1%	11.7%	12.2%

(1) at constant structure and exchange rates



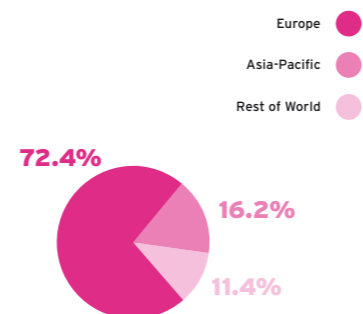
Operating margin and income by business line (€ millions)

	Operating margin		Operating income	
	2002	2003	2002	2003
Fresh Dairy Products	12.8%	13.7%	802	845
Beverages	12.6%	15.1%	464	537
Biscuits & Cereal Products	9.8%	9.1%	317	280
Other Food Business	17.1%	17.9%	61	57
Unallocated items			-54	-115
Groupe total	11.7%	12.2%	1,590	1,604



Operating margin and income by region (€ millions)

	Operating margin		Operating income	
	2002	2003	2002	2003
Europe	13.5%	14.0%	1,192	1,244
Asia-Pacific	13.3%	14.3%	277	279
Rest of World	6.6%	8.5%	175	196
Unallocated items			-54	-115
Groupe total	11.7%	12.2%	1,590	1,604



Ten-year financial data 1994 - 2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Summary of operations (€m)										
Consolidated sales	11,711	12,112	12,797	13,488	12,935	13,293	14,287	14,470	13,555	13,131
Sales growth (like-to-like)	+3.8%	+4.6%	+2.6%	+2.3%	+4.6%	+5.7%	+7.0%	+5.1%	+6.0%	+7.2%
Operating income	1,025	1,070	1,140	1,224	1,293	1,391	1,550	1,609	1,590	1,604
As % of sales	8.8%	8.8%	8.9%	9.1%	10.0%	10.5%	10.8%	11.1%	11.7%	12.2%
Net income	538	325	516	559	598	682	721	132	1,283	839
Cash flow and capital expenditure (€m)										
Operating cash flow	1,090	1,132	1,212	1,229	1,327	1,423	1,558	1,611	1,578	1,460
Capital expenditure	545	625	684	797	711	703	798	737	603	543
Investments in subsidiaries and equity method companies	893	608	1,140	470	485	934	2,849	1,071	495	1,088
Free Cash Flow (1)	602	464	528	537	647	622	624	1,503*	1,038*	1,110*
Financial position (€m)										
Stockholders' equity (incl. minority interests)	6,121	6,329	6,895	7,268	7,297	6,867	8,019	6,727	5,816	5,528
Net debt	2,412	2,514	3,289	2,752	2,873	3,119	4,401	4,827	2,269	2,692
Debt/equity ratios	39%	40%	48%	38%	39%	45%	55%	72%	39%	49%
Stockmarket data										
Share price at Dec. 31 (€) (1)	58	61	55	83	122	117	160	137	128	129.4
Number of shares at Dec. 31 ('000)	139,370	142,592	145,278	146,144	147,850	148,272	149,086	141,033	137,335	134,975
Market capitalization at Dec. 31 (€ millions)	7,946	8,749	8,005	11,964	17,971	17,347	23,854	19,322	17,606	17,466
Per share data (€)										
EPS (fully diluted)	3.9	2.4	3.6	3.8	4.1	4.7	5.1	0.97	9.43	6.45
EPS before amortization of goodwill	4.3	2.85	4.1	4.5	4.75	5.4	6.1	2.11	10.34	7.18
Dividend per share (including French tax credit) (3)	1.9	1.9	2.0	2.1	2.3	2.6	2.9	3.09	3.45	3.68 (2)
Workforce										
Total employees	68,181	73,823	81,579	80,631	78,945	75,965	86,657	100,560	92,209	88,607
Western Europe	54,061	52,386	50,770	44,863	42,170	33,764	28,023	28,302	23,857	23,490
Outside Western Europe	14,120	21,437	30,809	35,768	36,775	42,201	58,634	72,258	68,352	65,117

* includes impact of securitization.

(1) Cash flow from operations less capital expenditure and change in working capital requirement (prior year figures have been adjusted to this definition).

(2) Subject to the approval of the Annual Meeting.

(3) Assumes 50%, actual rate depends on law applicable to beneficiary.

