



**DANONE**

## **Third Quarter and Nine Month Sales 2009**

October 23<sup>rd</sup>, 2009

### **Acceleration of volume and sales growth in the third quarter 2009 Full-year targets 2009 confirmed**

- **Sales increased 4.1% in Q3 and 2.4% in 9M 09<sup>[1]</sup>**
- **Volume growth accelerated to 7.1% in Q3 resulting in 3.9% for the first 9 months<sup>[1]</sup>**
- **Dairy sales growth acceleration driven by 7.0%<sup>[1]</sup> volume growth in Q3**
- **Strong sales growth rebound (+4.6%<sup>[1]</sup>) in Waters in Q3**
- **Baby Nutrition sales grew 6.5%<sup>[1]</sup> in Q3 on the back of solid volume growth of 3.7%<sup>[1]</sup>**
- **Medical Nutrition delivered broad-based double-digit growth of 12.2% in Q3**

#### **Chairman's comment**

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Commenting on the results in the third quarter of 2009, Franck Riboud, Chairman and CEO of Danone said:

“The operational adjustments we have been implementing since the start of the year are translating into an accelerated growth of our volumes and sales. We made the right decision and have been very efficient and fast in implementing it: we will have accomplished the repositioning of our products before year-end. In the third quarter, each division and each geography has contributed to our growth. Our market share gains in Fresh Dairy and Baby Nutrition, the performance of our Waters division in emerging countries and our capacity to innovate in medical nutrition have been particularly noticeable. Our third quarter performance allows us not only to reiterate and precise our 2009 targets, but also to continue to prepare 2010 with confidence and determination”.

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

## Sales by business line and geographical area for the third quarter and first 9 months 2009

€ mln	Q3 08	Q3 09	Change L-f-L <sup>[1]</sup>		9M 08	9M 09	Change L-f-L <sup>[1]</sup>	
			Sales	Volume			Sales	Volume
<b>BY BUSINESS LINE</b>								
Fresh Dairy	2,205	2,151	2.3%	7.0%	6,563	6,413	0.6%	2.9%
Waters	733	670	4.6%	9.8%	2,247	2,019	0.2%	5.8%
Baby Nutrition	692	725	6.5%	3.7%	2,092	2,189	8.1%	3.6%
Medical Nutrition	216	234	12.2%	10.9%	635	679	10.6%	10.2%
<b>BY GEOGRAPHICAL AREA</b>								
Europe	2,368	2,258	1.0%	4.1%	7,279	6,775	(0.8)%	1.0%
Asia	477	474	8.5%	10.7%	1,383	1,424	10.8%	9.3%
Rest of World	1,001	1,048	9.2%	10.4%	2,875	3,101	6.6%	5.9%
<b>Total</b>	<b>3,846</b>	<b>3,780</b>	<b>4.1%</b>	<b>7.1%</b>	<b>11,537</b>	<b>11,300</b>	<b>2.4%</b>	<b>3.9%</b>

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

### Overview of sales performance – 9M 2009

Consolidated reported sales decreased by -2.1% to €11,300 mln in the first nine months of 2009. Excluding the effects of changes in exchange rates (-3.2%) and in scope of consolidation (-1.3%), total sales increased by +2.4% on a like-for-like basis. This like-for-like sales growth was driven by a +3.9% rise in volume and a -1.5% decline in value. The aforementioned effects of changes in exchange rates were mainly driven by the Polish zloty, the Mexican peso, the Russian ruble, and the British pound. 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 – Q3 2009

Consolidated reported sales decreased by -1.7% to €3,780 mln in the third quarter of 2009. Excluding the effects of changes in exchange rates (-4.5%) and in scope of consolidation (-1.3%), total sales increased by +4.1% on a like-for-like basis. This like-for-like sales growth was driven by a +7.1% rise in volume and a -3.0% decline in value.

#### Fresh Dairy

Sales of the Fresh Dairy division increased by +2.3% on a like-for-like basis in the third quarter of 2009. This performance was driven by a continued strong volume growth acceleration to +7.0%, which was partly offset by a negative value growth of -4.7%. The significant volume acceleration in the third quarter reflects the successful implementation of the extensive reset program that the division has started to implement in a number of countries since the end of 2008. The reset program is centered around substantial consumer price reductions, new product introductions as well as adjustments of existing formats, coupled with targeted and intensified advertising campaigns. Next to the significant acceleration in volume growth, this has led to stabilization and/or improvements in market shares in most countries in which the reset program has been implemented.

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, Spain and Russia. The result of these actions largely offset the challenging environments in a few countries (Spain, Russia and Argentina).

Among brands, Activia and Danacol delivered strong performance, while Actimel continued to show noticeable improvements. Our health benefit brands (Activia, Actimel, Danonino and Danacol) continued to grow faster than the average of the division, resulting in positive product mix. The performance of the core range was strong, lead by successful relaunches in various countries.

### **Waters**

Sales in the Waters division increased by 4.6% on a like-for-like basis in the third quarter of 2009. This strong performance was driven by an excellent volume growth of 9.8% which was offset by a negative value (mainly country mix) effect of -5.2%. 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. While the performance of Spain and Japan remained weak, the volume growth of France, the UK, and Germany rebounded after having witnessed several quarters of declining performance.

