



DANONE

Letter to shareholders

December 2002

Dear shareholder,

Groupe DANONE's firm performance over the first nine months, when organic sales growth reached 5.3%, means that we can confirm the targets announced at the beginning of the year. Results once again show that the DANONE model for growth is soundly based and effective even in testing conditions. I would like to lay special emphasis on what I believe are the decisive factors at present. Firstly, we can count on powerful drivers for continued expansion —sales growth since the beginning of the year has run at 9% for Fresh Dairy Products and 10% for the DANONE brand, while business in Europe was up nearly 6%. At the same time, we are working towards a balanced geographical presence that combines diversification of risk and potential to make the most of expansion on some emerging markets. We are thus moving closer to our target, which is to generate 60% of sales on mature markets and 40% on emerging markets. We have opted for a selective approach: rather than attempting to be present on all new markets, we focus on a few countries, building number-one positions to get the full benefit of their promise. In Asia, for example, these countries

include India, China and Indonesia, where our sales show double-digit growth. Finally, there is another key competitive advantage we are extremely attached to —our culture and organization. As I have said more than once, I want DANONE to be the world's *fastest moving food company*, and by that I mean not necessarily the fastest growing but the one with the quickest reactions. That is how we can move ahead and find pragmatic responses to challenges as they arise. An illustration of this is our agreement with The Coca Cola Company to expand our sales of bottled water in the US. Another fundamental feature of our culture is constant attention to people. Here I would like to draw attention to the commitment of our teams in the Biscuit division, which has already enabled over 60% of employees affected by restructuring at LU France to find alternative jobs.



Franck Riboud

Shareholders' Meeting

The combined Ordinary and Extraordinary General Meeting of Shareholders will take place on Friday, 11 April 2003 at the Carrousel du Louvre, 99, rue de Rivoli, 75001 Paris. We thank the 2,000 shareholders who attended last year's meeting.

2002

Key indicators

Sales **+ 4.2%**
(+4.9% based on operations retained in the second half)

Operating margin **11.1%**
(up from 10.9% in the first half of 2001)

Net earnings per share (diluted) **+ 11%**
(excluding exceptional one-time items)

Results

First half 2002 ON TARGET

Organic sales growth reached 4.2% in the first half of 2002, and operating margin improved from 10.9% to 11.1%. Fully diluted net income per share, excluding exceptional one-time items, rose 11%.

Excluding business sold during the period, principally Galbani and domestic bottled water in the US, organic sales growth reached 4.9% in the first half, with a vigorous rise of nearly 8% in sales under the DANONE brand which now accounts for over a third of total group sales. This performance, combined with a year-on-year rise in operating margin from 10.9% to 11.1%, demonstrates the pertinence of DANONE's growth strategy. This is true even in difficult times marked by the economic crisis in Latin America and stiffening competition on the US water market. A consolidated net loss of EUR 630 million for the six months to June 30 includes approximately EUR 1 billion in exceptional one-time items. A third of this amount relates to domestic bottled water spring and source water brands in the US following the agreement with The Coca

Cola Company, and the remainder represents amortization of goodwill on business in emerging markets, principally in Latin America. Full year, exceptional one-time items should represent a sizeable net gain, including a net capital gain of EUR 1.5 billion

resulting from the finalization of the sale of our European brewery business to Scottish & Newcastle. At the end of September, this divestment brought in EUR 2.3 billion, allowing a significant decline in debt to a level that is among the lowest in the past ten years.

Sales up 7.8% in 3rd quarter 2002

At constant scope of consolidation and exchange rates

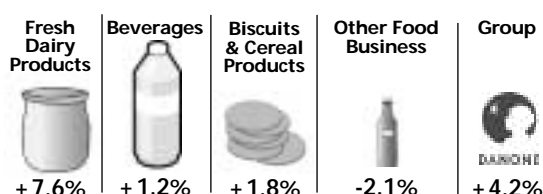
Fresh Dairy Products	+11.0%
Beverages	+6.4%
Biscuits & Cereal Products	+4.7%
Other Food Business	+1.4%
Group	+7.8%
France	+8.0%
Rest of Western Europe	+6.8%
Rest of World	+8.5%
Group	+7.8%

Sales in the nine months to September rose 5.3% like-for-like.

