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EDITED TRANSCRIPT

BN.PA - Full Year 2012 Danone SA Earnings Conference Call

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OVERVIEW:

Co. reported 2012 sales of above EUR20b and EPS of EUR3.01. Expects 2013 sales growth of at least 5%.



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PRESENTATION

Franck Riboud - *Danone SA - CEO*

So I will start during the next 15, 30 minutes to explain to you what is our vision about the Company, where we think we are and especially what we have to do for the future, and after that Pierre-Andre will explain all the figures.

I will start with what we call the main step change for the company. For the first time the sales are above EUR20b. I said for the first time because it's true that the last 15 years, because of growth but because we divest a lot of businesses, for the first time we go across EUR20b.

Free cash flow - we achieved the target we fixed in 2009, above EUR2b. The sales in what we call the Growth Markets more than 60%, and you will see in the following presentation where we were a few years ago. And another very important item for us, or KPI for us is CO2 impact, minus 30%. We reached -- we achieved the target we fixed to the company. And you will see that doing this we also improved the quality of the business and the efficiency of our businesses.

If I look at the first element, the EUR20b sales, you can see how do we deliver this. I put on the right side of the chart a lot of brands, the main important thing is we are not looking to just Europe and brands - or French brands or Spanish brands or the historical brands of the company. You start to see new brands like Mizone, Protokvashino from Russia, Oikos, Cow & Gate in the UK. So all the main brands of the company are participating to the evolution of our main sales, which is the best balance we can imagine.

Even in Water because we put Evian for sure, but you have also Bonafont, and as you know we roll out Bonafont from Mexico to Brazil to Poland, and the success of Bonafont in Brazil is a really good one.

That's the reason why we think we will continue now to grow the net sales with our main brands.

The cash flow, the good news for us is yes we reach the objective EUR2,088m. In the same time we continue to spend CapEx, to invest CapEx because obviously to follow the growth we have and to continue to build in new countries, we have to have a very sustainable CapEx policy.

In the same time, as you can see, we present there some acquisitions which help us also to continue to deliver the efficiency -- the growth of the company.

The next one is a very important one. So everybody can be very happy about this because it's very fashionable to say that everything is doing very well because of the emerging countries we grew double digit, and if you really look at how do we grow in the emerging countries you will see that Danone is one of the most performing company in the emerging countries. So we are really growing double digit.



For me the important thing to understand and we will see that in the following presentation, is - it's not because we grow outside of Europe, which represents now more than 60% that we don't have to take care of Europe because nobody knows. I don't want to be the nasty guy but I am doing this job now for 20 years so okay, Europe is in trouble, the emerging countries are booming nobody knows what will be the situation within 10 years or within 15 years or perhaps within five years and going back up within six years, I don't know because these countries presents also some difficulties. Could be political, could be currency it could be, I don't know, the evolution of the raw materials in these countries. So we have to be careful to continue to work both sides. