

FINAL TRANSCRIPT

Thomson StreetEventsSM

BN.PA - Q3 2011 Danone SA Sales Conference Call

Event Date/Time: Oct. 18. 2011 / 7:00AM GMT



Oct. 18, 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

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PRESENTATION

Operator

Good day and welcome to the Danone third-quarter and nine-month sales 2011 conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Pierre-Andre Terisse, Chief Financial Officer. Please go ahead, sir.

Pierre-Andre Terisse - Danone SA - Group CFO

Thank you and good morning, everybody. This is Pierre-Andre Terisse, Group CFO, speaking. I'm alongside with Marion Cazenave and Antoine Guttinger to talk to you about the sales of the third quarter of 2011. During this call, I'll be making reference to the presentation which you have on the web and I'll try as much as possible to indicate the page to which I'm referring to. And without more details, I will directly go to page three.

So total Group Q3 sales growth of 5.9% like for like. This means a third quarter which is very much in line with our expectations, showing a few things. The first and foremost is strong underlying dynamics in all our categories, and I'll have plenty of time to come back and go through this with you during this call. The second one is obviously the impact of the weather conditions during summer on the performance of our Water business. And the last is performance of our Russia and US dairy markets, which are, as you know, and I will come back on that as well, in a transitional phase.

On year to date, this means 7.7% top-line growth organically. And this is progressing versus the same figure for the full-year 2009 and full-year 2010.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Moving to page four and looking at the elements of this growth, on the third quarter, the foreign exchange has been negative. It has been more negative than it has been during the first part of the year. You see a minus 3.7%. This is attributable to a few currencies, but in particular US dollar versus the same number a year ago, and also the Russian ruble. The 8.3% on the scope reflects, essentially, the integration of Unimilk or the consolidation of Unimilk performance. And you have 5.9% like-for-like sales growth; volume, 1.5%. And value contributes obviously the biggest part at 4.4%.

To qualify the volumes, I would say the volume growth has been solid, apart from two important places, however, which has been Unimilk, as you know, and Waters in Western Europe. All that contributes to a total 10.5% growth of the sales on the quarter.

Page five, you have the same analysis for the nine months with basically the same bricks. Currencies are a touch better for the reason I explained. And year to date is, as I mentioned a few slides ago, 7.7% like-for-like growth on the nine months.

Turning to page six, we have been, since the beginning of the year, choosing to show you as well the performance of the business before Unimilk so that you can have both information, with and without. You see this evolution on this chart in particular and you can see that the performance ex-Unimilk, so the performance of the business before the integration of Unimilk, remains good. It's at 6.4% organic growth, so it means that this is very much in line with the performance of the fourth quarter of 2010 after two quarters in 2011, Q1 and Q2, which has been helped by an exceptional Water performance, as you all know. So 6.4% ex-Unimilk.

And I will now go into the details of each of the divisions, starting with Dairy, page eight. So Dairy, again, looking at it on a standalone basis, 4.1% top-line growth, which is a slowdown versus the performance of the previous few quarters, since the second part of 2010.

This reflects several things. It reflects the well-standing European business, with particular mention of Spain, France and Italy, which have been delivering a good performance. It reflects fast growth in most emerging markets and in particular in Latin America, in Asia Pacific, with Japan, and in Africa, Middle East, with, in particular, Saudi. It reflects as well the soft performance of two of our businesses, Russia, which has been delivering stable sales; and North America, which has been growing low single digit. So this is for the geographies.

For the brands, most of the growth has come once again from Activia, on the one hand, including a very good performance in Spain following the launch of the new cup at the beginning of the year, but also reflecting a very positive contribution from Indulgence, including Danette, but also including Greek, of course. And a good performance as well, a good contribution from Densia, which, as you know, was launched in Spain and is now present in Spain, in Italy and in most Latin American countries and is going to be rolled out in other markets.

If you, page nine, open the box between volume and value, you see that this 4% Dairy ex-Unimilk, is made of three points of price and mix, which is very much at the same level as the previous quarters, slightly up, and 1% volume growth, which is down. What's important to have in mind for the volume is that, again, volume has been following the price increase, has been standing firm in most countries. That has been done really in two markets. One has been Russia, and I will come back on it, and the other one has been the US. But in the other markets, the important lesson is that the follow-up of the price increase or the outcome of the price increase on the volumes has been very positive.

Page 10, a page on the innovation for Dairy, on which I'm going to spend a bit of time because it's really a fair reflection of what we are trying to do. First and foremost on the Greek, a new recipe, a new advertising, a new pack and a new name. We have moved from Danone Greek to Danone Oikos. This is what we have been doing between July and September in the US and has been delivering a good performance.

In Russia, we are now in the process of starting with innovation in Danone-Unimilk. You have an illustration of that here, which is Tema Yogurts, a version which is with probiotics. We are actually at the moment trying to build a pipe of innovation for next



Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

year and therefore to be prepared to be again in a position of growth and capturing the potential of these markets as from 2012.

Densia, I told you, has been working great in Spain, Italy and in Latin America; therefore, we keep expanding it. And the next country for the launch is going to be Japan. This is being done now.

Naturality, we've been doing a lot of things on improving our environmental footprint, but we are also trying to address the need of the consumer for our product, which will be consistent with the environment friendliness and the naturality. You have an example of Activia Pur in Germany here, which is made of three ingredients only. It's not an organic product, but it's made of three ingredients. It's made of milk, sugar and fruit and nothing else. And this we believe has a lot of potential, in particular in this country over time.

