Q1 2013 Danone SA Sales Conference Call
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Operator: Good day and welcome to the 2013 first quarter sales 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: Thank you and good morning to all. Welcome to this first quarter conference call for Danone. I'm here alongside with Antoine and we are ready to talk to you again not so long in fact after the full-year results and after CAGE, which I believe was less than a month ago. I will use for this call the presentation which you can find on our website and I will try as much as I can to refer to the pages in the course of the presentation.

To start with we can move directly to page three which gives you the total Group sales. And as you can see we've delivered this quarter a 5.6% organic growth, which is slightly up versus the performance of the previous three quarters, which was close to 5%. Underlying trend for this performance has been very much in line with that of the second half of 2012, with a specifically strong Baby Nutrition performance on top. More importantly and looking forward this 5.6% reflects trends and progresses which are very much in line with our expectations, and therefore with what we are trying to build and with our objectives for this year and the following ones. It is therefore a solid start for 2013 and I will come back on that at the end of this call.

Turning to page four, which shows the usual bridge for the evolution of our sales, reported growth has been 4.3% with sales of EUR5.338b for the quarter. As you can see the foreign exchange, the currency impact, was negative 2.4% with some weakness of Latin American currencies and Indonesia currency as well.

The scope effect was positive 1.1% and this reflects predominantly the integration of Centrale Laitiere du Maroc, our Moroccan dairy operation for one month, the month of March, as well as some carryover effect of the acquisition of Wockhardt which took place at the end of the first half a year ago. Obviously, and talking more about Morocco, the scope effect is going to be greater as we move into the second quarter and the following ones.

The organic growth therefore amounts to 5.6% and is well balanced between volume and value with plus 3% volume growth and a plus 2.6% value effect, which is reflecting essentially mix more than price.

Turning to page five, you can see the same picture but in dynamic terms, and you see that volumes have remained solid at plus 3% and that mix is being boosted this quarter by the Baby performance beyond the number of days. So one comment about that, we have two comparison base effect this quarter. One which relates to the fact that we have one day less versus the same quarter a year ago, and this is impacting predominantly our Dairy operations, which works with a lower level of stock. And we estimate the impact of that day on the performance is about 1 point on Dairy.

And the second effect lies in the positioning of the Chinese New Year, which is a bit later this year than it was a year ago and therefore has allowed sales to move more into the beginning of the year than the end of the previous one. And we estimate that this represents an impact of approximately 3 points positive in the performance of the Q1 of Baby. If you take the two effects together there's no net material effect given the relative size of the division.

If I turn to page six, the geographical dynamics of the sales remain very similar to the one we have been seeing in the previous quarters. CIS and North America are still growing high single-digit, 8.5% this quarter to be precise, reflecting the same dynamics. We continue building the category and all brands in these geographies and I will come back on it.

The ALMA region, which stands for Asia Pacific, Latin America, Middle East and Africa, has accelerated this quarter at plus 16.6% and this reflects predominantly the Baby Asian performance and the Baby Asia acceleration. But beyond that of course all businesses are growing double-digit in this part of the world for us.

Last but not least, Europe is, Europe's performance is strictly in line with that of the previous quarter, with that of Q4 2012, which is confirming that there is no deterioration of our performance in this part of the world, but also not showing improvement at this stage yet.

I will now move to the results and the sales by division, starting with Fresh Dairy, page eight. So that's, and you see that in the headings, a continued soft performance on high comps. Plus 0.7% growth this quarter, which reflects very much the same trends as the one we had in Q4 taking into account the one day less and the minus 1 point impact. In fact it reflects trends which will be a touch higher versus the one we had in Q4.

The dynamics remain very much the same across the entire portfolio. CIS is strong with a very positive performance of Prostokvashino and Tema, but also of the Actibrands and in particular in Actimel. US, after a soft month of January we've been back to strong trends in February and March in a category which is still driven by Greek, and where the out-of-stock keep existing, despite the addition of capacity which we have been having and which we are setting, which we continue setting. Oikos and Light & Fit in Greek have been contributing very positively to the performance.

ALMA has been growing double digit with particularly strong performance in Brazil, in Indonesia, but also in South Africa. And Europe remains on the same trends as the previous quarter as well. I will come back on it.

Moving to page nine, the volume/mix/price breakdown of sales growth gives interesting information. The volume first has been positive and this is the second quarter in a row, with the CIS and Latin America strong growth impacting positively and with the volume remaining positive despite the leap day effect, which I've mentioned before, so that's clearly positive.

