



DANONE

# Letter to the Shareholders



## Rendez-vous

*at the DANONE group  
Annual General Meeting  
at the Louvre Carrousel  
on May 29th 2001 at 4 pm.*

*For any further information  
you may require on the  
conditions for your  
participation.*

*You will find the AGM  
on Internet:  
[www.finance.danone.com](http://www.finance.danone.com)*

## Dear Shareholder

The year 2000 was important for us on a strategic level: bringing the rationalisation strategy announced and begun four years ago to a successful conclusion, consolidating our position through acquisitions and launching new products, and developing the Group's activities on new markets.

Today 97% of the Group's activity has been focused on three professions : Fresh Dairy Products, Drinks and Biscuits which all have significant growth potential especially in developing countries.

In a context of globalisation, the Danone Group has succeeded over the last few years in becoming one of the world's best companies in the food-processing industry, thanks to the energy and enthusiasm of its managers and personnel. However difficult certain situations may be, it is only right to reaffirm what has always been the essential factor for the Group's success: its culture, i.e. the combined dual economical and

social project for which I am the guarantor.

An enterprise such as the Danone Group has always respected its employees, its consumers its customers, its shareholders and its economic environment. To achieve this it has permanently needed to take all the measures required to ensure a long-lasting future and its development without ever leaving anyone all by themselves to be confronted by a problem of employment.

It is with this attitude that the Danone Group will assume all its responsibilities concerning the Biscuit Division reorganisation plan, as much for employees and environment as for everything concerned with decisions on the company's future.

Franck RIBOUD

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## Reference points

Turnover: +7% on comparable basis, which means one of the best performances to be found amongst the world's main food-processing groups

# Results 2000

Operating margin: a progression for the sixth consecutive year established at 10.8%

Earning per share (diluted): an excellent performance at +132% (excluding net capital-gain)

Return on invested capital: a progression for the fourth consecutive year established at 9%

Investment in subsidiaries and affiliates: a continuous programme with an investment amounting to 2.8 billion Euros

## The year 2000: Exceptional results

The quality of the figures published for the year 2000 confirm that the profitable growth and focus strategy implemented by the Group over the past few years is now bearing its fruit.

The DANONE Group has been able to announce extremely significant internal growth in sales of over 7%, considerably higher than the average found in the world's food-processing industry, and, at the same time, it has continued improving its profitability very appreciably. Thanks to a policy of innovation, to the coverage made by its brands and to increasingly efficient cost control, the Group has also been able to announce significant progression in its operating margin, which has increased from 10.5% in 1999 to 10.8% in 2000, and in its net profit per action (excluding net capital gains) which has progressed by +13.2% over the same period.

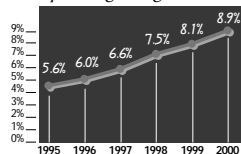
The Group has continued its policy of sustained external development (2.8 billion Euros have been invested

in 2000), the main operations being the purchase of McKesson Water in the United States, the take over of a part of United Biscuits' assets and buying out Robust, the N°2 water producer in China.

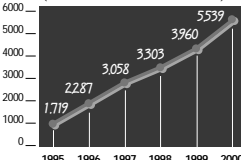
The Group possesses a solid financial situation thanks to a well controlled situation of indebtedness (a net financial debt/ equity ratio of 55%), a good cash flow that has been generated by its activities and a cash inflow capacity over the next few years of almost 2.4 billion Euros resulting from our backing-out process on brewery activities in Europe.

