



# Letter to shareholders

March 2004

Dear shareholder,

**DANONE recently announced highly satisfactory results for 2003, with organic growth reaching +7.2% and operating margin 12.2%.**

We have thus generated the strongest growth in our industry in each of the past five years, posting organic increases of between +5% and +7%, while our operating margin rose by an annual average of close to 0.4% point over the same period. And over the past three years, we almost doubled free cash flow.

Our Fresh Dairy Products business has continued to perform impressively, steadily increasing its market share to more than equal the total for the other three international groups in the sector. This performance relies on our capacity to innovate and deploy winning concepts, adapting them to local conditions in all of the 40 countries in which we now operate. Water, too, made an important contribution to growth, with sales up nearly +10% and operating margin significantly higher than in the previous year. Europe, Asia and Mexico were the main sources of momentum. Turning to biscuits, growth was weak overall, although running at double digits in Asia. Reviving growth in European biscuit sales will be one of our main priorities in 2004.

Our group's healthy overall performance for 2003 is thanks to the strategy first adopted in 1996. This focuses our efforts on three of the fastest growing sectors of the food industry – Fresh Dairy Products, Beverages and Biscuits – and creating a more balanced geographical presence backed up by our positions as the local leader in most of our markets. And we are confident in our capacity to go on meeting targets in the year ahead.

Franck Riboud



## Upcoming event

Ordinary and Extraordinary  
General Meeting  
of shareholders  
Thursday, 15 April 2004  
at 3.00 p.m. at the Carrousel  
du Louvre, 99, rue de Rivoli,  
75001 Paris – France

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# RESULTS

2003  
sales  
(like for like)  
up +7.2%

Fully diluted  
2003 net earnings  
per share  
(excluding exceptional one-time items)  
up +5.6%

## Full year 2003

A GOOD VINTAGE: +7.2% ORGANIC GROWTH  
AND 12.2% OPERATING MARGIN

*At constant scope of consolidation and exchange rates, full-year sales for 2003 showed a rise of +7.2%, the strongest in ten years*

**S**ales growth momentum stemmed from Fresh Dairy Products (+9.6%) and Beverages (+9.9%). The rise for Biscuits and Cereal Snacks was limited to a weak +0.4% as a result of slowing in Europe. Turning to trends by geographical region, growth in Europe remained firm and steady at +5.4%, while sales in Asia once again showed a double-digit rise despite the negative impact of the SARS outbreak on beverage sales in China during the second quarter. Business in the Rest of the World was up +10.9%, reflecting vigorous sales performance in Latin America, benefiting in particular from recovery in Argentina. Operating margin was up for the ninth year in a row, rising half a point from 11.7% to 12.2%. This increase in operating margin includes a positive effect due to 2002 sales of businesses generating margins below the Group average.

Fully-diluted net earnings per share showed a +5.6% rise excluding exceptional one-time items. This was despite the unfavorable effects of the dollar's decline against the euro and the

finalization of the sale of brewery business to Scottish & Newcastle. Free cash flow rose +13% in 2003 from the previous year, rewarding optimization of working capital requirement and capital expenditure. ●

### Development strategy

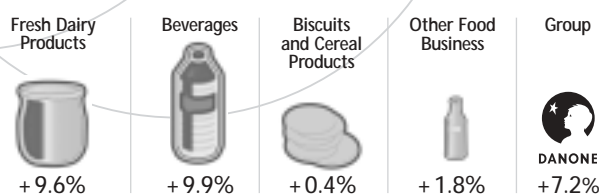
#### DANONE:

- **doubles sales in Turkey** with the acquisition of Nestlé's Turkish dairy-product business
- **takes a majority interest in Stonyfield Farm**, number one in the US in organic yogurts
- **reinforces its leading place** on the Russian biscuit market with the acquisition of the swiss rolls business of Chupa Chups Russia.

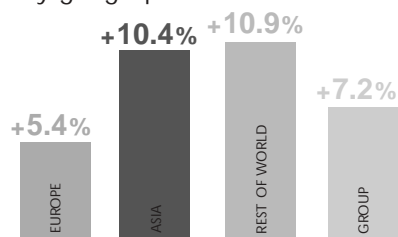
# BUSINESS

## Sales growth\* (2003)

### By business line



### By geographical market



\* At constant structure and exchange rates.