In terms of value we're down to plus 0.2% and this is reflecting predominantly two things. A, the fact that we are leaping price increase, residual price increase which was taken a year ago, and secondly the fact that we are now using the price and promotional tools in Europe selectively, as we have said and anticipated, depending on the markets and depending on the products. And as a result of that we see Europe delivering, as I said, previously the same trends, with Southern Europe which remains under pressure and France which on the other hand is resisting well.

Perhaps to be noted should be the case of Portugal, which is clearly in Southern Europe but has shown some interesting improvement following the revamping of the portfolio, with in particular the change in the mix of the core range. The introduction of the Ecolean packaging, we'll see that the page after, and the revamping of Danone and the introduction of the Kiss cup, the new cup, all that has clearly helped improving the performance of Portugal. And that gives an interesting signal for the rest of the year and the rest of the countries.

We will continue working in Dairy and renovating our range and adapting our portfolio to the consumer and to new consumption trends. We do not expect change of trend to take place before H2, but we continue building what we believe is going to be an important adaptation and change of the portfolio to the consumer, to the new consumer priority in Europe.

Moving to page 10 you can see some examples of what we're trying to do in Europe, so you have Greek and indulgent propositions which have been added. Greek with Danio in the UK, indulgent with two interesting products, Danette Le Liegeois in France and Danet 3D in Spain. And the Ecolean Pouch which is a value format for the Portuguese consumer which has been one of the elements helping this country in the first quarter.

On top of that we as well keep innovating and introducing new products outside Europe. Two interesting ones to be noticed, one is Activia Greek which has been introduced in the second part of March in the US and that's part of an effort to keep segmenting the market and the Greek segment itself in fact in the US, so that's going to be adding to the existing Oikos and Light & Fit Greek. And you can see on the top right Zakvaska, which is a mild kefir, which is an interesting example of the way we can as well segment local product, regional product and create value out of them. So Dairy remains and is an area in which we are trying to keep improving value we deliver to the consumer through different initiatives.

To end up on that, one word about Centrale Laitiere, the acquisition of a majority stake has been finalized in the first quarter of this year and therefore it is being fully consolidated from March 1st. This offer to the Group a real strong platform in the northern part of Africa and the potential to develop a portfolio of international and local brands, which can be extremely interesting for the Group and for the Dairy division. So you will have that impact fully consolidated from March 1st.

I turn to Waters, page 12, with a quarter which can be qualified again of good or strong with two main trends, Europe on the one hand which has been resilient, and this despite the fact that the weather in March has been specifically cold and wet, and April from this standpoint doesn't seem to be starting very well either. And on the other hand the other part of the portfolio, which is emerging markets and aquadrinks, which have remained the growth drivers, and that's been in particular the case of China and Indonesia, so Asia overall and Mizone in particular this quarter.

Turning to page 13 this growth, this 8.6% top line growth, has been very much balanced between volume and value. Volume is still driven by the performance outside Europe which keeps being strong and a Europe which is stable, so by a combination of the two. And the value element, which is a positive 4% this quarter, is driven on the other hand by valorization strategy, through formats and flavor, through the aquadrinks but also other examples.

And if you turn to page 14 you will see that with, for example, two which relate to Baby offer, one with Bonafont on the top left and Evian on the top right, with formats which we are trying to do specifically designed at consumption by babies and toddlers. And with additional offers in sparkling, with aqua sparkling for out-of-home consumption, and with a light version, a Cero version of Levite in Argentina. So that's for Waters.

I turn to page 15 and Baby and what has been truly an exceptional performance in all sense of the term. To start with maybe to remind that beyond the exceptional performance we have -- this performance has been based on the very sameunderlying trends which are a strong growth of the milks and within the milks very strong growth as well of the growing-up milk. So that's all about which is in continuation with the previous quarters.

And then on top of that we've seen two additional elements. First, and that's something I've already mentioned, the effect of the positioning of the Chinese New Year, which we estimate has been adding to the performance of the division, 3 points. And second, we have seen throughout the quarter a very strong Asian and Chinese demand which has driven two things. A, a strong performance of all local brands and local portfolio, and Dumex and Dumex Gold in particular have continued performing extremely strongly and even stronger than in the previous quarters. And B, in addition to a demand overall throughout the portfolio and in other geographies, which has also impacted our sales in other countries outside Asia, mainly in Europe and in the Pacific.