And I will finish by, on the bottom right, Activia Frozen. You remember that we acquired, last year in the US, a franchise called YoCream. Activia Frozen, the frozen version, is being launched in this franchise this year, with pretty good initial results.

So, as you can see, a lot of things in the Dairy business in many different directions, participating overall to a strengthening of the portfolio and the preparation of the coming quarters and years.

Now I would like by going to page 11, I would like to come back a little bit on the growth engines of Dairy. And I will do so, by the way, for each of the four businesses we have, and starting in the case of Dairy with the US.

So, as you know, the US is an important market for us and this is a market which we have made a priority of. This has been the case and remains the case. Over the past 24 months a real amazing phenomenon has happened in the US market, which has been the appearance and the development of the Greek segment. The Greek segment has moved from basically nothing, as part of the category 24 months ago, two years ago, to something today which represents 25% of the category in a market which is of course small by itself in terms of penetration, but very sizeable altogether. So that's been a really amazing phenomenon. And we view that, by the way, as an amazing opportunity because, after all, Greek is like many other episodes of that kind in the US before, is going to be one of the elements of driving category growth and developing the category in the US.

Short term, it has distorted the category growth two ways. Number one, because it has boosted the value growth of the category but it has negatively impacted the volume growth of the category, the Greek being twice as high as the other products in terms of value per cup.

Secondly, it has obviously boosted the development of the Greek category, but at the same time it's been weighting on the development of the other segments, which have been growing negative. So for us it has meant that our pace of growth has been slowing down as we are underweighed in the Greek category.

From that point we've chosen to push on two levers and will continue to do so in the coming quarters to, again, I repeat, capture what we believe is a great opportunity. The first has been the Greek.

And, as I was mentioning, the page before, we have been re-launching our mainstream Greek under the brand Oikos. This has been done during summer. This has been a successful launch with very good results. And thanks to this and our previous presence in organic Oikos, today we can say that we are number two of the market, with a 15% market share on the IRI side, but that represents only slightly above 50% of our sales total and therefore a number two total on the market.

The advertising which we have produced has been very well received. The velocities and the rotation of the new product has been very much in line or above our expectation. And today, we keep expanding with one necessity, which is to build further capacities, as we have entered some retailers but not all of the retailers. And that will be one of the challenge and one of the priorities for the coming months.

Oct. 18, 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

So Greek is definitely one of the priorities in the US.

The second one is Activia, of course. We believe and you've seen that on the frozen side, the page before. We believe Activia still is a brand, one of the main weapons we have to develop the US market. We have reshaped the advertising and we are going to push again very much on that brand.

So if you add the Greek Oikos, if you add Activia and if you finally add the fact that we have this year become the leader of this category in the US, with Stonyfield and Danone, we believe that we have pretty much the right tools to address the potential of this category and make it grow at least in line with what we have been delivering over the past and exploit the potential of this market.

So that's one of the Dairy engines.

The second one I would like to come on is page 12, Latin America. Latin America, since the beginning of the year, has delivered extremely good performance quarter after quarter. This has still been the case in the first quarter of this year. We have a strong leadership in markets which have different level of maturities.

Argentina is probably the most major we have, both in terms of maturity of the category, but also in terms of presence of Danone. We have 70% market share, yet we keep gaining market share and we keep growing volume-wise.

Mexico reflects the success of the reset and has been continuing to gain market share therefore.

Brazil is probably the biggest opportunity we have in this region, 28% market share, but this is still growing and growing very strongly, double digit.

And last, Chile. This is really a new opportunity for us. It's a market which we entered about four years ago. In four years we've built 22% market share. This company, by the way, has recovered following the earthquake, and it keeps growing and delivering very good performance.

So you see that in this region of the world the performance of the Group is not only good altogether, but we have very interesting assets, taken one by one, and a diversity of growth models.

The third growth engine I would like to come back on is Unimilk. As you know, the priority for 2011 for us are, as you can see on page 13 in the blue square, it's segment the portfolio, drive efficiency to invest behind brands, and probably the priority number one, the most important of those, is integration.

On that one, we are extremely well on track. We have a new management organization, i.e. a merged management organization, which is already in place. The teams are going to be moving in one building before the end of the year, in about a month time. In terms of systems, we are making some progress again. We have already, in one region, deployed our SAP Themis model, which means that less than a year after the acquisition we have already elements of the systems of Danone IT systems in the Company.

And therefore, all these elements will make that Danone-Unimilk will be really one company by the end of 2011. So this is priority number one and it's extremely well advanced.

Priority number two was about profitability. I'll not come back on that. You've seen some evidence of what we're doing during the H1 call and we keep proceeding in the same direction.

Oct. 18, 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

The last is the portfolio, and you can see some element, page 14. So we said this year we were not willing to push on volume and to push on sales, but we've said as well the priority was to build the portfolio, to build a pipe of innovation, to build strong brands, value brands for next year and to make that on that. And we are so proceeding well on that -- in this direction.

Volume-wise, nothing new. This is what we already told you during the first half. We are stable sequentially and we believe we'll stay stable sequentially until the end of the year, which is obviously driving negative volumes in comparison with last year.

Sales, as we told you during the H1 conference call, we are stable. This comes from negative volume but also very positive pricing following the price increase and the increase of the mix throughout the year.

And in terms of brands, what's interesting is that we keep building our modern brands. This is the case of Modern Dairy, with a very good performance this quarter of Prostokvashino in particular, but also the Baby Kids' brands, with Tema and Smeshariki which you see on the slide, which have grown by 7%. The part which is obviously lower than a year ago is the Traditional Dairy. And therefore this is all very logical.

