



DANONE

# Letter to shareholders

December 2003

Dear shareholder,

In October, DANONE announced third-quarter sales showing vigorous **9.4% organic growth**. While the summer heatwave naturally boosted sales of bottled water in Western Europe, it does not suffice to explain the strength of a performance that puts us well ahead of others in the market. Even without the heatwave, third-quarter sales would have been up a very healthy 8.3%. And over the first nine months as a whole, the benefits of the heatwave did no more than offset the negative impact of the SARS outbreak in the first half. Our results thus cannot be put down to exceptional, short-term trends. Instead, they reflect the success of a growth model which has generated reliable rewards, quarter after quarter.

In other words, I am more than ever convinced of what I have so often said—that DANONE does not need the support of any other group, however big, to continue growing in the interest of employees, shareholders, suppliers and customers. Our business model is based on a unique culture and a special way of doing things that are essential to the value we create, and we are certainly not prepared to give up any of our independence. The unfounded rumors that every now and then agitate the stock market do not in any way affect our priorities or our continuing commitment to doing all we can to fulfill the promises we made to shareholders at the general meeting of April this year.

Franck Riboud



## Shareholders' Meeting

The combined ordinary and extraordinary general meeting of shareholders will take place on Thursday, 15 April 2004 at 3:00 p.m. at the Carrousel du Louvre, 99, rue de Rivoli, 75001 Paris.

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# RESULTS

First-half  
2003 sales  
(at comparable scope)  
**+ 7.2%**

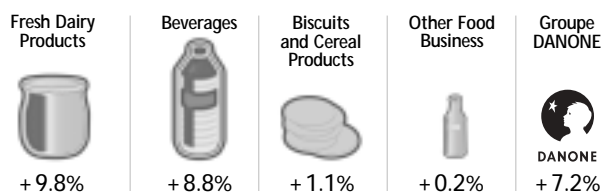
## First-half 2003 ROBUST ORGANIC GROWTH

*Sales in the first six months of the year showed steady organic growth, rising 7.2% (at comparable scope). Operating margin also increased, while net earnings per share rose by 4.8%.*

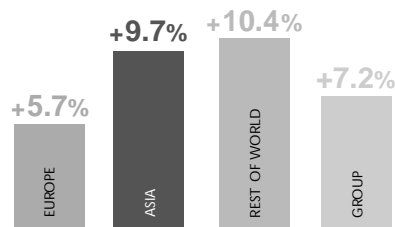
**F**resh Dairy Products and Beverages were the drivers behind the 7.2% rise in sales, testifying once again to the efficiency of the Groupe DANONE growth model. European sales rose steadily, while business in Asia remained firm despite the SARS epidemic, which weighed on beverage sales in China in the second quarter. Operating margin rose from 11.1% to 11.9%, reflecting steady growth in sales volumes combined with a proactive approach to product innovation and brand promotion, plus the recent divestment of business with profitability below the Group average. Diluted net earnings per share (excluding exceptional one-time items) jumped 4.8% despite the euro's rise against the dollar and completion of the sale of our European brewing business to Scottish & Newcastle. Groupe DANONE continued to strengthen its positions in strategic market segments such as HOD, using the free cash flow generated by core businesses to keep finances on an even keel. ●

### Sales growth\* (1st half 2003)

By business line



By geographical market



\* At constant structure and exchange rates.

Fully diluted  
net earnings  
per share  
for the six months  
to June 30, 2003

(excluding exceptional  
one-time items)

**+ 4.8%**

# BUSINESS

## Financial highlights

(€ millions)	1st half 2002	1st half 2003	Change
Net sales	7,152	6,622	+7.2% <sup>(1)</sup>
Operating income	796	787	
Operating margin	11.1%	11.9%	+75 bp
Net income (excl. exceptional items)	402	403	+0.2%
Net earnings per share (diluted) (excluding exceptional one-time items)	2.94€	3.08€	+4.8%
Net exceptional one-time items	(1,032)	0	
Net income	(630)	403	
Free cash flow <sup>(2)</sup>	426	479	+12.4%
Net financial borrowing	4,456	3,163	
Stockholders' equity (incl. minority interests)	4,522	5,365	
Number of shares listed at 30 June	141.4	137.7	
Stock price at 30 June	139.2€	120.5€	
Market capitalization at 30 June	19,691	16,589	

(1) At constant structure and exchange rates.

(2) Cash flow from operations – capital expenditure – change in working capital requirement.

Operating margin  
in 1st half 2003  
**11.9%**  
(vs 11.1% in  
1st half 2002)

## Change in operating margin

By business line	1st half 2002	1st half 2003
Fresh Dairy Products	12.3%	13.7%
Beverages	11.7%	14.5%
Biscuits and Cereal Products	8.2%	8.3%
Other Food Business	16.5%	16.5%
Group total	11.1%	11.9%

By geographical market	1st half 2002	1st half 2003
Europe	12.8%	13.7%
Asia	13.2%	13.6%
Rest of world	5.4%	8.2%
Group	11.1%	11.9%

## In 3rd quarter 2003, Sales up 9.4%\*

By business line	3rd quarter 2003
Fresh Dairy Products	+10.2%
Beverages	+15.3%
Biscuits and Cereal Products	+1.8%
Other Food Business	+2.3%
Group total	+9.4%

By geographical market	3rd quarter 2003
Europe	+8.1%
Asia	+13.6%
Rest of world	+10.6%
Group	+9.4%

\* At constant structure and exchange rates.

# GROUP NEWS



## Four all-new beverages sweep Dan'Inov 2003 awards

### WAHAHA in China: the figures say it all



**Bottled tea** hit the Japanese market in 1986 and reached China in 1999. In 2001, Wahaha entered the market in style with four refreshing flavors: iced tea, green tea, jasmine tea and lemon tea. Sales took off immediately, soaring **373% from 2001 to 2002** — a strong rise that reflects demanding consumers' awareness of the benefits of this low-cal, healthy beverage, as well as Wahaha's efficient distribution network and substantial investment in promotion.

**In 2003, Wahaha — already a market leader** for biscuits in China — hopes to raise bottled tea sales from 8% to 12% of total Groupe DANONE revenues in China.

Since 1994 Dan'Inov has celebrated international excellence in marketing in the broadest sense. Trophies are awarded not only for innovation proper, but also for successful relaunches and rollouts in new national markets. Group brands from all parts of the world are eligible to compete. **In addition to rewarding innovative flair**, in 2003 Dan'Inov turned the spotlight on outstanding projects and teams to promote awareness of best practice. There were 64 contenders for this year's ninth annual competition. **The winners:** four all-new beverages, selected for their performance and contribution to the brand and market. Laureates received their trophies at the annual executive meeting held in Evian on September 27.

#### 2003 Dan'Inov Awards

> **Gold:** Assiri from Centrale Laitière du Maroc — a fruit juice/fermented milk beverage in an innovative package, priced for the Moroccan market and available in four flavors.

> **Silver:** DANONE & Vitalinea Fresh Drink from DANONE Germany and DANONE Austria — a refreshing dairy beverage designed to compete with not only drinkable yogurts but also fruit juice, water and soft drinks.

> **Bronze:** Maidong, from Robust China — a thirst-quenching energy drink launched in April 2003, already voted "beverage of the year" in China.

> **Special prize:** SER Lime-Limon, a low-cal soft drink that strengthens Aguas DANONE Argentina's position in this market segment.

## BIO SOJA makes its mark in Spain

Launched in Spain in March this year, the Bio Soy range — plain, peach and berry-flavored Bio Soja— now accounts for **19% of Bio brand sales in the country**. This success is due to the product's outstanding taste combined with the health benefits of Bifidus Essensis ferment and soy protein extract. It also reflects growing recognition for the Bio name, first launched in Spain in 1988. By October this year, Bio accounted for a full 40% of its market segment, with sales up 27%. Business has benefited from the extension of the target group to include consumers in the 20 to 40 age bracket.



## ORO EXTRA

A new taste for Italy

In Italy, **90% of biscuits are eaten at breakfast.**

And in June this year Saiwa moved to consolidate its lead in this market segment with its Oro Extra range of breakfast biscuits for adults.

**Tasty and nutritious**, Oro Extra comes in three versions to match consumer needs and preferences: high fiber, cereal-flavored Oro Extra; high calcium, milk-flavored Oro Extra; and high vitamin grain & hazelnut Oro Extra.



## ARO LEVITÉ fresh flavors

Bonafont, number one for bottled water in Mexico, has rounded out its Levité range of flavored waters with Jamaïque and Pamplemousse, already favorites with local consumers.

Levité flavored waters were launched in July 2002 and are expected to account for 15% of Bonafont's sales volumes this year. Their success on a fast-growing market rewards a distinctive marketing approach and consumer trust in the Bonafont name.

# GROUP NEWS



## DANONE NATIONS CUP 2003 Making dreams come true

The world finals of the fourth Danone international football cup for young players were held at the Parc des Princes stadium in Paris from September 4 to 7. A crowd of 25,000 – including 120 journalists and football great Zinedine Zidane, the Cup's standard bearer – saw South Africa come out on top, beating Portugal 2-0.

As in previous years, some 2.5 million children in 32 countries participated in national cup playoffs for a chance to realize their dream of taking part in an international sporting event and perhaps making it all the way to the world finals in Paris.

For DANONE, the event is an opportunity to share essential values that include the pleasure of the game, enthusiasm, recognition for rules, fair play, mutual respect and participation. Children around the world already have their sights firmly set on the 2004 DANONE Nations Cup.



## Tasty eating FOR ONE AND ALL

Taillefine, leader in low-calorie yogurts with over 30% of the market (ahead of Sveltesse and Yoplait), is back with a new line – Taillefine Délicioso. This tasty specialty combines 0.9% fat content with all the rich smoothness of Cremosso, another Taillefine innovation that revolutionized the market. Taillefine Délicioso comes in three luscious flavors: **pear stracciatella**, **apple pie** and **lemon**.