This shows that in this part of the world, in Asia and in China in particular, the demand is strong, remains strong and remains driven by safety and by phenomena of trading up. For us the priority remains very much the same. To strengthen our portfolio and to keep segmenting it and to be present across all segments. This is something I've mentioned, we have mentioned to you several times and that keeps being our priority for the management of these markets.

If you turn to page 16 you will see that we have continued this quarter adding or renovating our portfolio and you will see on the top left in particular the fact that we have renovated Dumex specialties this quarter. So this is a renovation which has taken place in Q1 and there will be others as we move into the year. Again the priority for us being to strengthen our portfolio in China to be able to address correctly and to cope correctly with the Chinese demand and with the Asian demand, which remains extremely strong.

I want to end up on Baby by noting as well the Brazil performance which has been very strong. That's a country which you know is relatively new for us. We have been making good progress over the past few years. We're introducing new products and we are as well continuing pushing with our brands in this country. You can see on the bottom left the Aptamil Soja version which has been introduced this quarter. We are increasingly successful in this market and in Latin America in general and that of course is increasingly becoming for the Group another priority.

So overall a very good underlying Baby performance, as I said, which has been helped by the comps this quarter. You should have in mind that the next quarter is going to be the opposite as we are going to face the anniversary of the Dumex relaunch which took place in the second quarter of last year and therefore the comps are going to be less in our favor, more difficult. But again this is taking into account a performance which on an underlying basis is extremely strong.

I will end up with Medical, page 17, 6.3% top line growth. We are very much back to the trends of the first half of last year. Europe remains soft and this is in particular true for the south. North America improvement, which we had already seen in Q4, is confirmed. And the ALMA region, so the emerging markets remain strong with an impact which is gradually increasing as the size of these geographies is becoming bigger for Medical Nutrition. Page 18, we continue as well in this division to innovate and you can see on this page the innovation of Nutrison, Infatrini and Nutilis. And meanwhile we continue as well the gradual introduction of Souvenaid in several markets.

I will turn, page 19 and 20 in fact, to the outlook for 2013 now. We continue focusing on our three priorities for the year. In Europe first of all our priority is to adapt our product range to the challenging consumption background with a view to providing value, increased value to the consumer. So we're really putting a lot of effort on that and at the same time we are as well in Europe putting a lot of focus on adapting our cost structure to the new environment and this is very much about the implementation of the EUR200m cost saving objective which we had announced at the end of 2012, in December 2012.

The third of our priority obviously is outside Europe, and this is in North America in the CIS in emerging markets, to keep building our categories and brands. They are growing at a very strong and healthy pace and we basically keep building this performance quarter after quarter.

Our objective with these three priorities remains to build a strong, sustainable and profitable growth for 2014, and we believe the first quarter performance is showing good progresses towards this target. For 2013 itself, so page 21, we therefore do confirm the target of the Group for the year. Sales growth which we expect to be at least 5% for the year. The trading operating margin which we target between minus 30 and minus 50 basis points for the year. And last, free cash flow, which we expect to be around EUR2b ex exceptional cash out which are linked to the cost saving initiative.

With that I will end up my presentation and give you the floor for questions, which I'm sure you have. Thank you.

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Operator: (Operator Instructions). We'll now take our first question today from David Hayes from Nomura. Please go ahead. Your line is open.

David Hayes: Good morning all. Hi. Two questions from me.

Pierre-Andre Terisse: Good morning.

David Hayes: Hi. Just firstly on market share, just wondered whether in two key markets you can give us any kind of indication on market share movements. So those markets being the US, obviously you mentioned Greek continuing to do well, particularly February/March, just wondering whether you can talk about the share progression in that category in the US.

And then also in Spain, obviously Portugal you highlighted as doing better, but whether there's an indication at all either volume or value wise for market share progression in Spain in the first quarter.

And the second area was just on the Spain minorities. Obviously in the release you talk about, as I understand it; I'm just trying to clarify this 14% of the minorities which I think have moved to jurisdiction to resolve what feels like what level that they get paid as they're selling those interests. I just wonder whether that is the right situation.

And then related to that, you talk about a buyback of EUR200m to EUR300m in consideration the next couple of weeks. I just wonder whether that's related to the outcome of that jurisdiction or whether that's a separate buyback plan. Thank you very much.