## Operating margin

### By business line

By business line	2002	2003
Fresh Dairy Products	12.8%	13.7%
Beverages	12.6%	15.1%
Biscuits and Cereal Products	9.8%	9.1%
Other Food Business	17.1%	17.9%
Group total	11.7%	12.2%

### By geographical market

By geographical market	2002	2003
Europe	13.5%	14.0%
Asia	13.3%	14.3%
Rest of world	6.6%	8.5%
Group	11.7%	12.2%

## Financial highlights

(€ millions)	2002	2003	Variation
Sales	13,555	13,131	+7.2% <sup>(1)</sup>
Operating income	1,590	1,604	
Operating margin	11.7%	12.2%	
Net income excl. exceptional one-time items	828	839	+1.3%
Exceptional one-time items (after tax)	455	0	
Net income	1,283	839	
Net income per share (excluding exceptional one-time items)	6.11€	6.45€	+5.6%
Free cash flow <sup>(2)</sup>	1,017	1,149	+13%
Shareholders' equity (incl. minorities)	5,816	5,528	
Net debt	2,269	2,692	
Debt/equity	39%	49%	
Shares listed at Dec. 31, '000s	137,335	134,975	
Closing price, Dec. 31, euros	128.2	129.4	
Market capitalization at close, Dec. 31, € millions	17,606	17,466	



(1) At constant scope of consolidation and exchange rates

(2) Cash flow from operations less capital expenditure, plus variation in working capital requirement

# GROUP NEWS

## DANONE moves into **Egypt**

In 2003, DANONE expanded operations in North Africa and the Middle East with a move into Egypt, the region's most highly populated country. **Our new biscuit factory at Borg El Arab** near Alexandria, built in just seven months, became operational in May. The site's annual production capacity is now **10,000 tonnes** and could be raised to 60,000 tonnes. DANONE is thus well placed to make a strong start and develop its business in Egypt and neighboring countries over the medium term.

## Showcasing the DANONE brand



First introduced on selected markets some years ago, **refrigerated showcases** displaying the DANONE brand in retail outlets **have become an important driver for steep growth** in Fresh Dairy Products. Putting the brand in the spotlight and catching shoppers' eyes, they have proved particularly effective for our drinkable yogurts, such as Actimel. To date between 30,000 and 35,000 cases have been installed around the world and results show that they can **lift sales by 20 to 50%**. The Fresh Dairy Product business line selects sites where the investment is likely to pay for itself in less than a year.



## DANONE shakes up the **Japanese** water market

At the end of 2002, DANONE set up a joint venture with Mitsubishi and its subsidiary Kirin—number three in Japan for soft drinks, but with a still limited presence in bottled water. In its first year, the venture overhauled Kirin's bottling plant and launched a new water targeting the heart of the market under the **Alkali Ion** name. It also relaunched the Volvic brand, number one in Japan for imported water but still accounting for only a small share of the total market. Sold in extra-light PET bottles, which sets it apart on a market where packaging innovation is rare, Alkali Ion is now Japan's fastest growing brand with the annual rise in sales reaching 27%. Volvic sales were up **17% in a year** to take 20% of the market in 2003, ahead of Coca-Cola's 17.7%.

## DANONE backs health research

Prevention of childhood obesity is now a major public-health issue and the European Union has launched a research program to better identify the nutritional factors involved. DANONE is taking an active part in the program, which is 80% financed by the European Union and covers Germany, Belgium, Spain, Italy and Poland. Work is coordinated through Danone Vitapole, our group's research center outside Paris, and the infant formulas used are supplied by the Bledina factory at Steenvoorde in northern France. DANONE Institutes, which circulate information on the program, made a full presentation to the scientific community and the media on October 2, 2003. First findings of the EU Childhood Obesity program are expected at the end of 2005.

@ [www.childhood-obesity.org](http://www.childhood-obesity.org)



## SER LIME LEMON, the alternative to sodas

Flavored waters and other variations on core offerings play a growing role in business development for the Water division as consumer preferences for colas and other carbonated soft drinks fade. A good example comes from Argentina, where soft drinks still account for 31% of the market compared with 13% in France and Italy, but where consumers also keep close watch on their weight. Aguas DANONE has risen to the challenge with SER Lime Lemon, an innovative product that is also a demonstration of its marketing flair. Based on the subsidiary's core product, SER Agua, a calcium and magnesium enriched still water spearheading communication on health benefits, SER Lime Lemon is a sparkling flavored water that now **ranks second in its market**. Key aims for SER Agua are to consolidate this ranking and boost volumes with SER Lime Lemon.