For the rest of the year, our priority will be to finalize the integration, to deliver the profitability we expect and the synergies, in fact, and third, to prepare for a gradual acceleration of the top line in 2012. On all these fronts we are very well on track.

So that's really for Dairy. I've taken a bit of time, but I thought it was important to come back on the main drivers of growth of this division since they are quite different, one from the other.

I'll move to Waters. The performance in the first half was exceptional, 16% top-line growth, organic, of course helped with the weather, of positive weather condition and exceptional circumstances in Japan. If I look at the performance of the third quarter I find it personally even more impressive, 7.9% top-line growth, but despite the absence of positive exceptional items and, on the contrary, despite quite poor conditions during summer. This is due to America and Asia, which has been kept growing double digits, while Western Europe has been negative in volume on the quarter. And Japan has been back to normal, but on rather high comps for last year.

If you have a look, page 16 at the breakdown of the performance between volume and value, you will see very much or recognize very much the impact of what I just said. The volume have remained strong at plus 5% despite Europe, which has been negative, and thanks to, on the contrary, emerging markets, which have been very strong. And the mix has been impacted as well by the geographical negative mix, but has remained positive thanks to the strong performance of the Aquadrinks.

Page 17, as for Dairy, a few words about the growth engines, which are basically two, Latin America on one hand and Asia on the other. Emerging markets altogether, one of the common points of this market is that we have in all of those but Brazil a presence with a full range of home and office delivery, bottled water and Aquadrinks. And each of these segments in each of these markets is growing and is contributing to growth, with a special mention in fact for this year to the Aquadrinks. And this allows us to keep gaining market share everywhere.

The innovation, page 18, reflects what our priorities are. It's very much skewed towards emerging markets, with in the entry into the HOD market in Brazil, in which we were not present so far. So we are complementing the bottle business with an HOD business, with some line extension in Mexico and in Argentina on the Aquadrinks side and with some consistent attempt to educate the consumer on the importance of drinking water in France, with the Hydrastation summer campaign in France.

I'll move to Baby, with another very good quarter, 10.5%, volume driven for 5.5%, with 5 points of mix and pricing. It's been again a quarter driven mainly by milk growth, but where there's been a good performance of food, with, in particular, a good performance of cereals. The milk remain, however, the main driver of growth in the division, with growth in all countries, Asia, and I'll come back to that in a minute, Middle East, Russia and Europe.



Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

If you look here again at the growth engine, we've chosen page 20, this one is Asia. We have a very strong presence in this geography, with presence in many different markets. And you can see China, Thailand and Indonesia on that slide.

In China, we continue growing well on Gold, on Bebelac and to a larger extent on the standalone. And we have regained some market share this quarter.

In Thailand, our Dumex brand is performing very well with close to 2 points gain of market share versus last year.

And Indonesia is truly delivering a very, very good performance thanks to a complete portfolio with, as you can see, going from Super Premium to Standard and even to Low Standard, Nutrilon, Bebelac, SGM and Gizikita, which are very important brands in managing the whole offer on the Indonesian market and has given a pretty good result in terms of category growth and market share.

To these three markets and a few others we've been adding recently India. You have seen that at the end of July we signed an agreement with Wockhardt, a local pharmaceutical company, with a view to buy their Baby and Medical Nutrition business. The transaction has been signed. It is going through a different stage until closing, which we hope will be made in the coming months. And that's clearly for us another very significant opportunity for the Baby business in Asia.

A look at the innovation, which reflects the fact that we keep addressing all the markets with different tools. You see in particular the launch of Karicare in Hong Kong. Our presence in Hong Kong was very much organized across Cow & Gate. We complement it with a Super Premium brand called Karicare, which is helping us develop this specific market in China.

In Russia, we keep stretching the brand on the food side with a successful launch of Malyutka and a new version of cereals.

And in Europe, we have been launching some specialties, and in particular here, formulas for pre-term or for low-birth kids, with a very convenience pack, as you can see on the chart, page 21.

So a very good, again, Baby performance, a very good, again, Medical performance, page 22. All geographies has been providing growth. What is interesting quarter after quarter is that both Europe and the emerging markets are contributing to this growth. This quarter, specifically a good performance coming from the UK, in Western Europe and in emerging markets from Brazil and from China. Neocate and Nutrini have been particularly strong this quarter, helping to boost the pediatric segment.

Neocate, which you can see on page 23, with a version of Neocate enriched with probiotics, which is being launched in the US, while at the same time we are launching in France Fortimel Max, which initial results are very good.

So that's really it for the division.

A word about the geographies, page 24, which reflect all the elements I've given you. Asia and the rest of the world remain with a strong growth, double-digit growth. 11.5% for the rest of the world, 19.6% for Asia. Europe, on the other hand, is dropping from the 4% which you saw in Q2 and to a lesser extent in Q1. This is reflecting on the one hand the negative performance of Water in Western Europe and the stable performance in Russia and at the same time the rest of the business, which has remained very solid, in fact consistently with the performance we have observed in the first part of the year.

So going to the outlook, page 26, so that makes us obviously very confident. We need to keep working because we have things to do, but very confident, confident for 2011, with 6% to 8% top-line growth as a target, repeated for the full year, and a Q4 which is likely to be with a similar trend as the one we have seen in the first quarter.

On the margin, we confirm the improvement by about 20 bps for the full year, which implies a strong margin step-up in the second half.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

And on the free cash flow, we confirm a solid growth of our free cash flow, with a view, to converge to the EUR2b objective for 2012.