Pierre-Andre Terisse: You're welcome. So that's a comprehensive set of questions.

David Hayes: Sorry, yes.

Pierre-Andre Terisse: On the market share first, in the US we continue progressing so in fact the Greek segment, has kept increasing. We showed I believe on the last, on the full year deck we showed a share of Greek which was close to 40%. We now exceeded that level and we keep overall gaining share in the Greek segment with Oikos and more importantly with the addition of Light & Fit. So we keep progressing in terms of market share in the US.

In Spain, and that would be a comment true for other countries of Europe as well, interestingly we have stabilized our market share sequentially versus Q4. So that's not yet the place where we would like to be. In fact we would like to find back positive dynamics. But the fact that we have stabilized our market share sequentially is I think an interesting signal. And again that's true for Spain, but for some other markets as well. As I said, it will take more than a few more weeks or more to get to a trend reversal, but this indication in particular is reassuring.

Spain minorities, we just felt as we have been communicating regularly on this topic that it was fair to indicate or to give you an update on that. Basically while we have found some ground for agreements with some minorities in 2012 and in the very first part of 2013, we have not found such ground for agreements with other minorities and therefore we decided to follow the normal process, which is to go to a third party to help us resolve our difference. I mean nothing exceptional to that. It's normal life and we'll go until the end of this process, and we'll keep you updated on in terms of progress as we move into the year.

There's absolutely no link whatsoever, and I'm sorry if we have given this impression, between what I just said in terms of Spanish process and the buyback. In fact it's in the same section because we've been doing buyback on the back of transaction, previous transaction with minority shareholders. But the EUR100m to EUR200m which are mentioned are basically normal buyback, which we continue as the cash flow of the Group remains strong and as we are gaining visibility on that item as we move into the year. So no relationship whatsoever with Spanish minorities.

David Hayes: Okay. That's great. Thank you. Just to quickly follow-up on the Spain comment. That's a value share where you stabilized, is that right, rather than volume, is that correct?

Pierre-Andre Terisse: No, no, that's value.

David Hayes: That's value. Great. Thank you very much. Thanks.

Pierre-Andre Terisse: You're welcome. Next question.

Operator: We'll now take our next question from Eileen Khoo from Morgan Stanley. Please go ahead. Your line is open.

Eileen Khoo: Morning Pierre-Andre. This is Eileen Khoo here, Morgan Stanley. I have two questions. First one is on Western Europe, Dairy. Could you update us on the particular markets where you have changed promotional activity and/or pricing, and what does this imply for the price gaps in those markets?

Pierre-Andre Terisse: Sorry, Eileen, you're talking too close to the mic'. You should --

Eileen Khoo: Sorry. Is this better?

Pierre-Andre Terisse: Yes.

Eileen Khoo: Is that better? Sorry. Yes, so my first question was on Dairy, Western Europe. I was wondering if you could update us on the particular markets where you have changed your promotional activity or/and pricing, and what this has implied for the price gaps in those markets.

And the second question is on Baby food. Could you give us a bit more color on the Chinese market, in particular any impact from the new rationing law and your decision to ration sales in some parts of Europe?

And do you think that this could be perhaps a very early sign of the category reaching a level of greater price elasticity, particularly given the huge price differences versus the other markets?

And also, what sort of run-rate would you expect for the full-year versus the 14% I think underlying the first quarter? Thanks.

Pierre-Andre Terisse: You are welcome. So a few, several points. Western Europe first. I think I mentioned over the past few quarters that promo pricing is a tool which we want to use very selectively because we basically want to use it whenever we feel it can create value. And we feel it can create value mostly around price points. This is why you've not seen significant negative pricing over the past few quarters and this is why you are not seeing that either today. If you take the overall Dairy you see a price/mix which remains positive, at 0.2% which is lower than Q4 but it remains positive.

This being said, in the markets all products where we have been using that we've had basically positive result in terms of volume equivalents, but very much in line with what we expected, i.e. sufficiently positive to more than offset the pricing but not by a very large amount. So it's really more something which we use as part of our effort to reshuffle the portfolio and bring value to the consumer and not so much something which we are using as we have done in the past at some stage during the resetting exercise back in 2008 to have a significant effect on our sales.