A relationship built on a mutual trust

Stockmarkets hit a low in April 2003 during the war in Iraq, but then rallied sharply to finish the year up 11.4% for the CAC 40 and 9.5% for the EuroStoxx 50. Food stocks lagged behind general indexes in term of performance as they often do in times of market recovery, with the DJ Stoxx Food & Beverage index down 4.8% Over the same period, DANONE's share price held its ground, falling only 0.8% which is a testament to our group's model for profitable growth.

Annual returns on investment in DANONE shares averaged 2.9% from 1998 to 2003, compared with only 0.7% achieved by a sample of stocks from the main sector.*

Group management maintained a permanent dialogue with financial analysts and investors, with over 340 meetings and other contacts in the course of 2003. DANONE was also on hand at the main conferences organized around the world for blue chip companies in mass-market consumer goods. The Annual General Meeting is always a high point of the year, offering a unique opportunity for meetings between

management and individual shareholders. Over 1,500 individual shareholders attended the last General Meeting held at the Carroussel du Louvre in Paris on April 11.

Groupe DANONE ensures that full financial information is readily accessible.

Announcements of earnings, acquisitions and other significant financial developments are quickly and widely circulated in France and other countries, via networks of press agencies and websites.

Our website at www.danone.fr is regularly updated to provide detailed information on all major financial developments and includes press releases, presentations and main financial publications (hard copies available on request):

- The year in review
- Shareholders' newsletter
- Reference document
- Form 20-F
- The site also displays the latest DANONE share prices.

For more information
www.danone.com

Investor Relations

17, bd Haussmann, 75009 Paris, France
Toll-free information line for investors calling from France: 0800 320 323
Email: finance@danone.com

Share buybacks and cancellations

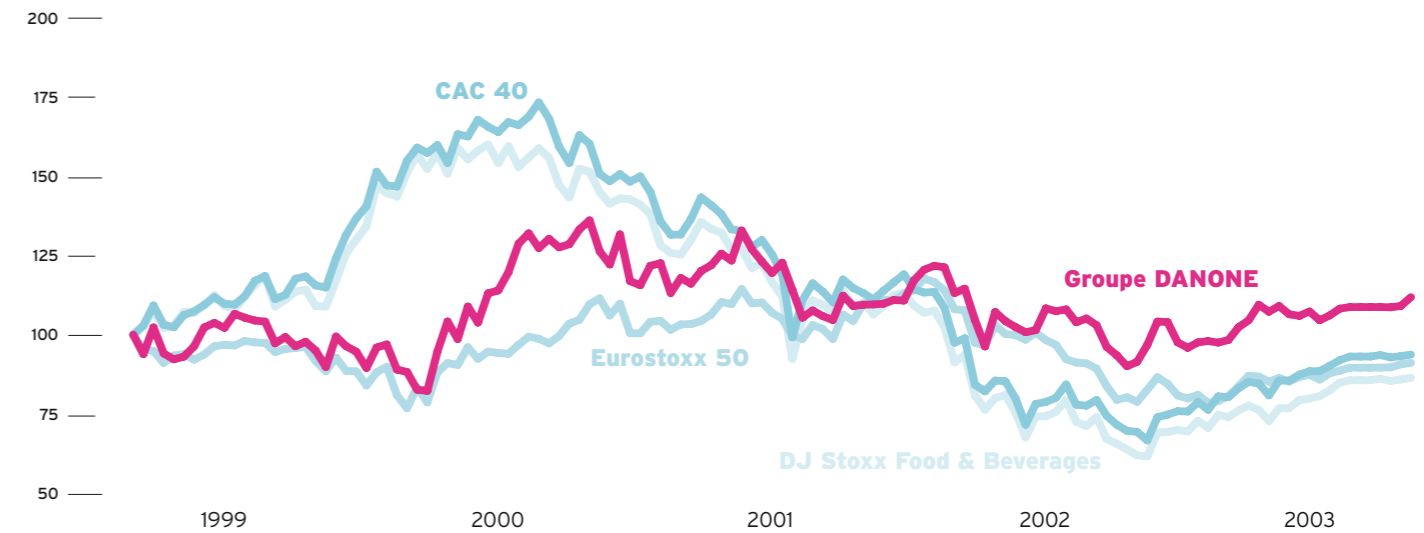
1 million shares in July 2003
1.7 million shares in December 2003
8,406,726 own shares held on December 31, 2003 (2).

