



**DANONE**

## First Half Year Results 2009

July 24<sup>th</sup>, 2009

### Danone continues upward trend in volumes and sales growth and delivers strong margin improvement

- Sales increased 2.2% in Q2 and 1.6% in H1 09<sup>[1]</sup>
- Volume growth of 3.6% in Q2 and 2.4% in H1 09<sup>[1]</sup>
- Trading operating margin improved 98 bps to 16.03% in H1 09<sup>[1]</sup>
- Underlying fully-diluted EPS increased 6.7% to € 1.50 in H1 09<sup>[1,2]</sup>
- Free Cash Flow from operations amounted to € 636 mh, or 8.5% of sales in H1 09
- Full-year targets reconfirmed<sup>[3]</sup>

#### Chairman's comment

Commenting on the performance in the first half of 2009, Franck Riboud, Chairman and CEO of Danone said: "Our sales and results in the first half of 2009 clearly show that we are on the right track. The numerous initiatives we have launched in various countries, to quickly adapt our offer to consumer needs, particularly in Dairy, have been seamlessly executed and have enabled a clear acceleration of our volumes. We will continue to expand this strategy in the coming months, by gradually rolling-out initiatives across additional geographies and categories. We have also strengthened our balance sheet in the first half year which makes us stronger to face the current environment. We intend to accelerate our market expansion, with a view to further strengthen our positions and seize new growth opportunities. Thanks to these adjustments, Danone is increasingly well-equipped to deliver strong and sustainable growth and to focus on its mission "to bring health through food to the largest number of people", which is increasingly relevant in the current context."

#### Financial highlights first half year 2009

Key figures	H1 08	H1 09	Change
Sales (€ mln)	7,691	<b>7,520</b>	<b>+1.6%</b> <sup>[1]</sup>
Trading operating income (€ mln)	1,177	<b>1,206</b>	<b>+8.1%</b> <sup>[1]</sup>
Trading operating margin	15.30%	<b>16.03%</b>	<b>+98 bps</b> <sup>[1]</sup>
Underlying net income (€ mln)	701	<b>722</b>	<b>+7.6%</b> <sup>[2]</sup>
Underlying fully diluted EPS (€)	1.47	<b>1.50</b>	<b>+6.7%</b> <sup>[2]</sup>
Free cash flow from operations (€ mln)	550	<b>636</b>	<b>+15.6%</b>

<sup>[1]</sup> like-for-like = at constant scope of consolidation and constant exchange rates

<sup>[2]</sup> excl. impact of rights issue

<sup>[3]</sup> please refer to page 5 for more details

## Sales by business line and geographical area for the second quarter and first half year 2009

€ mln	Q2 08	Q2 09	Change L-f-L <sup>[1]</sup>	H1 08	H1 09	Change L-f-L <sup>[1]</sup>
<b>BY BUSINESS LINE</b>						
Fresh Dairy	2,179	2,141	+0.7%	4,358	4,262	-0.3%
Waters	819	735	-0.1%	1,514	1,349	-1.9%
Baby Nutrition	717	741	+7.4%	1,400	1,464	+8.9%
Medical Nutrition	216	229	+8.8%	419	445	+9.8%
<b>BY GEOGRAPHICAL AREA</b>						
Europe	2,517	2,327	-1.2%	4,911	4,517	-1.7%
Asia	461	479	+13.3%	906	950	+12.0%
Rest of World	953	1,040	+5.8%	1,874	2,053	+5.3%
<b>Total</b>	<b>3,931</b>	<b>3,846</b>	<b>+2.2%</b>	<b>7,691</b>	<b>7,520</b>	<b>+1.6%</b>

[1] : like-for-like = at constant scope of consolidation and exchange rates

### Overview of sales performance – H1 2009

Consolidated reported sales decreased by 2.2% to €7,520 mln in the first half year of 2009. Excluding the effects of changes in exchange rates (-2.5%) and in scope of consolidation (-1.3%), total sales increased by +1.6% on a like-for-like basis. This like-for-like sales growth was driven by a +2.4% rise in volume and a -0.8% decline in value. The aforementioned effects of changes in exchange rates were mainly driven by the Polish zloty, the Russian ruble, the British pound and the Mexican peso. The change in the scope of consolidation was predominantly driven by the divestiture of Frucor, a beverage-based business based in Australia and New Zealand, which was sold to Suntory Limited and deconsolidated as of January 2009.