## DANONE CHILDREN'S DAY ON-GOING COMMITMENT

**B**usiness units throughout the group have again put weeks of work into preparations for DANONE Children's Day, organized annually to offer employees a special opportunity to propose and support initiatives helping children. A number of entities have chosen to work with the same organizations as last year, thus ensuring the continuity of their action. Examples include Evian's support for French charity Secours Populaire, and DANONE Russia's contributions to an orphanage. Other units have joined forces for greater impact, with LU and DANONE Finland teaming up to help a children's home. In each case, projects illustrate a commitment to putting group values into practice.



## DANONE TEAMS UP with Suntory

In less than a decade DANONE has become a world leader in water for home and office delivery (HOD) sold in 15 to 20-liter containers, usually placed on a cooler. Rankings are based on sales volumes.

Expansion continues, with DANONE acquiring new businesses in countries and regions offering scope for rapid growth. And through an alliance with Japan's Suntory, we are poised to take the number-one place worldwide for the distribution of water in large containers. Under an agreement reached this autumn, our two groups are to set up a joint venture bringing together the operations of Suntory Water Group and the HOD business of DANONE Water of North America in the US.

With a string of top regional brands, the new company will be number one in the US HOD market, with sales revenues exceeding \$800 million – the world's highest for the sector.



### Reaching out across **EUROPE**

**O**n July 1, DANONE signed a strategic agreement setting up a joint venture alongside Eden Springs, the US-based specialist in home and office delivery of spring water. The new entity, present in 18 countries, has leading positions on high-growth markets in France, Spain, Switzerland, Finland, Norway, and Sweden, as well as a significant presence in other countries including Germany, the UK, Italy and Poland.

Home and office deliveries Worldwide

**15%** annual growth  
in the world market

**32%** of total volumes of water in bottles  
and containers.

**98%** of coolers outside homes in the US,  
50% in Europe.

**No. 1** In just a few years, DANONE has won a leading place on the world HOD market, ranking first in Canada, China, Indonesia, Turkey and Argentina, and accounting for a healthy share of the Mexican market, the world's largest by volume. Following our alliance with Eden Springs, we also rank second in Europe.

# key facts AND FIGURES

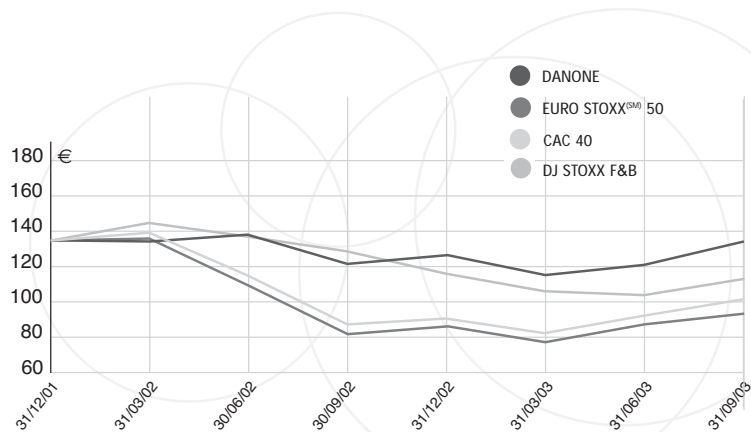
## Share performance

- NO. OF SHARES AT JUNE 30, 2003: 137.66 million.
  - NOMINAL: € 1 per share at June 30, 2003.
  - LISTED ON: Euronext (Amsterdam, Brussels, Paris), London, Swiss Exchanges, New York.
- DANONE is a component stock of the CAC 40 and Eurostoxx<sup>(SM)</sup> 50 indexes.

## Groupe DANONE moves to new headquarters

On October 27, Groupe DANONE's head office moved to 17, boulevard Haussmann in central Paris, a lively commercial neighborhood easily accessible by public transport. At the new premises, architects have created open-plan offices to encourage communication and foster teamwork based on shared energy and mobility. ●

## STOCK PRICE AND INDEX PERFORMANCE (CAC 40, Eurostoxx<sup>(SM)</sup> 50, DJ Stoxx F&B)



> In 2002, DANONE shares proved relatively resilient as stockmarkets lost ground around the world, easing 6.5% compared with falls of 33.7% for the CAC 40, 37.3% for the Eurostoxx<sup>(SM)</sup> 50 and 14.5% for the DJ Stoxx F&B. Since January 2003, DANONE shares have risen 4.8% compared with a decline of 3.5% for the DJ Stoxx F&B, and increases of 11.5% and 9.3%, respectively, for the CAC 40 and Eurostoxx<sup>(SM)</sup> 50. This performance reflects market confidence in Groupe DANONE's sound fundamentals.

Dividends paid to  
Groupe DANONE shareholders

2002

2.30  
euros

2001

2.06  
euros

2000

1.9  
euros

## Upcoming events

- February 11, 2004: publication of audited sales and income.
- April 14, 2004: publication of 1st-quarter 2004 sales.
- April 15, 2004: Annual General Meeting of Groupe DANONE shareholders (at the Carrousel du Louvre in Paris).

## CONTACTS

Financial information online at  
[www.finance.danone.com](http://www.finance.danone.com)

> key figures > news  
> business profile > events

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