## International success\*

International activity operating margin

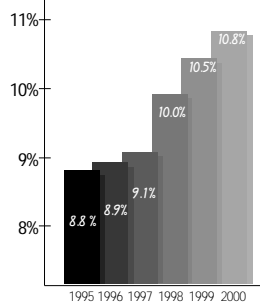


International activity sales (in thousands of Euros)



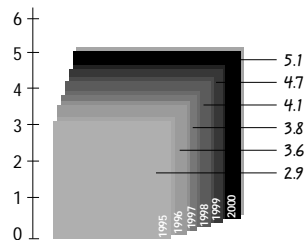
## Evolution of operating margin

since 1995



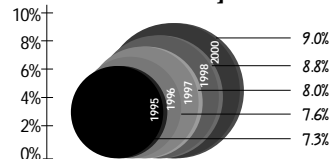
## Earning per share\* (fully diluted)

in Euros



\*After share split by 2 in June 2000.

## Evolution of returns on invested capital



• Thanks to an ambitious development programme put into practice over the past few years, the Group does 41% of its proforma turnover outside Western Europe, compared with 29% in 1999 and only 10% in 1994.

• This zone is showing sustained internal growth rates well above normal with an average of over 10% per year over the past three years.

• The operating margin has progressed constantly thanks to dynamic sales results and the critical size effect: 8.9% in 2000 compared with 8.1% in 1999 and 4.2% in 1994.

• The Group is the world leader in developing countries for each of its three professions: fresh Dairy Products, Packaged Water and Biscuits.

\* Activities located outside Western Europe.

# Activities

## Fresh Dairy Products

- An appreciable acceleration in internal growth from +5.4% in 1999 to +6.7% in 2000
- Actimel continues to be successful, with a progression in sales of 53%. The American market is extremely active and this has enabled Danone to progress by +8%
- Operating margin has remained virtually the same at 10.9%, under the effect of the increase in European milk prices and plastics.

## Drinks

- Sustained internal growth in sales (+8.4%), despite difficult summer weather conditions
- In the perspective of selling the

In the first quarter of 2001, the Group has shown sustained internal growth, with an increase in turnover of 6.6% on comparable levels.

European Beer Division, Kronenbourg and Alken Maes were "deconsolidated" on June 30th and San Miguel on December 31st 2000

- Numerous new products have also been launched: Danone Water in Europe, Volvic Fontaine 5L...

- Operating margin has increased to 12.4% despite significant cost increases in PET.

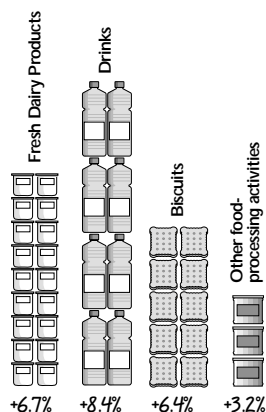
## Biscuits

- Appreciable acceleration in internal growth of sales from +3.4% in 99 to +6.4% in 2000 thanks to the success of new products in Europe and the vitality of developing countries

- Rapid progression of the operating income (8.7% compared with 7.9% in 99) which has profited from the "mix" effect of innovations in Europe and increasing efficiency in developing countries.

## Sales growth by business line

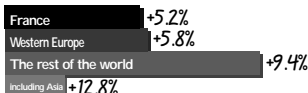
On comparable levels:  
constant structure exchange rates



Group +7.0%

## Sales growth by geographic area

On comparable levels:  
Using the same perimeters and constant exchange rates



Group +7.0%

# Key figures for 2000

	M€ 1999		M€ 2000		Variation	
	MF	MF	MF	MF		
Net Sales	13,293	87,195	14,287	93,719	+7% (1)	+7.5%
Operating income	1,391	9,123	1,550	10,165	+13.1% (1)	+11.4%
Operating margin	10.5%		10.8%			
Net profit (part of the Group)	682	4,474	721	4,732		+5.7%
Cash flow	1,423	9,337	1,558	10,219		
Industrial investments	703	4,609	798	5,238		
Investments in subsidiaries and affiliates	934	6,127	2,849	18,686		
EPS (diluted)	4.69	30.76	5.10	33.47		+8.7%
Dividend per share	1.75	11.48	1.90*	12.46		+8.6%
Return on invested capital	8.8%		9.0%			
Return on equities	10.8%		10.8%			
Created Shareholding value	139	912	150	984		+7.9%
Net financial debt	3,119	20,456	4,401	28,863		
Shareholders' equity	6,867	45,046	8,019	52,602		
Indebtedness ratio	45%		55%			
Number of shares in equity on 31/12 (in thousands)	148,271		149,086			
Share value in Euros on 31/12	117.0	767	160.6	1,053		+37.3%
Market capitalisation in millions of Euros on 31/12	17,347	113,789	23,943	157,057		

\* Amount submitted for the General Assembly's approval.  
(1) On comparable levels. Using the same perimeters and constant exchange rates.