### Overview of sales performance – Q2 2009

Consolidated reported sales decreased by 2.1% to €3,846 mln. Excluding the effects of changes in exchange rates (-2.8%) and in scope of consolidation (-1.5%), total sales increased by +2.2% on a like-for-like basis. This like-for-like sales growth was driven by a +3.6% rise in volume and a -1.4% decline in value.

#### Fresh Dairy

Sales of the Fresh Dairy division increased by +0.7% in the second quarter of 2009, on a like-for-like basis. This performance was driven by a significant improvement of volume growth (+2.7%) compared to the negative volume performance (-1.0%) in the preceding quarter, which was partly offset by a negative growth (-2.0%) in value. The significant volume rebound in the second quarter is a clear result of the various marketing initiatives that the division has started to implement since the end of 2008 in order to rapidly adapt its product and/or price proposition to the changing behaviour and preferences of consumers in this ongoing challenging market environment. Following the marketing initiatives that were implemented in countries like Poland, Hungary and the US in the first quarter of 2009, the division extended these initiatives to countries like Mexico, France and more recently, Russia.

The aforementioned initiatives are mainly centred around substantial consumer price reductions coupled with targeted and intensified advertising campaigns as well as adjustments of pack sizes. In most instances, this has led to a significant rebound in volumes and stabilization and/or improvements in market shares. A number of additional countries will follow in the second half of 2009. These positive trends in the division were partly offset by the particularly challenging environment in countries like Spain, Russia and Argentina.

## Waters

Sales in the Waters division were stable (-0.1%) in the second quarter of 2009, on a like-for-like basis. Underlying volumes continued to grow at 4.4% which was offset by a negative value (mainly mix) effect of -4.5%. Volume growth continued to be entirely driven by the emerging markets (52% of the sales of the division) with particularly strong performances in Indonesia, Mexico and Argentina. Although the industrialised countries (France, Spain, the UK, Germany and Japan) continued to suffer from adverse trends, the underlying growth deterioration decelerated.

## Baby Nutrition

The Baby Nutrition division delivered a solid sales growth of 7.4%, on a like-for-like basis, driven by +3.8% volume growth and +3.6% value growth in the second quarter of 2009. The division continued to gain market share in the majority of the markets in which it operates. The performance of the Baby Nutrition division continues to reflect the relative underlying resilience of the category coupled with a somewhat softer performance in the weaning food category as well as in Eastern Europe and most notably Russia. In China, growth was a bit subdued due to a strong come-back of some of the local Chinese Baby Nutrition players that were severely impacted by the melamine crisis in Q4 08 and Q1 09.

## Medical Nutrition

Medical Nutrition continued to perform well with a sales growth of +8.8%, on a like-for-like basis, which continued to be entirely driven by volume growth (+9.2%). Due to the economic crisis, those products that are not reimbursed in certain markets experienced certain softness. Overall, growth was supported by all regions with particularly strong performance coming from Southern Europe and new geographies. In addition, all product categories contributed to the growth with above-average growth coming from Gastro Intestinal Allergy and Paediatrics.

## Trading operating margin improved +98 bps in H1 09 on a like-for-like basis

	H1 08	H1 09	Change like for like [1]
<b>BY BUSINESS LINE</b>			
Fresh Dairy	13.86%	15.07%	+ 107 bps
Waters	14.53%	14.01%	- 4 bps
Baby Nutrition	18.14%	19.11%	+ 193 bps
Medical Nutrition	23.63%	21.24%	- 139 bps
<b>BY GEOGRAPHICAL AREA</b>			
Europe	16.58%	16.74%	+ 49 bps
Asia	17.29%	18.83%	+ 155 bps
Rest of World	11.00%	13.18%	+ 193 bps
<b>Total</b>	<b>15.30%</b>	<b>16.03%</b>	<b>+98 bps</b>