So confidence for 2011, but, as you can imagine, confidence as well for the coming years, with all the drivers I've been mentioning to you during this call and all the initiatives which have been taken at this very time by the managers of this Group.

I end up with my presentation and will be ready to go through some Q&A if you obviously wish so. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Terisse. (Operator Instructions). And we will take our first question from Warren Ackerman, Societe Generale. Please go ahead.

Warren Ackerman - Societe Generale - Analyst

Good morning, Pierre-Andre. It's Warren Ackerman here at Soc Gen. A couple of questions, three questions in fact. The first one is are you able to flesh out the underlying market growth in US and Russian Dairy? You said in your commentary that the Greek segment is cannibalizing other segments in the US, which is a new trend. Does that mean the market in the US is maturing more quickly than you had expected?

And in Russia, again, what is the market growth in Russia and do you still stick to your Unimilk acquisition targets, which if I remember rightly was mid-teen top-line growth and I think you said margins moving up from 2% to double digit I think in three to four years or maybe four to five years time. That's the first question.

And secondly, I was just wondering about the evolution of input costs. What is your latest expectations for inflation in H2? And given current spot prices, are you in a position at the moment to give us the first feel for 2012 outlook on input costs? Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

Okay. Morning, Warren from Societe Generale.

Warren Ackerman - Societe Generale - Analyst

Morning.

Pierre-Andre Terisse - Danone SA - Group CFO

So first on the input costs, we're seeing input costs stabilizing, as we had expected, since basically the end of the first half, stabilizing for some of them or even decreasing a little bit for some others. Altogether, given the time where we are in the year, it doesn't change at all things for us for 2011 because either we have hedged what we had to hedge or we're adding some time-lag effects to get the stabilization or the decrease which we see in some cases. So for 2011, basically things are moving in the right direction.



Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Warren Ackerman - Societe Generale - Analyst

So still the top end of the 6% to 9% inflation, is that right?

Pierre-Andre Terisse - Danone SA - Group CFO

Yes, still the top end of the 6% to 9%, but the good news is that it looks like the entry into 2012 is going to be definitely much softer than what we had in the beginning of 2011.

Warren Ackerman - Societe Generale - Analyst

Okay.

Pierre-Andre Terisse - Danone SA - Group CFO

On your first question, which is the US market and Russia, the US market keeps growing, value-wise at least. Volume-wise, this is not the case, but value-wise it keeps growing and it keeps growing mid- to high-single digit. So it remains broadly in line with the performance, with the evolution of the market we've seen in the past few quarters and years.

I don't believe the Greek is a sign of maturity of the market. I think we view it as just another episode of construction of the US market, which, when you look at the history, has been very much driven by waves, which have been very significant and then have sedimented, allowed new consumers to come into the category before another one comes. If you look at the history you will see that this has been the case with Delight, it has been the case with the low carb, which is not something which has stayed. This has been the case with probiotic and today this is the case with Greek.

We don't believe the Greek is going to eat all the category. We believe it will continue growing and it will, on the other hand, last and stay as an important segment of the market. But we definitely don't believe this is the end game. In fact, when you look at what Greek is addressing, it's addressing concerns or needs or attraction from the consumer which are very much the same as the one which has been addressed and which remain addressed by Activia, i.e. healthy and very good taste.

So this is why I was saying we will keep using both the Greek and Activia to develop the category, knowing that actually the Greek, something else will come and keep developing this market.

On Russia, we are in a market which is basically now negative in volume and flat in sales, flat to slightly positive, which I view, in light of the history, as a very logical step after episodes of price increase and, not only in Dairy but across the food categories, has been marked by a strong inflation in 2011.

In the Dairy category, price inflation to consumer has been 10% to 15%. And again, it's not been the case only of Dairy, but also of other categories. And we know that with that kind of inflation, and we know it by experience in Russia, the market tends to stabilize a little bit before it grows again. I believe we are in this context. We see, I see no fundamental reason for this market to be changing in terms of long-term trends. I see and we see no reason why we should not be gradually coming back to 10% to 15% growth for our portfolio in this country, in this region, in fact the CIS region. It's just going to take a few months and quarters in fact before we go back to that.

It was not possible in 2011 because we had chosen other priorities, and I think we've been absolutely right to do so because the result is that at the end of this year and even to some extent today we'll have a very solid platform with many risk covers and the ability to push, in an organized manner, behind the brands we want to develop. So it was not the priority to do that in 2011, but everything we do in 2011 basically has one objective, is being able from the beginning of 2012 to push efficiently on

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

our portfolio and to generate volume and value growth, in an equation which we want to be a favorable one i.e. developing brands, with brands developing the mix, with mix developing the margins, and having the ability to invest, and so on.

So that's very much the process we're in, with no particular concern on the Russian markets and with the very clear focus, that's being in a position to reaccelerate from the beginning of 2012.

Warren Ackerman - Societe Generale - Analyst

And can I ask one final one? I was just wondering whether you could maybe clarify your intentions for your water business. I know you don't usually comment on speculation, but given that it's quite precise in terms of timing, I was just wondering whether you wanted to clarify your position. Is water strategic for you? Would you make a distinction between developed and emerging water? And if you were looking at material acquisitions, would you need to sell before you buy, or would you consider an equity issue? Sorry, it's a lot in one.

Pierre-Andre Terisse - Danone SA - Group CFO

No, no, it's fine, I understand I would joke with that, but Antoine told me not to do so.

So I would just say, the same rumor again, and the same no comment again.