Legal limits on share buybacks and cancellations in France

- a company may not hold more than 10% of its own shares at any time.
 - no more than 10% of shares may be cancelled in any period of 24 months.
- Holdings of own shares and cancellations are also subject to the approval of the Annual General Meeting.**

* Source: Bloomberg, Dec. 31, 1998 to Dec. 31, 2003.
(1) Unilever, Nestlé, Cadbury Schweppes, General Mills, Kellogg, PepsiCo, Coca-Cola; calculations based on euro values
(2) An additional 1.3 million shares were cancelled in February 2004

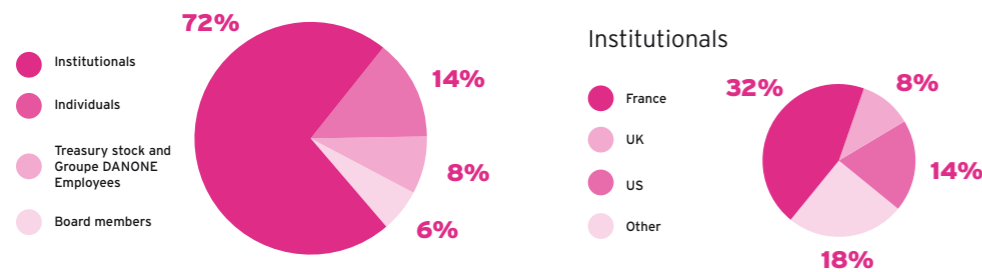
Main indexes (from 01/01/1999 to 31/12/2003)



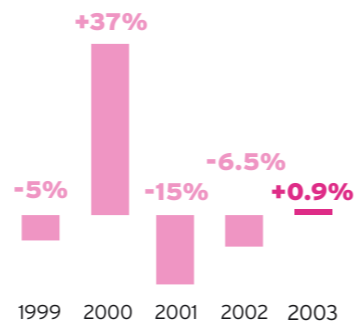
Stockmarket data (at December 31)

	1999	2000	2001	2002	2003
€ millions					
Market capitalization at Dec. 31	17,347	23,943	19,322	17,606	17,466
Closing price for the year	117	161	137.0	128.2	129.4
High for the year	138	173	163.3	150.4	137
Low for the year	103	91	124.9	109.4	104.2
'000					
Average number of shares traded daily	525	600	590	787	689

Share ownership (at December 31, 2003)



Share performance



Groupe DANONE shares

Nominal value : **€1 per share (1)**

134,975,493 shares outstanding (1)

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

Main identifying codes: **EUROCLEAR: 12064 - REUTERS: DANO.PA - BLOOMBERG:BN.FP - DATASTREAM: F: BSN**

DANONE is a component stock of: **DJ Eurostoxx 50 - CAC 40 - DJ World Food**

(1) at Dec. 31, 2003 - (2) via American Depository Shares (ADS); 5 ADS for one underlying share.

Main shareholders

(at December 31, 2003)

	% of equity	% of voting rights
Eurazeo	4.04	8.12
Caisse des dépôts et consignations	2.56	2.58

Per share data (at December 31)

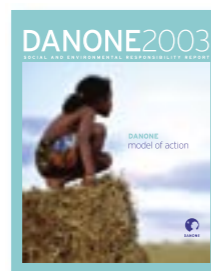
	1999	2000	2001	2002	2003
'000					
Number of shares representing capital stock	148,271	149,086	141,033	137,335	134,975
Number of shares for the calculation of diluted EPS	148,990	141,373	142,697	137,241	131,598
€					
Diluted EPS	4.69	5.09 (3)	5.51 (3)	6.11 (3)	6.45 (3)
Growth in EPS	15%	13.2% (3)	8.3% (3)	10.9% (3)	5.6%
Net dividend per share (1)	1.8	1.9	2.06	2.3 (1)	2.45 (1)
Net dividend plus tax credit (2)	2.6	2.9	3.09	3.45 (1)	3.68 (1)
Payout ratio	35%	37% (3)	38% (3)	36% (3)	37% (3)

(1) Subject to approval of the Annual General Meeting.
(2) Dependent on law applicable to beneficiaries, given here as 50% of the dividend.
(3) Excluding exceptional one-time items.

FOR MORE INFORMATION...