[1] like-for-like = at constant scope of consolidation and constant exchange rates

Danone's trading operating margin improved by +98 bps to 16.03%, on a like-for-like basis, in the first half of 2009. The very strong margin improvement in the Dairy and Baby Nutrition divisions can mainly be attributed to a significant improvement of the gross margin due to lower raw material prices, mix, leverage and the last part of the Numico cost synergies. The EBIT margin of the Waters division was supported by the positive effect of lower packaging costs due to a drop in PET prices which was offset by lower fixed cost absorption as well as general cost inflation. The drop in the EBIT margin of the Medical Nutrition division can be explained by several non-recurring elements, including inventory adjustments and organisational restructuring costs. The group's margin performance was achieved on the back of A&P spend that increased by 8 bps to 12.6% as a percentage of sales in the first half year of 2009.

## Underlying like-for-like fully diluted EPS increased by +6.7% to € 1.50 in H1 09

€ mln	H1 08	H1 09
<b>Trading operating income</b>	<b>1,177</b>	<b>1,206</b>
Other operating items	(57)	205
<b>Operating income</b>	<b>1,120</b>	<b>1,411</b>
Cost of net debt	(178)	(170)
Other financial items	(24)	(35)
Income tax	(241)	(228)
<b>Net result of consolidated companies</b>	<b>677</b>	<b>978</b>
Net result of affiliated companies	26	30
Net result of discontinued activities	255	-
Net result	958	1,008
Attr to minority interests	79	76
<b>Attr to the parent</b>	<b>879</b>	<b>932</b>
-/- net result from disc. activities	(255)	-
-/- non-current net result from cont. operations	77	(210)
<b>Underlying net result from cont. activities</b>	<b>701</b>	<b>722</b>
<b>Underlying fully diluted EPS (€)</b>	<b>1.47</b>	<b>1.50</b>

Underlying cost of net debt decreased by € 34 mln in the first half of 2009, excluding the positive mark-to-market revaluation of interest hedges in the first half of 2008. Other financial items were negatively impacted by the increased cost of currency hedging in emerging countries in the first half of 2009.

The underlying tax rate in the first half of 2009 was 22.5% compared to 24.6% in the first half of 2008.

Non-current result from continued operations reflects the net capital gain from the disposals of Frucor and Britannia, the contribution of € 100 mln to the *Danone Eco System Fund*, as well as other non-recurring items.

Underlying net result increased by +7.6% to € 722 mln and underlying fully diluted earnings per share grew by +6.7% to € 1.50 on a like-for-like basis in the first half of 2009 compared to the first half of 2008.

### Cash flow and debt position

Free cash flow from operations amounted to € 636 mln, or 8.5% of sales, in the first half of 2009, compared to € 550 mln, or 7.2% of sales, in the same period last year. Capital expenditure was € 305 mln, or 4.1% of sales.

### Debt position

The free cash flow and the capital increase, net of dividends paid in cash, resulted in a decrease of the net financial debt (excluding the put options granted to minority interests of € 2,868 mln at 30 June 2009) by € 4,092 mln to € 4,108 mln in the first half of 2009.

## Outlook 2009

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Our scenario for 2009 remains that current consumption patterns in our key emerging and developed markets will continue over the balance of the year, with no significant improvement or dramatic breakdown.

Our sales growth will, therefore, continue to be mainly driven by our leading brands, with a clear focus in all key markets on increasing their functional value for money to respond to the spending pattern of our consumers. As a result, we expect to gain further market share in our key geographies.

Our operating margin will be enhanced by the category and geographic mix of our sales growth, overall improving input prices of our key commodities as well as cost efficiencies in all areas of our organization.

Based on the above and on the performance in the first half of 2009, Danone targets the following for full year 2009:

- like-for-like sales growth of a few points below the medium-term guidance;
- like-for-like continued improvement of the trading operating (EBIT) margin;
- a +10% growth of its underlying fully-diluted earnings per share at constant scope of consolidation and constant exchange rates and excluding the effects of the € 3 bn capital increase which took place in June 2009.