# Latest news from the Group



DANONE

## A new country for the Group!

Last November the DANONE Group signed a partnership agreement with the Al Safi Company, co-leader in Saudi Arabia for fresh dairy products.

The new company has been called Al Safi – Danone, and it will market its products throughout the Persian Gulf, including the Yemen, a market potential

of 40 million inhabitants. The DANONE Group will hold 50.1% of the company's capital.

Already present in the area through sales by the LU, Evian and Volvic brands, the DANONE through this policy the Group has reinforced its position and its international stature.

## The DANONE Group has become leader for Fresh Dairy Products in Brazil

Last December the DANONE Group took over a part of the State of Sao Paulo Central Dairy Cooperative's activities (Fresh Dairy Products and UHT milk).

This newly created company is N°3 in the Brazilian market, the biggest in Latin America. It owns the Paulista brand, the Guarantigueta plant east of Sao Paulo and profits from agreements with the central cooperative for milk supplies, and for manufacturing and distributing finished products.

So, the DANONE Group, which is already present on the biscuit market, will hold a firm pole position as leader in the Fresh Dairy Product market in Brazil with over 30% of the market and an additional turnover of 110 million Euros.

## The DANONE Group has acquired 50% of Aquarius Water in China, the leader in Home and Office Delivery (HOD).

This company is based in Shanghai and controls 55% of Shanghai's household water distribution market with an active portfolio of 350,000 customers. Selling is done through direct ordering and Internet.

In parallel to this, the DANONE

Group will also acquire a minority participation in the Shanghai Aquarius on-line Sales Co.

Today this company is marketing Aquarius water on Internet and, at long term, it will sell other DANONE Group products in China.

# Amoy Straight to wok: From wok to plate

Chinese cooking is considered to be a difficult operation by the public in Europe. Based on this observation, the Amoy brand

(n° 2 in the sector with a 20% share of the market) has developed the "Straight to Wok" kit that proposes a complete meal for two people ready in ten minutes. The recipe: Chinese vegetables and noodles with sweet and sour sauce to which either meat or fish can be added, all ready for your chopsticks. The Amoy kit was launched in the Benelux countries in October under the name of Wok Express and then in Great Britain as Straight to Wok. It is giving every sign of becoming a success.



# Danone Activ' and Taillefine The Group's "health" water

Solidly entrenched in the fields of health and nutrition that represent 36% of the Group's turnover, the Danone brand is extending its positioning to the world of mineral water.

Danone Activ' and Danone Taillefine were launched last November to meet new consumer requirements.

Danone Activ' is aimed at the growing children and adolescent niche because of the significant quantity of calcium that it provides.

Danone Taillefine, which is already marketed in Italy under the name of Danone Vitasnella, is more a response to the "happy slimming

without effort" concept. The water has a reduced sodium content and is enriched with minerals essential for slimming diets: calcium and magnesium.

These new Danone brand mineral waters are marketed in Belgium and Great Britain.



# DANNON cream the best you can find



After an initial launch in the French and Spanish markets, the cream was presented to the United States market by The DANNON Company in January 2001. The product corresponds to American tastes, as it is rich and creamy and is considered as being a real sweet.

Therefore, the Cream should both appeal to yoghurt fans and attract new consumers.

At present, it is sold in 4 pot packs in the Eastern United States, but extending the market is programmed for the near future.

