DANONE

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Suzanne Seibel: Good morning, ladies and gentlemen. I am Suzanne Seibel. I am the European Food and HPC analyst, and it is my pleasure today to welcome Danone's management here. We've got Franck Riboud, Pierre-Andre Terisse, and Antoine, who is heading the IR -- the IR expertise here.

I would like to introduce you to Franck Riboud. He's the brains, the strategist, and the architect of a transformation that is remarkable -- from a conglomerate a couple of years ago to a highly focused food company.

Danone is the category leader on a global basis in fresh dairy and has a very strong position in infant nutrition and bottled water, as well, as you know. More recently, Danone has embarked on a journey away from mainly premiumization-driven growth towards the faster-growing markets and towards faster-growing categories. And we think it is a very exciting journey to hear about. So we look forward to hearing more about this from Franck right away. Thank you very much.

Franck Riboud: So I will try to respect the timing, but you already stole me four minutes. Anyway, I will talk about the future in a few minutes, but first, I would like to come back to the first part of the 2010 year. What could we say? As you can see on the charts, all our businesses, our four businesses are growing. All of them.

If you look at the Fresh Dairy Products, the water business, the medical nutrition, the baby nutrition, all of them are growing. At the end of this first semester, the global like-for-like growth of the group is plus 7 percent, including this difficult environment we have in some countries. But let's say that we are really positive about the way the business is doing by the time being.

Again, if you look at per country or geographical area, as you can see, everything is very obvious. Western Europe growth is plus 1.4 percent whereas the rest of the world and Asia are growing double digit. And that's the result of the strategy we fixed many years ago now, let's say, 10 years, 15 years ago. We want to build the growth outside of Western Europe. Just imagine what would be the result top-line growth of this company if we had the same portfolio than 10 years ago, which was around 40 percent, 50 percent in Western Europe.

If you ask me about what I think about the future, I am not pessimistic, but I would never take the assumption that Western Europe would grow double digit or even six or seven or nine. The idea for me is we have to continue to grow Western Europe to leverage the fantastic double-digit growth we have in the emerging countries, and I will explain that later.

I want to come back also on the volume and pricing. As you can see on this chart, if you look at H1 '07, H2 '07, we continued to grow, even if, at this period of time, we went through high price increase basically due to the raw material, the milk. But you can see that the resilience of our volume in dairy, we are in dairy, is very strong. And the good news is that in the end of 2009, beginning of 2010, we have a kind of platform in terms of price increase. I mean, we stabilize the price after what we call the Reset, which was, if I make this story shortly, how we reduce the price for the consumer to stay competitive and to deliver volume top line.

So, as you can see, we have now achieved a platform in terms of Resets. We stabilized the price and Volumes are still growing and growing even faster than that was. This is, for me, the illustration of the strength of, first of all our brand, the Danone brand, but also the category. And I will also come back on that.

The Fresh Dairy category, even in difficult context, is a very attractive one, and I will show it to you, especially through the U.S.

If you look at the margin on, let's say, not only one quarter or not only one semester but let’s say a few years: 2007, 2008, 2009. If you look at the average growth, it's an average of 38. It is 40 basis points per year in 2007, 2010, depends on the base of comparison. It depends on if we invest very strongly in new frontiers, if we launch new products but, globally speaking, we just, year after year, continue to improve the quality of our businesses.

Short term. Because I know that sometimes you love short term. If you look at H1 2010, there is a 15.3 percent margin. It's true that it is less than the 16.0 of H1 2009. And you have on this chart the description of how we switch from 16.0 to 15.3. The most important for me is what we fixed for the company for the full year 2010. And we said two things. We said same levels than 2009, means 15.3, because the global 2009 margin was 15.3. We have a de-balance between the 2009 semesters. And we said also that we will not have the de-balance between the two semesters in 2010. So now, you make the calculation, it's not a very difficult exercise. It is the same than last year, no de-balance. It means that this year, there will be 15.3, and because the two semesters are going to be the same, my only conclusion is that we are really focusing, and we are really going to deliver the full year target of 2010. Because the two semesters are going to be the same. We start by 15.3, and the next one will be the same figure.

So don't expect more, but we will respect the target we fixed. Why am I saying not to expect more? Because we have to build this company. We need the money to invest, to build new countries, to build new products, to change the organization, to prepare the future of the company. And you will understand that in the second part of the presentation.

Obviously, when I said 15.3 this year, we even include the bad news of the milk price increase. We take all the risks for us. We control that situation.