As indicated since November 2008, the different growth drivers of our earnings per share will continue to be dynamically adjusted depending on the evolution of the environment and the markets in which we operate with a view to emerge even stronger in our ability to deliver our mission beyond the current economic transition.

## Other information

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On May 25<sup>th</sup> 2009, Danone announced its intention to raise approximately € 3 billion of equity capital through a Rights Issue. This intention was driven by the view of Danone's Board of Directors that, in the current changing environment, it is appropriate and in the best interest of shareholders to proactively optimise the capital structure of the Company thereby increasing the financial and strategic flexibility of the Company.

On May 29<sup>th</sup> 2009, Danone announced the launch of a € 3.048 bn capital increase via an offering of preferential subscription rights to existing shareholders. Danone indicated that the proceeds of the Rights Issue would be used principally for the reduction of Danone's net financial debt thereby enabling Danone

- to strengthen its capital structure, reduce its financial leverage and improve its credit metrics; and
- to increase its financial and strategic flexibility, with a view to support its organic growth model and finance potential add-on acquisitions.

On June 23<sup>rd</sup> 2009, Danone announced that it had successfully completed its € 3 bn rights issue. The total demand for the offering amounted to approximately € 5.5 bn, reflecting an oversubscription rate of 182%. 121.0 mln new shares were subscribed based on irrevocable rights, representing 98.2% of the newly issued shares. Demand for excess shares by rights holders amounted to 102.8 million new shares, of which only 2.2 million new shares could be allocated. Consequently, 123,236,352 new shares were offered at a subscription price of € 24.73 per share.

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FORWARD-LOOKING STATEMENTS

*This press release contains certain forward-looking statements concerning DANONE. Although DANONE believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. For a detailed description of these risks and uncertainties, please refer to the section "Risk Factors" in DANONE's Annual Report (which is available on [www.danone.com](http://www.danone.com)).*

## APPENDIX – Sales Overview

€ mln	First Quarter		Second Quarter		First Half Year	
	2008	2009	2008	2009	2008	2009

### BY BUSINESS LINE

Fresh Dairy	2,179	2,121	2,179	2,141	4,358	4,262
Waters	695	614	819	735	1,514	1,349
Baby Nutrition	683	723	717	741	1,400	1,464
Medical Nutrition	203	216	216	229	419	445

### BY GEOGRAPHICAL AREA

Europe	2,394	2,190	2,517	2,327	4,911	4,517
Asia	445	471	461	479	906	950
Rest of World	921	1,013	953	1,040	1,874	2,053
<b>Group</b>	<b>3,760</b>	<b>3,674</b>	<b>3,931</b>	<b>3,846</b>	<b>7,691</b>	<b>7,520</b>

First Quarter 2009		Second Quarter 2009		First Half 2009	
<i>Reported Change</i>	<i>Like-for-like Change</i>	<i>Reported Change</i>	<i>Like-for-like Change</i>	<i>Reported Change</i>	<i>Like-for-like Change</i>

### BY BUSINESS LINE

Fresh Dairy	(2.7)%	(1.2)%	(1.7)%	0.7%	(2.2)%	(0.3)%
Waters	(11.7)%	(3.9)%	(10.1)%	(0.1)%	(10.9)%	(1.9)%
Baby Nutrition	5.9%	10.5%	3.3%	7.4%	4.6%	8.9%
Medical Nutrition	6.7%	10.8%	5.7%	8.8%	6.2%	9.8%

### BY GEOGRAPHICAL AREA

Europe	(8.5)%	(2.3)%	(7.5)%	(1.2)%	(8.0)%	(1.7)%
Asia	5.7%	10.7%	4.1%	13.3%	4.9%	12.0%
Rest of World	10.0%	4.8%	9.1%	5.8%	9.6%	5.3%
<b>Group</b>	<b>(2.3)%</b>	<b>1.0%</b>	<b>(2.1)%</b>	<b>2.2%</b>	<b>(2.2)%</b>	<b>1.6%</b>