## VESTALIS: optimizing risk management

Over the past two decades, Groupe DANONE has begun to face new types of risk associated with internationalization, changing regulations, the emergence of new markets, the development of information technology and new expectations for business operation and performance. Inherent in the operations of our companies, these call for increasingly tight control to better identify specific risk in areas such as finance, strategy and production, thereby allowing more effective management and **optimization of strategic decision making**.

In response, DANONE has adopted a global approach with Vestalis, a management and prevention system with **three**

**essential functions**: identification of risks, enabling each central business unit to set priorities for action; measurement of business unit performance relative to the risks incurred; and assessment of key issues for the group as a whole. "DANONE naturally accepts risk as part of any business venture", explains Emmanuel Faber, Executive Vice President in charge of Finance, Strategy and Information Systems. "Vestalis is only designed to measure risk properly and thus avoid excessive exposure." Vestalis has been available to all Central Business Units since January 2002 and **53** have already deployed the system or plan to do so within three months.

# GROUP NEWS

## Turkey

### DANONE takes over Nestlé Dairy

In December 2003, DANONE announced its acquisition of Nestlé Dairy, representing around 4% of market and ranking fifth in Turkey. Turkey is a **highly promising market** for dairy products since per-capita consumption is a high 32 kg a year, but brand products account for only 5 kg a year. The transaction widens DANONE's lead on the market's number-two supplier, doubling its sales. Other benefits are access to quality milk supplies and fuller use of both distribution and production resources.

DANONE first moved into Turkey in 1997 through an equally-owned joint venture with Sabanci, the country's second largest industrial group. In 2003, it bought out Sabanci's interest to consolidate its **number-one** place with sales representing around 20% of market value.

## DANONE expands in **Russia**

DANONE is reinforcing its place on the Russian **biscuit market** through **Bolshevik**,

taking over Chock and Rolls, a Chupa Chups subsidiary which specialises in rolled cakes.

**Chock and Rolls is co-leader** on this high-growth segment, with 2003 sales close to \$20 million under the Tornado brand.

DANONE has been present in Russia since its acquisition of Bolshevik in 1994 and in 2003 its sales in the country came to over \$60 million.

The new acquisition, which remains subject to the approval of Russian competition authorities, will consolidate our Group's number-one position and extend our geographical reach in the Urals, Siberia and other eastern regions.

## DANONE CHILDREN'S DAY

### keeping the faith

There was no let-up in employee support for DANONE Children's Day in 2003, with participants representing 57 subsidiaries and over 100 sites in 30 countries. This worldwide event is an opportunity for staff members to support associations, schools, homes and projects helping children. Main themes of the 2003 DANONE Children's Day included education, in particular for Evian in France and Robust in China, the environment (Salus in Uruguay), childhood poverty (DANONE and LU in Brazil) and leisure activities (Griffin's in New Zealand). Many subsidiaries, including Evian and Bonafont, for example, renewed support for associations chosen in the previous year, in some cases branching out with new initiatives involving more children. This long-term commitment gives concrete expression to DANONE values in everyday life.



## DANONE-STONYFIELD FARM: a winning combination



**D**ANONE has raised its interest in Stonyfield Farm, number one in the US for organic yoghurt, from 40 to 80%, reflecting our Group's confidence in the promise of this partnership. Stonyfield Farm accounts for 80% of revenues on its market. In 2003, sales came to around \$140 million (over €110 million) following annual rises of 20% over the past ten years. It is thus well placed to contribute to the success of our group's strategy for worldwide development. Franck Riboud has confirmed as much, indicating that DANONE "will provide continued support to Stonyfield Farm as a distinct brand and concept, giving it the benefit of our group's strength in terms of marketing, research and financial resources."