# Prince aux Fruits European launching

Results of tests carried out early in the year 2000 were formal: the new presentation of Prince biscuits with fruit centres intended for children has an extremely large potential. Acclaimed for its taste and its crispness, Prince aux Fruits is already marketed in Belgium and will soon appear on shelves in shops in 5 other European countries: France, Spain, the Netherlands, Poland and the Czech Republic. Prince aux Fruits is proposed in two flavours, strawberry and apricot, and its success is due to the biscuit-jam nutritional balance and its fun packaging full of vitality.



# Evian The drop of water that has made sales overflow

Remarkable!

Four million bottles of the "XXIst Century Drop of Water" have been sold this year, over twice as many as its predecessor, the famous "Millennium Drop of Water" bottle.

At the end of every year since the Olympic Games in Albertville in 1992, Evian has been offering a limited number of "prestige" glass bottles. The success of the famous "Drop of Water" is essentially due

to its original shape, a symbol of purity and timelessness.

In front of such consumer enthusiasm, the bottle has been marketed in 125 countries. Both elegant and joyful, the little drop of water has become a huge drop of gold!

# Evian AFFINITY® Water becomes skin care



The DANONE Group has joined up with Johnson & Johnson, the worldwide leader in health products (pharmaceutical, professional and general public health products) to develop a complete line of skin and body care products: Evian AFFINITY®. This new positioning will help to confirm and enrich the Evian brand's image of youthfulness and fitness.

Thanks to Evian's "good-health" water, the Evian AFFINITY® line meets three essential skin requirements naturally: breathing, hydrating and self-regenerating. The Evian AFFINITY® products accompany the body's natural laws of reaction and prove to be an ideal source of life, youthfulness and vitality for skin.

The range is made up of nine face and body care products presented in aesthetic, practical and intelligent packaging that respects environment: reusable zip-closing plastic sachets.

Evian AFFINITY® has been available in French hyper and super-markets and large stores since March 2001

## Note pad

### Dates for future Danone Group publications

29th May 2001: DANONE Group Annual General Meeting (the Louvre Carrousel).

6th June 2001: Payment of dividends.

25th July 2001: Sales figures and provisional results for the first six months of 2001.

10th October 2001: Sales figures for the first nine months.

# The Biscuit Division reorganisation plan for Europe

*The Biscuit Division reorganisation plan for Europe was presented to the DANONE Group's social partners on March 29th of this year.*

Today the European biscuit market has found itself in a highly competitive economic context marked by the appearance of new performers, increased concentration of the leading companies in the sector and the advent of new food consuming habits.

Despite the Biscuit Division's performance, the Group's leadership on this market has been weakened. The market only progresses in terms of value due to innovating with new products. This major growth lever requires an ever-increasing amount of resources.

The DANONE Group has to apply a strategy of constant innovation to reinforce its position. It must be concentrated on European product families and adapt itself to technological and organisational developments.

To maintain its competitiveness and guarantee its development the Group needs to rationalise its industrial tool now. **The usage rate for its plants in Europe is only 43% compared with 57 to 70% for its principal competitors.**

***A firm commitment towards the employees concerned.***

The Biscuit Division reorganisation plan for Europe concerns Benelux,

Italy, Hungary, the United Kingdom and Ireland. In France, the plan programmes the closure of the plants at Calais and Evry and reorganisation at Château Thierry.

At the same time, the factories at Cestas (Bordeaux) and La Haye Fouassière (Nantes) are to be developed and should double their production and create employment. These new jobs will be given in priority to employees concerned by the plan. Seven other factories will maintain their activities at current levels. All in all 570 jobs will disappear in France.

**In the context of this project, from January 2001, the DANONE Group committed itself to:**

- Limit transfers of production outside the original country. Product volumes produced in France will continue to be manufactured in France.
- Set aside any subcontracting.
- Put into application all the measures needed for reducing the plan's social impact, which will take place over a period of 2 to 3 years, i.e.:
  - **Reclassifying:** In France, 3 jobs will be offered to each employee. Each employee will be offered a job in the Group, and 2 proposals will be made for a job in other companies situated in the same work area for employees who are not mobile.