DANONE 2003
AT A GLANCE

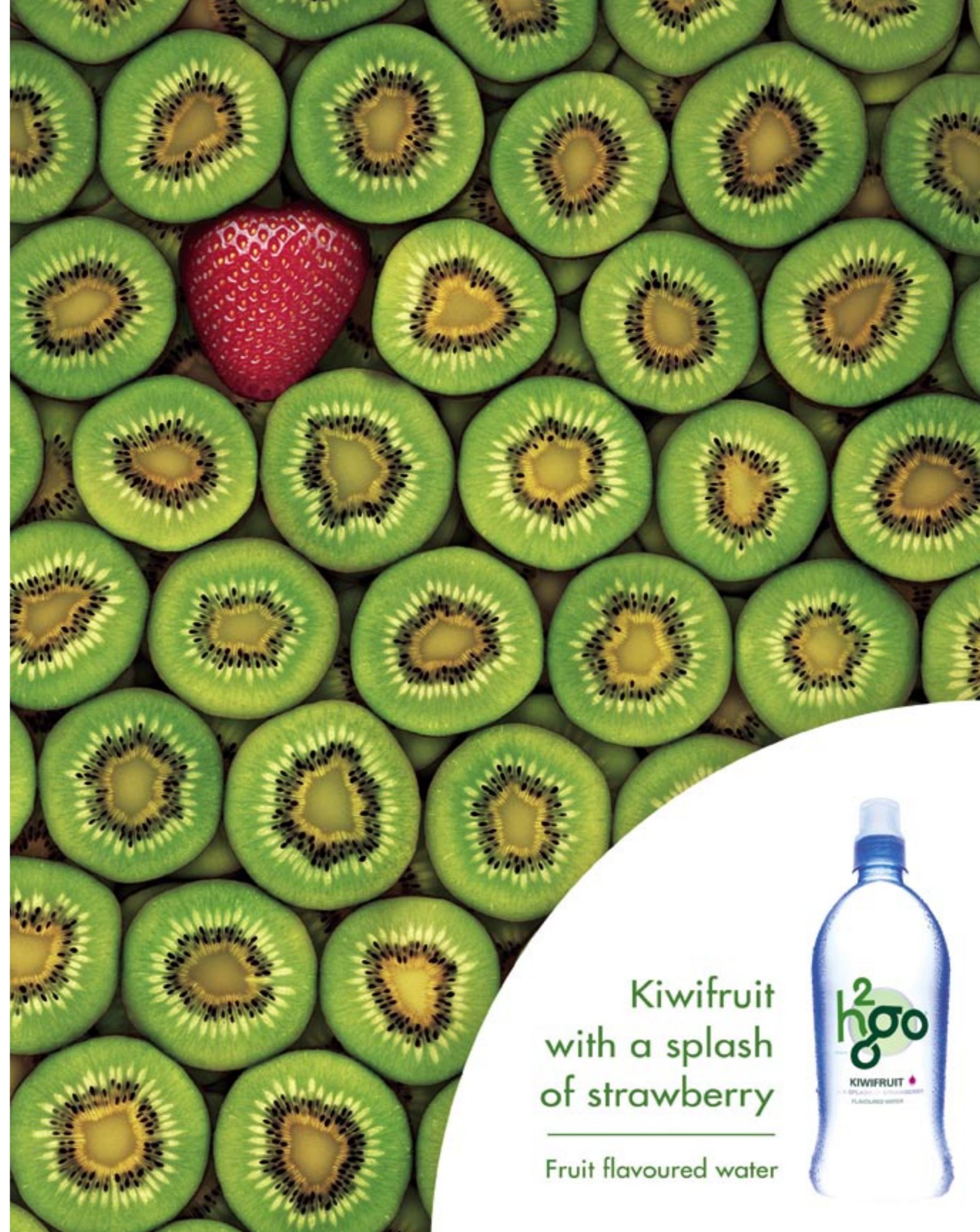


SOCIAL AND ENVIRONMENTAL
RESPONSIBILITY REPORT



FORM 20-F

Design/layout: Burson-Marsteller • **French text:** Angie • Burson-Marsteller • Groupe DANONE • **Photos:** Yuri Abramochkin/Gamma • Jean-Claude Aunos/Gamma • Dalia Benais • Grégoire Korganow/Métis • Stéphanie Tétu/Métis • Studio Papillon • DANONE IMAGE BANK • AFP • Getty-Images • All rights reserved • **Illustrations:** Éric Giriat/Virginie • **English text:** Blake, Durban, Gee



Kiwifruit
with a splash
of strawberry

Fruit flavoured water





DANONE

Groupe DANONE • 15, rue du Helder • 75439 Paris cedex 09 • Visitors: 17, bd Haussmann • 75009 Paris • Tel: +33 (0) 1 44 35 20 20 • **Corporate Communications** • Tel: +33 (0) 1 44 35 20 71 / 20 75 • **Investor Relations** • Tel: +33 (0) 1 44 35 20 76 • Toll-free number for shareholders: 0800 320 323 (free from fixed lines in continental France) • **Financial Information** • www.finance.danone.com • www.danone.com