Now you have a mechanic effect I would like you to understand, and I will try to do it very quickly to explain the difference between the two semesters. The first one, we compare with a last year semester with a very high margin because that was before we did the Reset. So, the price we used to have H1 2009 was very high, and we started many of the Resets in the second part of the year. It means that mechanically, arithmetically, we will cancel this margin gap on the second part of the year, and that's the reason why I can say if we do 15.3 we will do the same, and we will achieve the full-year results. So it's even not linked to the quality of the business or the difficulty of the business. It's mechanic.

So, just to give you a flavor of what will happen in terms of pricing, as you can see, you have H1 2010 and H2 2010, and you can see line-by-line how that will evolve in the second part of the year. For example, input cost, higher headwinds. Yes, we will have higher headwinds in the second part of the year than the one we planned. But we know that through the productivity, through, perhaps, very specific price increases, because our brands are enough strong to do the pricing up. If we don't want to do it, it’s because on the other side, we want to develop our market share. So, we are willing to build very carefully how to play this pricing impact. But just for your information, in terms of budget, we don't even plan a price increase. So, if we do run a very specific one in some countries, it's a kind of bonus for us.

So, the country mix will continue. Productivity will also continue, A&P will continue and those who know me know that I don't want to deliver financial result by cutting the advertising spend because I am always thinking midterm, long term. And we will see what kind of productivity effort and what kind of pressure we put on our negotiation to achieve the best price for a better number of GRP. Like that we pay less with more pressure. So, we will continue on a similar trend.

Just to illustrate what I just said, you have there on this chart the -- why I am speaking about media? Because media is somewhere more important for us than the way we buy milk. If you look at the P&L, it's a huge investment, it's a huge CapEx. So if we are really focused on how do we buy it, how do we negotiate, we can save a lot of money, and it's exactly what we explain on the chart. We launched last year a media pitch, not on the advertising, but on the people between the network and ourselves, the one who buys for us the advertising space. And, as you can see, we have a beautiful result on this productivity.

So, I come back on the full year 2010, if it is necessary to repeat. Sales growth will be over 6%, EBIT margin will be stable at 15.3%, and free cash flow will be over plus 10%. And, for us, free cash flow, especially in our kind of businesses, that's where we can really make the difference, and we are going to make the difference. The way we control the CapEx, the different effect of our fresh dairy business, clearly we are going to be over plus 10 percent at the end of the year. Even if the end of the year is, for me, also short term. And that's the reason why I would like to look at the future and share with you what we are going to build with this company.

This company is a young one. We are still building it. And we will continue very strongly. If we look a little bit in the past, how do we reshape the group? You have on the left, the breakdown in 1996 and a breakdown in 2009 by business. And it's very important to look at this because –you also have to understand that it's definitely easier to grow something when the global context is also growing. It's true for the economy, but it's also true for the different businesses. And definitely, I prefer to be in the baby nutrition business, the fresh dairy product, and the water business, than…I will not give example because I don't know who is in the room. But, clearly, these businesses are growing naturally everywhere. It's easier for us to really express the strength of our brands and our competences in businesses, which are growing by themselves.

At the same time, For 15 years now, I have driven this company with only one target: I want to be locally number one with a big gap with number two and number three. I don't want to be worldwide number one. This is a consequence of what I just explained. Locally number one, and if I had all this local number one position, perhaps I would be worldwide number one. But I want to be locally number one. Why? Because you can leverage locally your strengths, especially with the retail. Because in every country, especially in the mature markets, with four, five, perhaps eight, in the U.S., we are doing 60 percent, 70 percent, 80 percent of our total net sales.

So, we can speak during hours and hours about the strength of the retail and the brand and this and that private label. No, the key thing is the consumer. So if you are the leading brand, you are going to be stronger than the others, and you can see what kind of platform, business-by-business, we are building all over the world where we are.

Now, if you look at the present, as I said a few minutes ago, just imagine the impact of the global economic environment on Danone if we were the BSN of 1996 or 1992 or 1993, clearly, the impact would be much more difficult for us. You see how we switched from Western Europe to the rest of the world and Asia. And you see also the evolution of our North American businesses. Clearly, we are focusing on emerging markets, but I will come back on that. And, at the same time, we try to continue to be as strong as possible in the major markets. And you can grow by growing the consumption per capita, you can grow by growing the frequency, you can also grow by being better than your competitors where you are already number one, just getting market share. So, it's exactly what we are doing. We adapt our strategy, which could be a very aggressive one, country-by-country, business-by-business, sometimes SKU-by-SKU.