- **Re-qualifying:** Long term training courses for getting extra qualifications will be proposed to all employees who are interested.

Specialist advisors will work out an Individual Plan of Action with each employee so that everyone concerned will be personally looked after.

- **Re-industrialising:** The DANONE Group will look for new companies in the objective of recreating jobs.

**The plan presented to the personnel's representative bodies respects these commitments in their integrity.**

Whenever economic and industrial contexts have led the DANONE Group to restructure, it has always been a pioneer in terms of social assistance, as it has shown over the last few years by succeeding in placing 95% of its employees.

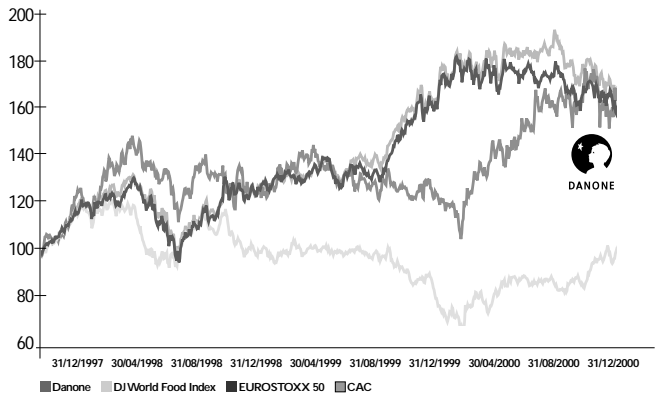
The Biscuit Division reorganisation plan in Europe is the answer to a real industrial project: providing the division with a strengthened, simplified and concentrated production tool capable of manufacturing the volumes required for the European market under really competitive conditions.

The reorganisation plan should be completely finished by June 2004.

# The Shareholder's notebook

A progression of 37% on the stock exchange during 2000. In a context highly influenced by technological values, this progression underlines the markets' confidence in the solidity of the Group's profitable growth model. DANONE presented the seventh best performance on the CAC 40 and one of the very best performances for major international food processing values. The sector's reference index, the "DJ world food Index" went down by 16% over the same period. DANONE securities are now a part of Eurostoxx 50, the main index for major European shares. This index includes the first 50 companies in the Euro zone in terms of float and market capitalisation.

Comparison of the progression of Danone stock and the Eurostoxx 50, CAC 40 and DJ World Food indexes from 31st Dec. 1997 to 13th Feb. 2001



## Total shareholder return:

Over the period from 1998 to 2000, the total shareholder return on investment in DANONE has increased by +26%.

Over this period a panel of shares from the same sector only progressed by +7%.

(From 31/12/1997 to 31/12/2000, including the progression of share price plus dividends (with tax credits); the panel was made up of shares from Unilever nv, Nestle, Kellogg, General Mills, Coca Cola, Pepsi, Cadbury Schweppes and Philip Morris.

## The Danone shareholder's data sheet

Number of shares on Dec 31st 2000: 149.1 million

Nominal: 1 Euro per share (on 31/12/00)

Financial markets:

Paris (Deferred settlement stocklist)

London, Brussels, Swiss stock exchanges,

New York (ADS)

(American Depository Share/ 5 ADS = 1 normal share)

Danone shares are a part of the CAC 40 index and EUROSTOXX 50.

## Year 2000 reference points

	Danone share in EURO	EUROSTOXX in points	CAC 40 in points
At the close	117	4,904	5,958
Highest	172.4		
Lowest	90.6		
At the close 31/12/00	160.6	4,772	5,926
Variations	+37.3%	-2.7%	-0.5%

## Addresses/contacts

Find all the financial information on [www.finance.danone.com](http://www.finance.danone.com)  
Figures, News, Presentation, Calendar...



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