Warren Ackerman - Societe Generale - Analyst

Okay. Okay, fair enough. Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

We have not changed our attention, what is still strategic, everything is okay.

Warren Ackerman - Societe Generale - Analyst

Okay. Thanks.

Pierre-Andre Terisse - Danone SA - Group CFO

Okay.

Operator

And we now move to Jon Cox with Kepler. Please go ahead, sir.

Jon Cox - Kepler Capital Markets - Analyst

Yes, good morning. It's Jon Cox with Kepler Capital Markets here. Just a couple of questions for you. You mentioned Q4 organic growth, and then I missed what you said. Did you actually say Q4 organic growth trends would be similar to Q1, or did you say similar to Q3? That was the first question.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Just a second question on what's happening in the US market. I think you mentioned your market share for the Greek segment, I think you said around 15%. Can you just give me the share for the overall market there, for the overall yogurt market for yourself? And I'm just wondering what you think about the talk about potentially a big competitor, PepsiCo, may actually launch in the US. And I'm wondering if you think that would actually help drive the category or would you see that as a big threat?

And then just a last question, on your credit rating, I'm just wondering, I guess you still want to maintain your A-minus credit rating. Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

All right. This is a long list. Credit rating first, we have no intention to proactively go away from the rating we have at the moment which is A-minus indeed. And I feel personally, but this is shared by the agencies, no pressure on the rating in the current condition and with the current datas and projections and business dynamics we have.

And then I'll go backward and start from the first one. So, Q4, yes, what I was saying basically is that I expect for the rest of the year the same dynamics as the one we have seen in the first quarter of this year to stay in place. So, basically no change on any of the drivers I've been mentioning but one, which is obviously the fact that the negative weather impact we have seen in the Third quarter should, by definition, not reproduce in the fourth quarter, which is not subject to variance in weather conditions. So it was Q3, the reference, to answer your question.

In the US, I mentioned around 15% market share. This is on IRI, so this is a part of the universe. I also said that this was a very incomplete coverage of our universe of sale, and that if we were to take the overall universe, our market share would be higher, and we are therefore the number two of the Greek segment in the US, a segment which by itself represents about 26% of the category, last data.

How do we view Pepsi? First of all, I'm a little bit embarrassed to comment about what I consider is only a rumor. And when I see other rumors, I am inclined to be extremely careful about what is written in the press. But the only thing I can tell you is that anything which will be any entry of a player which will be willing to develop a category, as Pepsi is trying to do in Russia, is a positive for us. So I have no, we have no fear on this side.

I hope I answered your question.

Jon Cox - Kepler Capital Markets - Analyst

You did. Many thanks.

Pierre-Andre Terisse - Danone SA - Group CFO

Thanks.

Operator

We now move to David Hayes with Nomura. Please go ahead.

Pierre-Andre Terisse - Danone SA - Group CFO

Good morning, David.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

David Hayes - Nomura - Analyst

Good morning, sir. Three questions, if I can. Just firstly, on Western European water, I was wondering if you can give us the details of the sales and the volumes that you saw in Western European water specifically.

Then secondly, just on the USA, just to clarify, the category in the third quarter, can you just tell us what you saw the category doing overall with all those moving parts in terms of Greek, etc.?

And then thirdly, margin outlook for Unimilk, I know this is obviously a sales-focused release, but I don't know if you can give us any more clarity in terms of what you think the margin might look like second half this year versus the 1% in the first half. And then moving into next year as you kind of look at the business plan unfolding and whether you can give us any kind of steer of what margins might look like in 2012 Unimilk. Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

Yes. Just to note your second question, because I have the first, I have third, I don't have the second one, can you just repeat it?

David Hayes - Nomura - Analyst

Yes, of course. Just on the USA, you may have mentioned this, I may have missed it, just to clarify, the US market or the category in the third quarter, I just wonder whether you can tell us what the category did within the quarter. Thanks.

Pierre-Andre Terisse - Danone SA - Group CFO

Okay, okay. Well, that's an easy one that we'll address as well. By the way, the category has been growing value-wise, declining volume-wise. Value-wise it's been growing mid to high single digits, so, broadly in line with the historical growth rates we have seen for the category. Volume-wise it's been declining low single digits. This is due to the fact that Greek is twice as high in terms of price per kilo as the average of the category. So that's for the market.

Western European waters, I don't know what kind of detail I can give you other than telling you that indeed the month of July and August have been fairly bad and they've been fairly bad across Europe. The month of September has been definitely better. And we're talking altogether for Western Europe of a negative performance of mid to high single digits for the third quarter, which means that doing plus 8% with that performance in Western Europe is definitely a very good performance.

The last is on the margin outlook for Unimilk. I will not give you too many details, I'm sorry, for that. I think the best way you can think about it is to start from the performance of Q2, so the level of margin we had in Q2, and the sequential evolution within the quarter. June was higher than the level of margin we had in April. And that's a very good base and a very good proxy to think about the margin for the second part of the year, where definitely the cost of milk is really increasing. And this is a normal seasonality effect. But at the same time, we have an increasing effect from the synergies and cost efficiencies program.

David Hayes - Nomura - Analyst

All right. That's great. Thank you very much.

Pierre-Andre Terisse - Danone SA - Group CFO

You're much welcome.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Operator

And we now move to Simon Marshall-Lockyer with Jefferies. Please go ahead, sir.

Simon Marshall-Lockyer - *Jefferies - Analyst*

Yes, good morning, and congratulations for a good set of Q3.

Pierre-Andre Terisse - *Danone SA - Group CFO*

Thank you.