Just to illustrate what we did and the potential of this business, you have all the countries, and you have also how we grow the business not only through acquisition. We can also grow it at the yellow parts. In five years, the yellow part is how we build the growth by ourselves. By innovation, by new routes, by a new consumer, and so on and so on. And, obviously, you can see the potential when you look at the consumption in France, and you look at the consumption in -- I don't know -- Indonesia, Turkey, Algeria. You can see that there is a full, full, full potential for us to grow. And we are confident because we have the brands, we have the innovation, we have the research, we have the competences. And, the only thing we know in this group is how to roll out the best practices. We never reinvent the wheel. We can even copy competition when they are in a country in which we are not if we think they are doing well.

So, all the companies are organized to roll out the best practice as quickly as possible. Just to give you an example, in “PLF” [Dairy] in the U.S., we have doubled our sales in the last eight years, and in Russia, we multiplied by five between 2001 and 2008 our sales. And, clearly, the U.S. and Russia are going to be countries on which we are really going to focus in the next years.

For Baby, it is exactly the same opportunity. You have the average consumption per capita, if I can say that, which is 32 kilos, and if you look at what happened in Middle East/Africa, the first line, it's 9. Even France is 198 but still growing 3 percent for a very simple reason. We are doing a lot of babies. That's the place of the world in the major countries, where natality is one of the strongest, which is obviously not the case, for example, in the U.S. So, perhaps we are lucky, I don't know. But we develop the right countries and where we are being used to be, these countries are also good, and we are far number one because our market share now in France in baby is over 50 percent.

And, when you have more than 50 percent of a market, if you have to negotiate with Carrefour, Leclerc, Auchan and Casino which represent 80 percent of your business, you are a winner, definitely. Whatever the competition is doing, you are in a good position if you are really doing your job in terms of category captain.

If you look at the platform we build, you saw the world picture a few minutes ago, you have the top 10 countries in 2000, and you have the top 10 countries this year, beginning of this year. As you can see, Russia is number two followed by the USA, Mexico, Indonesia, China and Argentina. So, we already have six countries in the top 10 of the company. And, clearly, we are going to build on that.

If you look at the margin, only one thing, and I have explained that for many years now. It's true that when you start, you open a new country, perhaps you lose money. Perhaps your margins are less. And one day you have a good platform, your margins are still below the average of the group, but you grow much faster because you choose the right country. And suddenly you grow faster with a better margin than the average of the “pole” [Division], of the average of the group. It's what I call the "double positive effect."

You grow faster with better margin. And, as you can see, globally, at the group level, if you take the group top 8 mature versus the top 8 emerging countries, you see how the gap is going to be swallowed by the emerging countries. And, the best example we have is in Water, because by doing roadshows, I get always the same question about Water. Perhaps not this year because we have a good seasonality in Europe, so the water is probably the fastest-growing category for us by the time being.

But you can see how the margin -- obviously, I would be very pleased to have the margin stable in Western Europe. It's not the case. But now, Water in volume, more than 60 percent in the emerging countries, in mainly two countries, Mexico and Indonesia. And China, so let's say, three. And, in the same time, more than 52 percent of the turnover in the emerging countries and the margin in Indonesia is now better than in France.

So we can -- it's exactly what we want to build because we are always talking not about top-line growth but always, since many years, about profitable top-line growth. But with our timing, it's not a question of 200 basis points per year, it's a question to grow with a good fall-through and the margin growing at the speed we need to build the group.

Now, if we look at the -- if I have the time, I will go through all the countries. No, I don't always stop. But I took five examples of large emerging market businesses for tomorrow's growth. Because that's the only thing we are looking for. Dairy: US and Russia; Water: Mexico and a little bit of Brazil. Baby nutrition: China and Indonesia.

Russia. On this picture, you have what we built in the last 10 years. As you can see, a CAGR of, let's say, 30 percent per year. Market share, very strong and growing very fast. We have now something like 30 percent market share in fresh dairy products in Russia, and it's without Unimilk. It's just Danone with our, let's say, premium range. How do we do that? You can see on the left, more clients, more routes, more consumers. So, we worked a lot, leveraged all the innovation we have in the rest of the world through how to achieve the consumer, routes to market, penetration, frequency, and developing the awareness of the brands. Starting from scratch. We started from zero -- no acquisition, nothing. A little shop in Moscow, and a workshop in Togliatti, 1,000 kilometers, in the AvtoVAZ factory. I don't have the time to explain why.

If you look at Russia -- which is not only Russia but the CIS countries, Russia, Ukrain, Kazakhstan, Belarus -- and you can see the purchasing power growth, which is very important for us. A good country is a country -- not a rich one but one where the buying power of the consumer is growing because they can start with local products but, then, they will switch to branded products, especially to products like us.

And, you have also the consumption of fresh dairy products, and the most important thing is what you have on the right: “one cup a week”, “one cup every two days”, “one cup a day”. And, you can see all these countries around Russia, Russia included, which are between “one cup a week” and “one cup every two days”, which means “1.5 cup every two weeks”, something like it. So nothing, in a country where milk and fresh dairy milk have very strong awareness because of the kefir. So, we build on the base business, and we create a new generation through modern trade and health benefits.

Now Unimilk -- as you know we are waiting for the authorization, but everything is doing very well. And we let’s say merged -- I don't want to say we took over even if it is the right situation -- but we merged Unimilk and Danone. I am just coming back from Russia, and I am really impressed. I think one day or another we can have 40 percent of the total milk business in Russia by joining the strength of Unimilk and Danone.

Unimilk is traditional dairy, modern dairy and baby food with very strong brands. The most important one is Prostokvashino, which is a, let's say, not premium, not basic business, but brand they created because they bought a lot of small and regional companies. So it's, for us, very complementary with what we have with Danone, as you can see on this chart. And, clearly, for us, one plus one will be something around 3 not 2. And I really think above 3. Why? Because, as you can see, Danone is focused on health. Unimilk is traditional. Unimilk is more on the East side, we are more on the West side. If we need -- today we are sending, we are selling, and I really went to the center of Russia last week. You find Activia, but it is 1,000 kilometers from the Chekhov (ph) factory in Moscow. And, milk in Moscow is much more expensive than in Belarus or in the Northeast of Russia.

Unimilk, they have factories. So very, very, very quickly, we will start to produce Activia where the consumption needs a new line, but not in Chekhov, close to the consumer area using and leveraging the industrial facilities of Unimilk. And, we have many examples like this, which achieve the revenue synergies you have on the bottom of this slide and the cost synergies. It is more in the traditional Dairy. We are in the modern trade. We have the best-in-class practices, we have an incredible network, and I can tell you that the factory I visit in Saint Petersburg is exactly the same quality, state-of-the-art, than our Chekhov factory. So, I really think we can have more than hope in Russia for tomorrow.

The Danone Unimilk company, as you can see, is going to be a very strong one. Basically, it's going to be the number-one business unit in dairy for Danone. It means bigger than Spain, which is the biggest by the time being. And I will not come back on that.

Danone U.S. -- we have two ways to look at the U.S. It's a mature country, a difficult economic situation. For us, it's a real dream. Even now, we grow double digit by the time being in the U.S. And we are going to really make the U.S. one of our flagships, which is a little bit new in our strategy. For a very simple reason you have to understand. We know the risk of emerging countries. We know the political risk. We know the currency risk. We know the economic risk. But for us, the U.S. is an emerging country. First of all, you can see the CAGR, the last 10-years growth, 9 percent. And, as I told you, right now it's double digit. We will finish the double digit growth in the U.S. this year. And the double digit growth is a KPI for an emerging country.

How do we do that? Just look at how do we transform the range -- our product range in the U.S. We used to have a very basic one with fruit in the bottom Light & Fit, the classic. Everything you know. And now, you look at Activia, DanActive, and the mistake was made, not this year and the previous year, but let’s say two or three years ago.

To focus on Activia on the right, and we even don't look at the base business. This year, for the first time, we continue to renovate to launch innovation, to take care of the base business. Doing this, we leverage the incredible growth of Activia and the new product, especially the product for children.

So -- if I have to give a definition of what are the U.S. for a yogurt maker like me. What is the definition? A huge country, very secure, good governance, loyalty, protected brand, very strong buying power of the consumer -- whatever the economic crisis, that will take a long time, and I'm sure that we never realized that most of the U.S. population will not have the money to buy a yogurt. It's an emerging country because of the consumption per capita. You are still buying cup by cup. It's the Middle Age. And we are going to transform the U.S. from the Middle Age to the Modern age in terms of Dairy -- fresh dairy consumption. And we will be supported by the biggest retailer of this country for a very simple reason -- working capital, they get it negative.

You pay when you have already sold the product to the consumer -- very important financially. So that's the reason why we are going to put a lot of effort behind the U.S. We have on this chart our strategy growth axes. Activia: No limit. Do we have to reinvent the product? No. In the U.S, consumers consume 3 kilos, 4 kilos per year per capita. In France, it's 30 kilos. We just have to benchmark and look at where does it come from? And I will explain that.

The new brands, like DanActive, the multi-pack, as I said, stops to consume one cup a day. But if you consume one cup a day, it's because your frequency is not the right one. So we have to work on that. We have to take care of the category. We have to develop the category by ourselves before even thinking about the Danone brand. We are going to look at the category.

The core, for example, with the Greek yogurt. The key domination is going to be one of our axes with new product like Danimals and a new one that we just launched, and, as I said, which is very new for us. It's probably the only country in which we do it – it is tactical. So, don't ask me what does “tactical” mean. But it's tactical. Tactical private label with the fastest retailer in terms of growth in the U.S. -- Wal-Mart. Just an example -- if you have one success in Wal-Mart in terms of merchandising, you can be sure that all the other ones will follow. So, it's tactical.

To illustrate how do we leverage, what are the U.S. in terms of frequency ? As you can see, basically, you have nobody consuming our product in this country. If you look at the frequency, 17 percent don't consume and 7 percent of one-time buyers. It means that a quarter -- 25 percent of the U.S. citizen are not consuming our product. Why? We will find why, and we will give the answer, and it's already started.

I jump on this, but just to explain how we want to, let's say, I will give you the internal target we have -- US$3 billion. We want to switch into US$3 billion in the U.S., and we will not take eight years to do this. I can't tell you how many years, but just imagine that my target is above the 3, and I am not very patient. So, another example, look at that picture. It's a shelf. Now a visitor shelf in Europe, where we consume 32 kilos per year per capita, just imagine how we have to explain why do you have 10 kilometers of soup shelf when you have that. It's not possible. We have to take care of the category. That's the time. We have to explain that we know how to merchandise. We know how to make some emotion in the shelf. So, it's not so difficult to do it. We know how to do that.

And number of SKUs -- you have many SKUs in that shelf, just imagine the out-of-stock every Saturday evening if you have one facing for one product and, you have many SKUs, which are not renting their room in the shelf. So, we are going to develop also our competences in terms of market.

I jump on this one because I already talked about it, but innovation is going to be very strong for us. We don't have to innovate. We have to roll out what we have in the other countries, which is far less expensive, and we know exactly what kind of toolkit we have to put behind.

Mexico Bonafont. The most difficult country in terms of beverage -- huge competition. You can see on this chart how do we grow and what do we build the last 10 years. And because of this success, we decide to roll out that in Brazil, exactly the same marketing positioning. No reinventing the wheel. After two years, we are number-one in Sao Paolo region, and we will go to the Northeast as soon as possible.

But for the first time, we find a way to roll out as we do in dairy, to roll out a similar positioning from one country to another in terms of water, and that's exactly what we are going to do in some other countries in the world. And you have the presentation.

So always the same analysis based on the consumption per capita.

I go fast because I would like to speak a little bit, and perhaps conclude, on China. China is the fastest-growing market, and China dairy is going to be priority for us. We grow really fast our businesses in this country. We are leading. We are using the same thing I just explained to coverage Russia with dairy. We are just roll-outing the best practice we did in Russia in dairy to do the same in China, because China is not one country, it depends on how much you own, but it's 10, 20, 25 countries. We have to go step-by-step. But you can see how do we go within China.

In terms of brand, always the same -- like in fresh dairy. We are in the super premium growing very fast. We just launched Bebelac in the premium segment, growing very fast, and we are not looking at by the time being, even if we have a small brand in the standard businesses because it's more difficult to make money -- profitable growth.

Indonesia is exactly the same -- same strategy, same pricing pyramid. And, in Indonesia, because of the buying power, we go deeper in the pricing with the brand called Gizikita -- very, very affordable but huge volume. And also because we can also leverage the strength we have with the water business in Indonesia, because we control more than 80 percent market share in Indonesia. So, in terms of routes to market, of distribution channel, of leveraging sales force, we know how to do use our strength.

I will conclude on that, and I know that we have to go in another room for answers to your questions. Just to conclude, let's say that I know that perhaps everybody is not very optimistic. If I look at Danone, I am 150 percent optimistic. If I look at the different contexts all over the world, I think we have to be careful. But short term, midterm, long term, I know exactly what we are building, and Danone will remain a winning company, definitely. Thank you.