And from that standpoint the Portugal example is interesting because it again shows, and that's something which we have already seen somehow in 2008, that the real improvement comes when you combine new product introduction, product renovation, some adjustment in value which come both from price promo and mix with the addition of the Ecolean and revamping improvement of the recipes and packs. And I remind you that we have as well at the same time as the rest in Portugal we have been introducing the Kiss cup, the new cup as well as improving some of our recipes.

So again it's frankly too early to draw conclusions for the rest of the portfolio. And I repeat the comps will make it difficult to see any noticeable improvement on the Dairy in Europe before the second half. But these signs confirm us in the direction which we have taken, which is to go in several directions in Europe, pricing, promo but also improvement of the product, innovation, renovation and so on to rebuild a top line which we want to bring back to low negatives and then progressively to low positives going forward.

On the Baby in China I think what we are seeing today can justify a lot of reasoning, extrapolation, speculation, all the likes, and we stay extremely therefore focused on looking at the fundamentals. And to me the fundamentals is that this market which has been extremely strong in terms of value growth for the past three to four years now keeps being extremely strong in terms of value growth and perhaps even stronger.

So the most important to me and to us is the demand is there and there's no, there is not only no sign of weakening of the demand but on the contrary we see signs of strengthening of the demand to the point that there is no sufficient offer available in these markets to be able to meet this demand. And hence all of the elements which you have been reading in the press and observing in the past few days and weeks.

In front of that our priority has been and remains to segment our portfolio, the portfolio we are offering to the Chinese consumer and in particular to get stronger in the areas in which we are not sufficiently strong. So today when you look at the portfolio of Danone in China, we have Dumex, we have Dumex Gold. I think we are strong in mainstream. We are strong in super premium. We probably were missing or we had a version of Dumex which was probably not sufficiently high in value and this is why we renovated that a year ago.

We have been as you have seen strengthening our specialties offer this quarter. We will take other initiatives in the coming month and quarters to keep strengthening our portfolio. And I believe this is the only reasonable, wise and sustainable answer for addressing a market which has and will keep having strong dynamics for the years to come fundamentally. So I don't know if it answers your question, but that's very much the way that we look at the Chinese market and this is what makes us confident that our position and our performance will remain strong going forward.

Now looking at the specific and last elements of your question, which is the run rate, so I said that already; there is an element of comps which is helping Q1 and which for sure is not going to be helping Q2, and that's the positioning of Chinese New Year. There is a second element of comps which is going to be unhelpful in Q2 and that's the fact that we made a full relaunch of Dumex Gold a year ago. And you remember that we flagged that this was helping and boosting the performance somehow so we'll have the reverse of that in Q2. And then the rest is going to be basically depending on the demand from China. Frankly I see no reason why it should materially decline going forward at least in the coming quarters.

Eileen Khoo: Thanks very much. Really helpful.

Pierre-Andre Terisse: You're welcome. Next question.

Operator: We'll now take our next question from Jon Cox from Kepler. Please go ahead. Your line is open.

Jon Cox: Yes, good morning. I just want to come back into the whole Infant Nutrition issue. Is it possible for you to give us some idea of what's happening in Europe? You've obviously mentioned in China things are, seem to be actually accelerating. But what sort of impact do you think the shipping of product from Europe back into China is having an impact, and can you put a couple of percentage points on that at all?

And just to clarify, you seem to be saying that there's a shortage of products in Mainland China. It's not necessarily just a safety issue which is causing this phenomena of both strong domestic growth, but also this sort of re-shipping in from the rest of Europe. And I'm just wondering what is the trigger because the whole baby food issue is now a few years old. I don't quite understand why there's been an acceleration of this trend just in the last few weeks and months, and can you guys put your fingers on that at all?

And just a second question on Portugal. You keep alluding to how things are looking much better there than -- as a sort of guinea pig test market. Can you just give us the indication in terms of numbers what you're seeing in Portugal? Are you seeing growth mid-single digit in terms of chilled dairy as a result of this? Can you just talk us through what sort of share gains you're getting? It just helps us to sort of get an idea of what potentially you're able to do in the rest of Southern Europe. Thank you.

Pierre-Andre Terisse: Yes, maybe I'll take this one first. What we have seen for the past few months in Portugal is volumes going back to positive territories, low single, but volumes going back to positive territories. And I'm very careful about that because we've seen that only for a few months and it's Portugal and there are many specific factors, and I don't want to over-promise or to over, create overexpectation based on that because many countries are very different from Portugal and Portugal has certainly been under pressure for more time than other countries.