Simon Marshall-Lockyer - *Jefferies - Analyst*

Just a couple of questions, Pierre-Andre. Can you be a little bit more precise maybe on the trend of Activia. I was interested in what you were saying in respect to this tradeoff of sort of healthy good taste driven by Greek, and that obviously also encompasses the positioning of Activia. Can you talk a little bit more about Activia? Because the brand in the US does look as if it maybe lost a bit of momentum in relation to the rise of Greek.

And then the second question relates to Russia and Danone Russia. Do you think that we're looking at a period of actual price resets in the Russian markets? Or do you think that going forward we're just going to see no pricing and only a volume-driven growth?

Pierre-Andre Terisse - *Danone SA - Group CFO*

Okay. Well, one thing about Danone Russia, I would not like to comment too much on that, on forward pricing information, because as you know, this is a market where we have a strong competitor.

Simon Marshall-Lockyer - *Jefferies - Analyst*

Yes.

Pierre-Andre Terisse - *Danone SA - Group CFO*

And I would not like to give any indication on what we want to do in terms of pricing. I just can repeat what I said before, i.e. we have already seen episodes of that kind in Russia, not only in 2008 but also in some years before, and there's been different ways to gradually reaccelerate. So we don't have any specific worry about this market and we don't see any necessity to be particularly aggressive on pricing.

Simon Marshall-Lockyer - *Jefferies - Analyst*

Okay.

Pierre-Andre Terisse - *Danone SA - Group CFO*

But I won't go further than that.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

On the US and Activia, I think what's happened on Activia and Greek is, from that respect, a very, very good opportunity that we have been building Activia as a brand with a very strong health benefit. And we've been willing more recently to broaden the scope of Activia and to also address to some extent the need for indulgence which we perceive from the consumer.

The fact that we have Greek today is giving us two tools to address two different needs. And I think that's a positive news. And this is basically the reason why on Activia we are going to refocus on sharper health message, not trying too much to address indulgence, giving back very, very strong identity to Activia and leaving the indulgence parts to Greek which is the appropriate tool to work on that.

Talking about numbers, Activia has been objectively a very good element of portfolio management in the recent years of course, but also in the recent quarters. It's been by far less impacted by the development of the Greek. On the contrary, it resisted better, even though it's been declining. But as I said, now we have to look at the overall portfolio and to use each of the tool and each of the brand we have to address the needs, and, yes, the needs from the consumer.

Simon Marshall-Lockyer - Jefferies - Analyst

And can I just put in a third question on the YoCream development in frozen yogurt. I know it's extremely early days, and you made a detailed presentation about it in Evian, but could you give us some indication of how that's going more in terms of outlook in terms of rolling out number of points of sales? Or can you just remind us maybe of where you're seeing that go over the next few quarters or year?

Pierre-Andre Terisse - Danone SA - Group CFO

We definitely believe that's an opportunity. As you have seen, we are going very fast since we have launched Activia in the frozen version less than a year after having done the acquisition. This being said, as you said as well, it's pretty early days, and I would not like to go too much into details on that. I'll make sure I am prepared to do so later on in the course of 2012. But definitely the teams are working on that and believe there are many opportunities. We just need to choose them and prioritize.

Simon Marshall-Lockyer - Jefferies - Analyst

Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

You're welcome.

Operator

And the next question will come from Marco Gulpers with ING. Please go ahead.

Marco Gulpers - ING - Analyst

Pierre-Andre, good morning. Good morning, everybody.

Pierre-Andre Terisse - Danone SA - Group CFO

Good morning, Marco.

Oct. 18, 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Marco Gulpers - ING - Analyst

Two questions from me. The first is on the yogurt division in Southern Europe. Could you update us on the performance over there?

And the second is a more general question, the pricing environment. Are you seeing any step-up basically occurring on the promotional side, i.e. what are your expectations for Q4? But maybe you can clarify what happened in Q3 and going into 2012 and the promotional activity. Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

You're welcome. On the Southern European part, and maybe that gives me an opportunity to comment a bit in a wider manner on the performance of Western Europe. So, Southern Europe has definitely been delivering very good performance, that's been the case in Spain, that's been the case in Italy. That's not been the case obviously in Greece or Portugal. But overall, a very good performance.

As you know, in Spain, we've taken several initiatives in the past 12 to 24 months. One of them has been the launch of Densia, and Densia is definitely helping the dairy business in this part of the world. Another one has been the launch of the new yogurt cup which has a long-lasting positive effect. We have made some work on the shelf as well; we have made some work on redesigning advertising copy. So, a number of elements which have made Spain one of the best performer in our European business.

I said I would like to enlarge, because on the side of Spain you have France which had been consistently for the past four, five, six quarters, delivering a good performance as well with different levers. This quarter Danacol has been definitely a very good performer. UK has been doing well, keeps doing well. And on the other hand, you have countries which effectively are a bit more difficult. We have flagged several time Central Europe, in particular Germany. This remains the case.

But if you take Europe together, that's definitely a real satisfaction for 2011 globally and on the dairy side. And all the launches, innovation, renovation, line extension, all the work we've been doing, has been producing pretty good results.

On the promotional side step-up, no sign as of today. The industry has been rather trying to absorb the increase of the cost of milk through either price increase or a decrease of the promotional spending. I don't think there's going to be a change on that in the short term. If the evolution the input price was going down significantly, we may come to a high level of promotion, but we don't see that today.