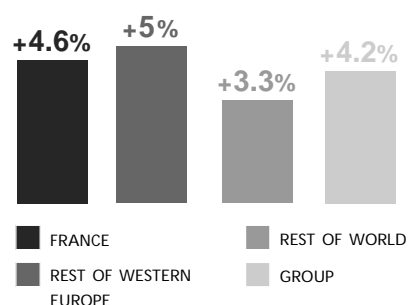
Business lines

Sales growth* (1st half 2002)

by business line (%)



by region (%)



* at comparable scope of consolidation and exchange rates.

Change in operating margin

by business line (%)

	1st half 2001	1st half 2002
Fresh Dairy Products	11%	12.3%
Beverages	12.1%	11.7%
Biscuits & Cereal Products	8.3%	8.2%
Other Food Business	14.9%	16.5%
Group	10.9%	11.1%

by region (%)

	1st half 2001	1st half 2002
France	10.7%	11.7%
Rest of Western Europe	10.5%	12%
Rest of World	9.5%	8.8%
Group	10.9%	11.1%

Key figures

(€ millions)

	1st half 2001	1st half 2002	Change
Sales	7 292	7 152	+4.2% ⁽¹⁾
Operating income	795	796	
Operating margin	10.9%	11.1%	+20bp
Net income (excl. exceptional provisions)	375	402	+7.2%
Diluted EPS (excluding exceptional items)	€2.65	€2.94	+11%
Net income	375	(630)	
Net financial borrowing	4 764	4 456	
Stockholders' equity (incl. minority interests)	8 280	4 522	
No. of shares at 30 June (millions)	149,4	141,4	
Stock price (close, 30 June)	€162.1	€139.2	-16.4%
Market capitalization (close, 30 June)	24 218	19 691	

(1) at constant scope of consolidation and exchange rates.

What's News in Group?



EVIAN 2003 Eye-catching style

The new Evian teardrop bottle is styled to evoke pleasure and thirst-quenching refreshment. The deep purple color selected for the cap, emblematic of the product, was chosen for its association with indulgence and sensuality, while the bottle's frosted surface signals cool freshness. In shops since mid-November, it sells at a recommended retail price of €2.05.

40%, rise in sales of Actimel, now available in over 20 countries.

DAN'INOV, awards

The Dan'Inov program rewards the best marketing initiatives within the group. Launched in 1994, it is now in its eighth year.

- The Dan'Inov 2002 prize for Water went to Evian for its removable bar code. This handy innovation does away with the need to lift heavy packs of bottles onto supermarket counters.
- In Fresh Dairy Products, the winner was La Crème from The Dannon Company in the US. The product's unique taste and texture have won it special favor with American consumers.
- Taillefine Les Matins, launched by LU in France, took the prize in Biscuits and Cereal Foods.
- In the Asia-Pacific region, the prize went to Mizone Sportswater, a product launched by Frucor, our new subsidiary in New Zealand. This vitamin-enriched water is proving a big success in both New Zealand and Australia.
- The jury awarded a special prize to Wahaha in China for its Future Tea Drink. A prize for taste went to Vitalinea to Drink, a drinkable version of Taillefine yogurt that is proving a big success in a number of countries.



Upcoming events

- February 13, 2003
Publication of 2003 financial results
- April 11, 2003
Groupe DANONE Annual General Meeting

DANONE RUSSIA The first drinkable yogurt for children

In May Danone Russia launched Drinkable Rastishka, the first drinkable yogurt specially designed for Russian children. The Rastishka brand is extremely popular in Russia and leads the fast-growing market for children's dairy products, where volumes doubled in 2001. Calcium enriched Drinkable Rastishka is currently available in strawberry and apricot/ peach flavors.

In June, an advertising campaign to back the launch featured Dino the little dinosaur. Events in Moscow and Saint Petersburg featuring life-size Dino puppets gave children an opportunity to try the new product and receive special gifts.



BLÉDINA steps in for the needy



Last winter Blédina donated 150,000 jars of babyfood and another 150,000 bottles of Blédilait infant formula to France's popular Restos du Coeur program, helping 27,000 babies in needy families. The operation was a major success, winning more recognition among young mothers than any other charity initiative except the traditional collection of spare change for good causes by schoolchildren. It will be renewed this year. Many Blédina employees joined in, making personal contributions including toys, books and other items.

PEPITO CHOCO'CREAMY A festive flavor

A crunchy chocolate biscuit with a creamy-rich vanilla center, Pepito Choco'Creamy makes afternoon snacks a moment of irresistible pleasure for children aged 4 to 14. The new product is sold in packets of 13 with 4 different designs.