This being said, again I think it's one of the first tangible signs we see from a full exercise of reshuffling of the portfolio which is giving result. And that, given the fact that we have been under a set of very negative news in southern Europe for the past at least six months, that is in itself something which is encouraging. And I don't want to take more conclusion than that, just signs that it's encouraging. And we need to keep working because certainly we are far from having done everything we need to do in Europe to go back to a positive performance or at least to something which would be consistent with our targets. So that's for Portugal and I hope the numbers I gave you are helpful.

On China I just react to your first word which is the whole Baby Nutrition issue. I don't find there is any issue personally. I think we are just getting positive issues, if you want to keep like this, positive questions and positive demands, and that's really something which you should keep in mind.

On the safety, to take your word, the whole thing in fact is, or the whole minimum price is something which is three/four years old. But there's been, if you look at the Chinese market there's been in the past one year, two years, three years, four years, regularly there's been some reminder of that with some case, accurate or not accurate, but some case reminding that questions on Safety are not really stabilized in this country. And therefore the need of the consumer for safety remains extremely strong.

In fact it's a combination of need of the consumer for safety on the one hand and need of the consumer for trading up and for getting the best product they can for their child, and this is basically pushing the whole thing up. And is probably as we talk today testing lack of capacity for product which will be premium enough for the Chinese consumer, hence what you have been seeing in various markets and in particular in Europe.

Again, I believe the fundamentals to be taken away, the fundamental takeaways from this situation are two. A, the demand is strong and it's difficult to see at this stage any sign for weakening of the demand at least short term. And therefore the question is how do you face or how do you address that? And, B, the building of a sustainable answer to that demand. And to me the only sustainable answer to that demand is building a portfolio which in China is going to be as strong as possible and as complete as possible.

You said can you give us an indication of what your estimate is of this whole increase of the Chinese demand. We would probably see it around 3 points, which is basically the difference between the sustainable performance of our Baby division a year ago, also in 2012, and what we are seeing today excluding the comps base. So it means, yes, that the Chinese demand, the Asian demand overall in fact but the Chinese demand more particularly, has increased.

Jon Cox: Just to come back to those three points, is that the up-tick you've seen in Europe and that's been shifting into the Mainland or are you talking about overall you think there has been a structural shift in the market including this Europe shipping plus what's happening in Mainland and structurally maybe the market is actually up 3 percentage points?

Pierre-Andre Terisse: No, it's overall and that have been impacting over all of our offer in Europe, in China and in the rest of the geographies as well. Perhaps not in Latin America, but Pacific, for instance, has been impacted as well.

Jon Cox: Okay. And, sorry, just one follow up question on the whole buyback issue. You mentioned this EUR100m to EUR200m. Should we expect rolling buyback's through the rest of the year notwithstanding any potential M&A of course?

And then how can we actually try and model this? Is it --- again, you've talked about don't -- not wanting to go above 3 times net debt to EBITDA to maintain your credit rating. Is this something we should model and then assume anything on top of that you will give straight back into buybacks?

Pierre-Andre Terisse: Yes. To put it differently, what you're saying is exactly the use-of-cash question which we have been sticking to for the past few years, i.e. we generate cash net of CapEx. This is the EUR2b of last year. It's going to be EUR2b less the restructuring element this year. Then we address potential M&A topics, which as you know can be extremely fluctuant from one year to another, and we use share buyback to maintain our leverage at the same level. And when doing so we always decide on when we will update depending on the visibility we have for the cash flow generation on the one hand and the M&As for on the other.

So at this stage of the year what we can say is that we are continuing the buybacks for EUR100m to EUR200m and then we'll be updating you with more news regularly. And the next stage I guess is going to be at the end of the first half of this year.

Jon Cox: Okay. But just so basically if no M&A we can expect maybe a EUR100m to EUR200m per quarter, something like that?

Pierre-Andre Terisse: If no M&A you could expect us to continue using the share buyback to stay on the same level of leverage, yes.

Jon Cox: Great. Thank you.

Pierre-Andre Terisse: You're welcome. Next question.

Operator: We'll now take our next question from Celine Pannuti from JP Morgan. Please go ahead. Your line is open.

Celine Pannuti: Yes, good morning. I am going to go back to Fresh Dairy since my question on Baby Food have been answered. I wanted to understand a bit the European markets. You said basically that you've seen a stabilization versus Q4. Can you talk about what is the growth of the market itself? What has the demand done?