Marco Gulpers - ING - Analyst

And maybe a small follow-up question. You mentioned on Russia that you're expecting a gradual acceleration in 2012. That basically should be after the first quarter in 2012 where you still have, let's say, a little bit of a tougher comparable in the year.

Pierre-Andre Terisse - Danone SA - Group CFO

In January-February, that's correct.

Marco Gulpers - ING - Analyst

Okay. Thank you.



Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Pierre-Andre Terisse - *Danone SA - Group CFO*

You're welcome.

Operator

And we now move to Polly Barclay with JP Morgan Cazenove. Please go ahead.

Pierre-Andre Terisse - *Danone SA - Group CFO*

Good morning, Polly.

Polly Barclay - *JP Morgan Cazenove - Analyst*

Good morning. Hi, good morning. Two questions, and revisiting the US and Russia, if you don't mind. Just in terms of the US, can you just describe for us the tremendous growth in the Greek category, what's driving that? And would you mind just repeating the comments around the Greek relaunch? I didn't catch all of it. Anything that you can give us in concert that that relaunch has gone successfully, as you said. And what should we expect over the next few quarters?

And then the second question is on Russia. Could you just spend some time talking about the long-term strategy in Russia, what are your plans for the various sub-categories that Unimilk is in? Are we talking here about just coffee, cream, milk, etc.? What should we expect? Thank you.

Pierre-Andre Terisse - *Danone SA - Group CFO*

Okay. The US first, tremendous growth, I think just qualifies the fact that we've moved from, say, five points to 26 points of category share in less than two years. I don't think there are many markets in which we are seeing that kind of thing yet. Sorry, and this has brought new consumer. So, not entirely brought new consumer because, as I've mentioned, there's been some cannibalization on the rest of the product. But altogether, this has created a buzz around the category. This has attracted new consumer, developed traffic. And I think it's been one of the elements, as others, but one of the elements, for increasing the size of the shelves and attracting apparently some other players into this category.

More precisely about us, the relaunch has been good. When I say good, it means that it's been, if I compare to internal plans, slightly above expectation. It's basically brought us to a position where we are using all of our capacity, is products in the position where we have had to make choice in terms of who we are delivering, who we are not delivering, i.e. we are in some supermarkets, but there is a part of the universe which we are not addressing today.

The technical measures which are velocities and rotation are very positive. Whenever we put the advertising on air, we see very clearly on the sales that this is having a positive impact. So, all the technical lights are basically green.

Now, it's really becoming a question of being able to cope with that and delivering. As you know, we have been, since the end of last year, beginning of this, stepping up our capacity. Given the very good results of Oikos, this is not going to be sufficient to address the real potential of these and the dynamics of these brands. So, our priority at the moment is to be in a position to gradually increase the capacity. When I say gradually increase the capacity, that means by the end of this year and in the first half of next year and probably in the second half of next year as well. But for the moment, by the end of this year and in the first part of next year.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

So, again, it's working well, and the results we get as well from consumer on Activia and on the refocus of the advertising on a slightly tougher claim is very positive as well. So that makes me confident for the coming quarters. I don't think on the total performance of the US Dairy, that this would translate before a few quarters into a return to a performance in line with our vision. So in other words, it would take a few more quarters, probably the whole first semester of 2012, before we move back to anything which looks like double-digit. But we are really doing the job and going in the right direction, with the proper brand and the proper tool.

On Russia, long-term strategy is, we've not changed. It's twofold. It's about maintaining, optimizing the base business, which is local brands, which is traditional dairy, which is cream, which is milk. We've never had and we still don't have the ambition of growing milk double-digits. We don't either have the objective of getting rid of the milk. We think that's an element which is getting stability and reach to the total portfolio. But progressively, as it grows far less faster than the rest of the portfolio, it's going to get diluted.

The real priority is to create value across the portfolio, to leverage on the brands, to invest behind the brands, in particular the brands which we have identified as being the winning ones, this is Prostokvashino, this is Tema, this is Bio Balance, there are a few others. One of the very positive elements of this integration year has been not only the manager of the team but also the design of the full portfolio in Danone-Unimilk Russia which is covering all kind of consumers at all price points through Actimel, through Activia, through Rastishka, through the brands I've mentioned for Unimilk. And our objective will be to invest behind those, to create innovation and to develop fast this part of the portfolio. That's the long-term strategy, but that's also the short-term priorities of the team when they think about the top line in 2011 and 2012.

Polly Barclay - *JP Morgan Cazenove - Analyst*

Thank you.

Pierre-Andre Terisse - *Danone SA - Group CFO*

You're welcome.

Two questions more please.

Operator

The next question will come from Iain Simpson with RBS. Please go ahead.

Iain Simpson - *RBS - Analyst*

Good morning. Thank you very much. Just to go back to Unimilk quickly, if I may. I think the time of your full-year results in February this year, you talked about it being your ambition that Unimilk would add between 50 and 100 basis points to top-line growth to the entire Group. I just wondered if you could give us a sense as to in what year we'd see that because it now seems like we won't see it in 2012, if I understand you correctly, but if you give us an idea of the timing on that.

And just secondly, if I could as well, the guidance that you've given to the performance of Unimilk has clearly changed a little bit, and I was just wondering what are the main drivers from Unimilk performing differently to how you expected nine months ago and how that changed the economics of the business there. Thanks very much.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Pierre-Andre Terisse - *Danone SA - Group CFO*

You say it's unlikely we'll see that in 2012. I would like to correct you that I'm not willing to give any quantified guidance on this topic in particular for 2012. But at the same time, it's very clear to us that everything we are doing today has one goal, and this goal is to build a platform which will be solid, wide and profitable enough to be able to push on the sales and to achieve our ambition. And our ambition for the Russian market and for Danone Unimilk has not changed. It's really to go to double-digit growth.