Children's icon in new role (TITEUF)

Titeuf is a favorite comic-strip character with French youngsters aged 6 to 14 as well as their parents: 92% of mothers surveyed considered the pint-size rascal a good emblem for biscuits, and 84% said they would buy the product if their children asked for it. In April 2002, LU thus launched Titeuf biscuits in a format designed especially for schoolbags. A variation on the traditional chocolate-coated biscuits produced at its Château-Thierry plant, the new product has been specially adapted to the character: biscuits are extra long and irregularly shaped, with brightly colored individual wrappings.

→ In April, Groupe DANONE signed an agreement with The Coca Cola Company for the distribution of Evian in North America. This was followed in June by an agreement for partnership in the production, marketing and distribution of domestic spring waters Dannon and Sparklett's in the US.

KUDOS FOR DANONE consumer relations

In the 2002 Customer Relations Awards –the 14th event of its kind– DANONE took the Gold Trophy for phone, internet and mail services. This was in recognition of professional standards, responsiveness and clear message, but also more personal qualities such as friendliness, willin-

gness to listen and attention to individuals. Already an award winner in 1997 and 2000, DANONE was competing with 250 businesses selected for their high profile and sales volumes. Success reflects the quality of teamwork in this important area.



YOGURT AND CREAM CHEESES

Winning a name in Czech schools

In 2000, the Czech government launched its School Milk Project in association with suppliers of dairy products. The aim of this far-reaching initiative is to offer all children in the country two dairy products each week at

prices below half the market level. Danone has been an active participant since April 2001, extending the range of products on offer by developing new yogurts, drinkable yogurts and cream-cheese style products with high nutritional value. Danone yogurts are now served at 211 of the Czech Republic's 4,000 schools. Where it is the exclu-

sive supplier, Danone also makes refrigerated trucks available for deliveries. In other cases it uses local producers' networks.

This initiative represents a long-term investment in the Danone brand, as well as an opportunity for Czech children to enjoy high-quality dairy products at very affordable prices.

BISKUAT SUSU

Nutritional value

DANONE Biscuits Indonesia (DBI) recently put a new product on the market: Biskuat Susu, a biscuit with six added vitamins as well as essential minerals for extra energy and health benefits.

Containing a high proportion of milk, Biskuat Susu was launched after a study showed that per-capita milk consumption in Indonesia is the lowest in the Asia-Pacific area. The Indonesian government considers it an essential part of a healthy diet. Four Biskuat Susu contain the equivalent of a 150-ml glass of milk. Sales growth has been strong, as it has for DBI's other high-nutrition product, Biskuat Energy. Biskuat Susu product manager Tani Sulaeman notes, "Understanding consumers and adopting a strategy to match are the keys to success for any product launch."

TAILLEFINE

Pure pleasure



On June 10, 2002 our group put its first Taillefine flavored waters on the French market, with two original flavors: one blends grapefruit and green tea, and the other pineapple and papaya. Refreshing and calorie-free, both let consumers enjoy full-fruit flavor with zero weight gain. The products have proved a big success with major retailers, beating forecasts with over a million bottles sold in October alone. Taillefine waters come in elegant one-litre bottles —ideal for people on the move.

DANONE VITAPOLE

Innovation makes the most of science, technology and natural resources.

Groupe DANONE has brought all research operations and selected development resources under a single roof at its Vitapole center. The site serves all three score businesses –Beverages, Biscuits and Fresh Dairy Products. R&D makes a key contribution to our strategy for profitable growth through successful product innovation and constant enhancement of industrial processes. And Danone Vitapole plays a dual role, reinforcing the capacity of each business line

Six research priorities

to innovate while accelerating the introduction of new products. It does so by applying advanced technology to add value and win consumer favor. Reflecting underlying trends

in consumer preferences, special emphasis is placed on the sensory and nutritional aspects of products, related health benefits, and ongoing improvements of packaging and wrappings.

Yet whatever the project, Danone Vitapole always places people, environmental quality and nature at the heart of its concerns. Observation, understanding and respect for both consumers and the quality of ingredients are clearly essential to the center's capacity to bring people the best from nature. In keeping with this philosophy, Danone Vitapole has defined six priorities, each assigned to an expert team:

- Vitavaleur®
developing new ways to preserve and enhance the natural properties of ingredients such as ferments, milk, wheat and fruit.