And then could you as well a bit flesh out your performance in France and whether you've seen any changes there? And what's Germany doing?

And then my other question on Dairy would be on you've said that North America has been a bit volatile, is there any reason why that should be the case? And are you back to the double digit at the end of the quarter, are you back to the double digit in North America Dairy?

And my second question is on Waters. You mentioned that the growth has been quite strong especially in Asia. Can we get some number maybe for Asia or overall emerging markets in Waters please? Thank you.

Pierre-Andre Terisse: Yes, okay. I'll try to address those and if I'm missing something please tell me. On the Europe Dairy category there are places where the category remains negative and this is the case of Spain, this is the case of Italy, this is the case of Poland, for instance. And there are markets where the category remains either slightly positive or flattish. This would be the case of France and Germany. And this is really, I'm really talking about the category.

So there's basically no real change versus what we saw in the previous quarter, in Q4, and there is no inflection on that. And again in these markets which remain with the same trend we have stabilized overall our market share sequentially, which basically gives you for Danone's sales and Danone's position the same underlying trends as the ones we had in Q4. So that's where we stand today. Obviously we are monitoring both, are monitoring the evolution of the category as well as the evolution of our market share. And the evolution of both is going to be important to follow up in the coming quarters.

US, we're essentially around double digit. I won't tell you whether it is slightly below or slightly above. It doesn't really matter by the way. Our ambition is really to be growing around double digit. We, over the long term we demonstrate that we have been growing at an average I think for the past seven, eight or nine years around 10%. That's really what we should be growing depending on the addition of capacity and the timing of the additional capacity. We can have some months which are lower and some months which are higher; that's natural. I'm just flagging that January was because of that and February/March have been rebounding. Why? Because it shows that the only limitation factor which we have in the US at the moment is really the dissolution of capacity. We are still in a market which is drawn by or pushed by Greek, still in the market where Greek keeps increasing its share of the category and still in the same dynamics, and therefore with the very same things to do. So going forward I basically, we basically do expect the same to keep happening, i.e. to be growing strongly on the back of strong Greek trends, but with some volatility coming from the additional capacity.

And last on Water I'm not sure what your question was about, sorry.

Operator: Apologies. It seems that the participant has disconnected from the call.

Pierre-Andre Terisse: Yes, Antoine is telling me that the question was about the trends in Asia, which basically, as you can imagine, remain extremely strong. And this is true for both our Water business in Indonesia and more importantly for the development of Mizone both in Indonesia and more importantly in China which keeps building and developing. We'll take the next question.

Operator: We'll now take our next question from Jeremy Fialko from Redburn. Please go ahead.

Jeremy Fialko: Hi, morning. Jeremy Fialko, Redburn here. Question on input costs for you.

Pierre-Andre Terisse: Hi Jeremy.

Jeremy Fialko: We've seen this quite big rise in milk powder prices particularly in Asia. Could you talk about how you see that evolving, what it could mean for the I suppose European milk price and what the risks that your input guidance for the full year could end up being a little bit too low? Thanks.

Pierre-Andre Terisse: Yes, that's -- thank you Jeremy for this question, which is an interesting one. In fact we had at the beginning of the year taken the assumption that input costs would be increasing low to mid single digit and that's what we have assumed when building our expectations for 2013. It's true that we have since then seen some tension on the evolution of the input costs, which is not so much impacting us directly because in terms of impact on the Baby most of it will be impacting us forward and not so much this year, also at the end of the year, but which is likely to have some indirect affect of the cost of milk in the rest of the world.

Net, when we look at that we consider that it is slightly worse than what we had assumed. But in fact it's within the range we had taken as an assumption. So it remains consistent with our guidance. We know that we'll have a bit of additional cost inflation to absorb, but we feel we can live with it.

Jeremy Fialko: Okay. That's helpful. Thank you.

Pierre-Andre Terisse: You're welcome. We'll take a last question.

Operator: We'll now take our last question today from Warren Ackerman from Societe Generale. Please go ahead.

Warren Ackerman: Morning Pierre-Andre. It's Warren Ackerman here at Soc Gen.

Pierre-Andre Terisse: Morning.

Warren Ackerman: Morning. A couple of questions. Number one, do you think the Dairy price/mix which has been trending sort of sequentially down for the last few quarters will trend negative in the balance of the year given that it was only 0.2% in the first quarter, and what would be a reasonable price/mix estimate for Dairy for the year, the first question?