So, is that going to be a point which we reach in the first half, in the second half, in 2013? Again, I'm not willing to enter into that kind of details. But I can tell you, all the work we are doing goes into this direction, and we have not lost by any mean the confidence we have in this platform which we believe will ultimately deliver what we have in mind at the time of the acquisition, with some months of delay. But fundamentally we'll achieve what we had at the time of the acquisition.

On the margin side, I think this is the second part of your question, otherwise, correct me.

Iain Simpson - *RBS - Analyst*

Sorry. I was more wondering what has changed in the last nine months, what's been sort of the main factors that have driven the delay that you've just talked about. Thank you very much.

Pierre-Andre Terisse - *Danone SA - Group CFO*

It's been simply the fact that there's been a big heat wave in Russia in the middle of 2010. The heat wave has caused the raw material to increase far above the level of the pace of increase we have seen in the rest of the world, which has led in return to all the manufacturer to protect profitability and to increase prices, including ourselves. And therefore, has driven the category to progressively negative volumes.

Again, that's extremely typical of Russia, and these are things we have been going through back in 2008, back in 2005. So it's not the first time, it's probably not the last time, we have to live with this. We have to accept that it's based on delays, but at the same time, it's not a heat wave which is going to change the business plan of that kind of acquisition.

So that's really the only change and that's the reason why we remain comfortable about this business case.

Iain Simpson - *RBS - Analyst*

Brilliant. Thank you very much.

Pierre-Andre Terisse - *Danone SA - Group CFO*

You're welcome.

The last question.

Operator

The final question will come from Alan Erskine with UBS. Please go ahead.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

Alan Erskine - UBS - Analyst

Hi, good morning.

Pierre-Andre Terisse - Danone SA - Group CFO

Good morning, Alan.

Alan Erskine - UBS - Analyst

Two questions, one sort of quite strategic and the other very trivial. But on the strategic side, you've said that you're very excited knowing that you've got two weapons, if you like, to play the health trends in US yogurt. But I do sense a difference in that with Activia you have a very highly-differentiated brand, there's nothing quite like it in the marketplace. But in Greek which is a rather generic category, you're coming in late with what could be said to be a me-too product.

So what I want to understand a bit more is how you're making Oikos stand out on the shelf. What price point is it coming at versus Chobani? How is the copy? How are you telling people this is a new product and a different product and not just a generic Greek yogurt that they can substitute for any other Greek yogurts? So I want to get an understanding for what your marketing strategy is on Oikos and how you can actually make it differentiated and not just be one of an increasingly crowded Greek yogurt shelf?

And then my very small question is just around FortiFit. It didn't get a mention in the presentation and I just wanted to double-check where you were on that test market in Austria. Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

Yes. On this one, it's progressing well. We didn't feel we needed to mention that because we have already done that at the end of the first half, and it's progressing in the same direction, so, no change but going well.

I'll spend a bit more time on the Greek question because that's a very, good point. I agree that on Activia we have something which has the ability to differentiate, and even more so given the angle we are trying to find again with the sharper half focus in the advertising more recently. Greek is indeed something which is a bit more difficult to play in terms of differentiation. So I think we have three assets basically to be successful.

The first is that we are late but not very late, i.e. we are today number two of the market, if you take IRI as the reference, but again number two if you take the total market. That's important because it means that the other players are far away behind Oikos. And I think in such a market, having two brands which are the flagship of the category, is the flagship of the segment, is not illogical. And obviously, we are trying to keep as much as we can, the advance we have on the others, and conversely, to reduce the delay we have on Germany.

The second one is that we have tried to play on taste. One of the elements we've been trying to use in the mix to differentiate from Chobani has been to have the ability to review the recipe in such a way that we have the ability to claim that we are twice as good in terms of taste as Chobani and since this is a product which is very much about indulgence and taste, we think that can make a difference. This together with a very well-executed copy which you probably have seen, which is nothing magical, but at the same time, a very serious one.

The third is really about the fact that Danone is the leader of the category in the US. Being the leader, we have at our disposal tools, means, connections which Chobani does not have by any means. So we probably have the benefit we may have in some other categories, in some other markets, which is the benefit of flexibility being the first comment on that.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

But at the same time, our presence in Walmart and our partnership with Walmart, or having the ability to stretch the brands more, to invest more, to find new flavors, to take ideas coming from other countries, all that has a value, and is giving Oikos, I believe, some benefit which will help making of this brand, one of the two flagship, and I hope ultimately the first flagship of the Greek segment in the US.

Now, you're right to say that differentiating is the challenge on the Greek side. That's why it's important to think about it in a broader way than just on the product.

Alan Erskine - UBS - Analyst

Now on the price point, are you priced at parity with Chobani or?

Pierre-Andre Terisse - Danone SA - Group CFO

Yes, yes, same price.

Alan Erskine - UBS - Analyst

Okay.

Pierre-Andre Terisse - Danone SA - Group CFO

Same price.

Alan Erskine - UBS - Analyst

Thank you.

Pierre-Andre Terisse - Danone SA - Group CFO

We're not playing on that.

All right. Well, thank you, Alan; thank you, everyone. I just wish you a very good day. And we'll meet again for the full year in February of 2012. Thank you. Bye-bye.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

Oct. 18. 2011 / 7:00AM, BN.PA - Q3 2011 Danone SA Sales Conference Call

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