- Technovaleur®
innovation to optimize production processes.

- Sensovaleur®
understanding food preferences.

- Nutrivaleur®
ensuring products meet nutritional requirements, building on advanced knowledge of nutrients, ferments and health.

- Joint Analysis
a unit charged with defining strategies and methods of analysis.

- Food Safety Center
developing methods for the analysis and control of both identified hazards and emerging risk.

Development teams attuned to consumer tastes in different parts of the world design new products and bring out first pilot production runs for testing and consumer trials.

More generally, this new focus for scientific and technical endeavors has favored the emergence of new forms of cooperation, helping to ensure that research and development are drivers for business success. R&D teams are involved upstream in the early stages of product and process innovation, but also work closely with marketing, production, and quality teams. This cross-functional approach holds special promise for the future: sharing ideas from all areas of business operation is the surest way to discover new ways to apply technology to meet consumer demand effectively.

Shareholders' notes

DANONE share information

■ DANONE SHARES:

at June 30, 2002

141.46 million

■ NOMINAL:

€1 per share

at June 30, 2002

■ LISTINGS:

Euronext (Amsterdam,

Brussels and Paris)

London

Swiss Stock Exchanges

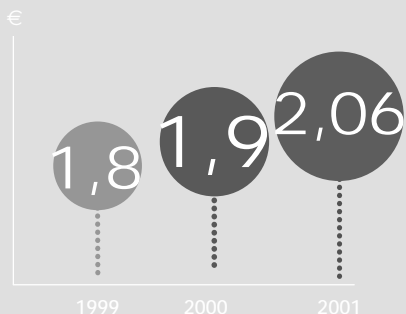
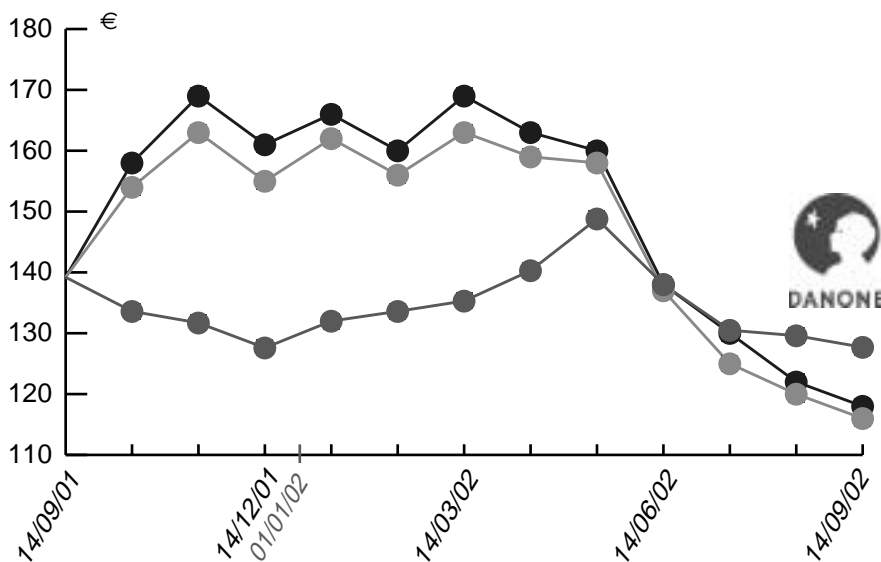
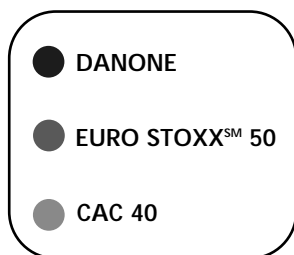
New York

DANONE is a component stock of the CAC 40 and DJ EURO STOXX 50 indices.

■ MARKET PERFORMANCE

Comparison of DANONE with CAC 40 and DJ EURO STOXX 50 indices

Markets were on a downward track in 2001, and DANONE shares retreated 14.7% compared with falls of 22% for the CAC 40 and 18.3% for the DJ EURO STOXX 50. Over the first nine months of this year DANONE continued to make a resilient showing, with a decline limited to 11% compared with 36% for the CAC 40 and 38% for the DJ EURO STOXX 50. This relatively firm performance reflects market confidence in our group's model for profitable growth and its business fundamentals.



Dividend paid to Groupe DANONE shareholders

///contact us

Financial information
www.finance.danone.com

- > Company figures
- > News
- > Upcoming events and more.