The market for organic yoghurt was still tiny only a few years ago, but as Stonyfield Farm's founder

Gary Hirshberg says, it now "offers fantastic growth potential in the US." He welcomes the partnership with DANONE, which shares both his business goals and his commitment to social and environmental responsibility. This shared commitment is illustrated by the continuation of the Profit for the Planet program involving the systematic contribution of 10% of Stonyfield Farm profits to initiatives for the preservation of the environment. It is also completely compatible with business success, since Stonyfield Farm is already on sale in 63.9% of supermarkets, mostly on the east coast and the goal is now to achieve nationwide presence by the end of 2004.

### Gary Hirshberg stays on as Chief Executive

**S**eeing no need to change a winning team, Franck Riboud has renewed his support for Gary Hirshberg, who founded Stonyfield Farm and made it a success. Starting out with five cows on a farm in New Hampshire 20 years ago, Hirshberg built up a business that now has two factories drawing on supplies from 100 organic farms and employs a workforce of 254. It will continue to operate on a largely independent basis.

### Stonyfield Farm in figures

- > **254** employees and **2** factories
- > **100** organic farms
- > Founded in **1989**
- > Number one for natural foods, accounting for **80%** of market value
- > Sales approximately **\$140** million in 2003, with annual sales growth averaging **23,3%** over 10 years
- > **10%** of Stonyfield Farm profits contributed to environmental associations

# key facts AND FIGURES

## DANONE share data

- SHARES LISTED AT Dec. 31, 2003: 134.97 million.
- NOMINAL VALUE: €1 each (Dec. 31, 2002).
- LISTINGS: Paris, London (delisting in progress), Zurich, Geneva, Brussels and New York (in the form of American Depository Shares or ADS).

DANONE is a component stock of the CAC 40 and Eurostoxx<sup>(SM)</sup> 50 indices.

## General Meeting of Shareholders

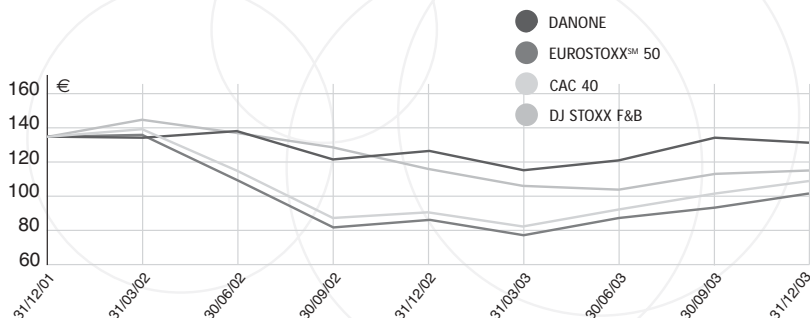
**I**mportant: The information below does not have any binding legal implications. In particular, it in no way constitutes a notice of meeting and carries no entitlement to attend the General Meeting.

The General Meeting offers a special opportunity for direct contact between shareholders and the DANONE Group management. To find out how you can attend, ask your bank or call the toll-free number: 0800 320 323. You should be aware that admission procedures are different for shareholders registered with the company or a custodian and holders of bearer shares.

You can also vote online before the meeting. Information on this can be accessed at [www.danone.fr](http://www.danone.fr) or [www.danone.com](http://www.danone.com). ●

## MARKET PERFORMANCES

DANONE share compared with CAC 40, Eurostoxx<sup>(SM)</sup> 50 and DJ Stoxx F&B



> After hitting a low in April during the Iraq war, stock markets staged a vigorous rally, closing the year with 12-month rises of 11.4% for the CAC 40 index and 9.5% for the Eurostoxx<sup>(SM)</sup> 50. As is generally the case in a market recovery, food stocks trailed, with the DJ Stoxx Food and Beverage sector index down 4.3% over the year. This compares with a decline limited to 0.8% for DANONE, reflecting the benefits of our Group's model for profitable growth.

Dividends paid  
to Groupe DANONE shareholders

2003

2.45\*  
euros

2002

2.30  
euros

2001

2.06  
euro

\* Subject to the approval of the Annual General Meeting of April 15, 2004

## Upcoming events

- February 11, 2004: announcement of audited 2003 sales and earnings.
- April 14, 2004: announcement of first-quarter sales.
- April 15, 2004: General Meeting of Groupe DANONE shareholders (at the Carrousel du Louvre in Paris, FRANCE).

## CONTACTS

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

> key figures > news  
> business profile > events

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