The second one on Russia. It sounds like Russia is continuing to improve. I was wondering whether you can tell us what the growth was in Russia in Q1. Was it similar to Q4, I think high single digit, or has it improved further? And is double-digit growth still a reasonable assumption for Russia for 2013?

And then just finally on this whole baby food issue, just going back to that, we've seen in the UK that UK retailers are limiting to two tins of milk powder. Just wondering which other markets have those same limits and how long will that last for?

And I guess the question is if products are being bought in Europe and sold for a profit in China I guess it begs the question why don't you just ship materially more directly to China from Europe? And do you have the capacity to actually export more from Europe?

And then I think in answer to one of the questions you said that the boost had been about 3 points in the quarter. Do you think that 3 point boost is sustainable? Thank you.

Pierre-Andre Terisse: Okay, again that's a comprehensive set of questions. Taken them one by one, on the Dairy pricing frankly I wouldn't like to guide too much because there's many, many factors which can influence including milk, including Greek, including many, many things. But clearly we're not going to lower the level of effort we are doing in terms of promotion pricing adjustment and so on in Europe. It's not a strong, strong one, but it's in some markets something which can be material. You should not expect that to revert. So all things being equal it should not bounce back.

And I'm sorry, I'm not sure I answer to your question and I give you sufficient elements to be able to predict. But on the other hand we want to keep flexibility, as you can imagine, in managing this item as well.

Warren Ackerman: Sure.

Pierre-Andre Terisse: On Russia we keep progressing. We've been a touch better this quarter than the previous one. Prostokvashino keeps being extremely good. Tema is very good and is limited by capacity so we are adding capacity. The Actibrands are doing well and that's very interesting; Actimel has been performing extremely well in Russia in the past few months. So it's a permanent work and that's an organization which really is very big, but we are progressively fixing issues when they are and creating the condition for developing the potential of our brands.

I don't know whether we should be targeting double digit, above or below. That's a bit the same question as the US. But around double digits or high single digits are potentially goals from time to time is I think the current base of the business and our objective is to maintain it.

Baby, what you have seen in the UK has taken place in some other geographies. Netherlands and Germany I believe that implemented some limitation on the purchasing of things. I don't believe that's really an issue for the European consumer. On the contrary, it's a protection for the European consumer.

I don't think the answer should be to export to China for several reasons. A, there are capacity constraints so today in Baby we are constrained by capacity in some places and globally. B, there's a point of regulation. And C, the only sustainable answer to a demand, which I repeat has increased -- and I don't know whether the 3 points is sustainable. I would tend to be a bit more conservative and to consider that only a part of that is sustainable, that a part of that is sustainable. The only answer to that is again through a local portfolio.

Any other one would be something which at some stage can become fragile and difficult. And what we are in is really to build brands and to build equity and to build categories for local consumers, not so much to take advantage of cultural phenomenon's which may or may not last. And that's why I insist so much on what is happening is that the demand has improved/increased and what our priority has to be is to keep segmenting on portfolio locally and to launch new products locally. And that is what we are doing and we'll keep doing in the coming quarters.

Warren Ackerman: Pierre-Andre, can I just also follow up on market share trends you're seeing in baby food in China? Obviously looks like the share trends would have improved, but listening to competitors like Mead Johnson they are saying that they've regain two thirds of their lost market share from Q2 last year when they made that pricing error in their own words. I was just wondering whether you have seen despite the very strong optical performance any kind of change in trends in China in share terms.

Pierre-Andre Terisse: No, not really. There are ups and downs quarter after quarter of course, but I've said I believe repeatedly that there are a number of strong competitors, and the one you mention is one of them and that we are all doing a good job and building the conditions for a sustainable strong market share. This is the case for us. And I think you would recognize that we have been repeatedly doing a good job and delivering good performance from that standpoint over the past several quarters. But that's the case as well of the other competitors who are building this category in these countries.

Warren Ackerman: Okay. Great.

Pierre-Andre Terisse: So I would not read too much into the highs and lows of the quarters. I think we are all doing a good job on developing the category well and safely, which is the most important for the Chinese babies.

Warren Ackerman: Okay. Great. Many thanks.

Pierre-Andre Terisse: Thanks to you. We'll end up with that question. We wish you all a very good day and we'll see you on the road. Thank you. Bye.

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