### **Baby Nutrition**

The Baby Nutrition division delivered 6.5% sales growth, on a like-for-like basis, driven by 3.7% volume growth and 2.8% value growth in the third quarter of 2009. The performance of the Baby Nutrition division continued to reflect the 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. The division's strategy and market leading positions continued to result in market share gains in the majority of the markets in which it operates and, most notably, reached a record-high market share in France. In China, the division continued to maintain its market share at a substantially higher level than it enjoyed before September 2008.

### **Medical Nutrition**

The Medical Nutrition division delivered a double-digit growth performance by delivering 12.2% sales growth, on a like-for-like basis, in the third quarter which continued to be volume-driven (+10.9%). Geographically, the performance continued to broad-based with particularly strong performance coming from Southern Europe, Latin America and Eastern Europe. In addition, all product categories contributed to the growth with above-average growth coming from Pediatrics and Gastro Intestinal Allergy.

## **Outlook 2009**

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Based on the performance in the first nine months of 2009, Danone expects to deliver:

- a like-for-like sales growth close to 4% in the second half of 2009;
- a like-for-like improvement of the trading operating (EBIT) margin between 60 and 70 bps for FY 09;
- a +10% growth of its underlying fully-diluted earnings per share for FY 09 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.
- double-digit growth of the free cash flow from operations in FY 09.

## **Financial position and results**

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### **Changes in scope of consolidation**

Changes in scope of consolidation negatively impacted sales growth by -1.3% in the third quarter and first nine months of 2009. This effect was predominantly driven by the divestiture of Frucor, a beverage business based in Australia and New Zealand, that was sold to Suntory Limited on October 23<sup>rd</sup> 2008.

## **Currency effects**

Changes in exchange rates negatively impacted sales growth by -4.5% and -3.2% in the third quarter and first nine months of 2009, respectively. These effects were mainly driven by the Mexican peso, the Russian ruble, the Polish zloty and the British pound.

## **Financing**

The next significant debt repayment is the € 1.25 bn euro bond that will mature in May 2011.

## **Significant transactions and events of the period**

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### **Danone and Wahaha Group reach an amicable settlement**

On 29 September 2009, Danone and Wahaha Group announced that they had reached an amicable settlement, subject to the approval of the Chinese Authorities. As part of the settlement, Danone and Wahaha are to conclude their existing joint venture relationships. Danone has agreed to sell its 51% interest in the Danone-Wahaha joint-ventures to its Chinese partners. The execution of this agreement will put an end to all legal proceedings related to the disputes between the two parties.

### **The Dannon Company settles class action filed in January 2008**

On 18 September 2009, The Dannon Company, Danone's American subsidiary, announced the settlement of a class action lawsuit filed in January 2008 regarding advertising for its Activia and DanActive products. Under the settlement, Dannon will make certain changes and enhancements to the labeling and marketing of Activia and DanActive to, among other things, increase the visibility of the scientific names of the unique strains of probiotics that are in each of these products. This information continues to be available on the products' websites, along with the scientific substantiation for the health benefit claims. Dannon also agreed to create a fund of up to \$35 million to reimburse qualified consumers for the cost of buying the products.

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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)).*

€ mln	First Quarter		Second Quarter		Third Quarter		First 9 Months	
	2008	2009	2008	2009	2008	2009	2008	2009

#### BY BUSINESS LINE

Fresh Dairy	2,179	2,121	2,179	2,141	2,205	2,151	6,563	6,413
Waters	695	614	819	735	733	670	2,247	2,019
Baby Nutrition	683	723	717	741	692	725	2,092	2,189
Medical Nutrition	203	216	216	229	216	234	635	679

#### BY GEOGRAPHICAL AREA

Europe	2,394	2,190	2,517	2,327	2,368	2,258	7,279	6,775
Asia	445	471	461	479	477	474	1,383	1,424
Rest of World	921	1,013	953	1,040	1,001	1,048	2,875	3,101

<b>Group</b>	<b>3,760</b>	<b>3,674</b>	<b>3,931</b>	<b>3,846</b>	<b>3,846</b>	<b>3,780</b>	<b>11,537</b>	<b>11,300</b>
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First Quarter 2009		Second Quarter 2009		Third Quarter 2009		First 9 Months 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>	<i>Reported Change</i>	<i>Like-for-like Change</i>

#### BY BUSINESS LINE

Fresh Dairy	(2.7)%	(1.2)%	(1.7)%	0.7%	(2.5)%	2.3%	(2.3)%	0.6%
Waters	(11.7)%	(3.9)%	(10.1)%	(0.1)%	(8.7)%	4.6%	(10.2)%	0.2%
Baby Nutrition	5.9%	10.5%	3.3%	7.4%	4.8%	6.5%	4.6%	8.1%
Medical Nutrition	6.7%	10.8%	5.7%	8.8%	8.6%	12.2%	7.0%	10.6%

#### BY GEOGRAPHICAL AREA

Europe	(8.5)%	(2.3)%	(7.5)%	(1.2)%	(4.6)%	1.0%	(6.9)%	(0.8)%
Asia	5.7%	10.7%	4.1%	13.3%	(0.7)%	8.5%	3.0%	10.8%
Rest of World	10.0%	4.8%	9.1%	5.8%	4.7%	9.2%	7.9%	6.6%

<b>Group</b>	<b>(2.3)%</b>	<b>1.0%</b>	<b>(2.1)%</b>	<b>2.2%</b>	<b>(1.7)%</b>	<b>4.1%</b>	<b>(2.1)%</b>	<b>2.4%</b>
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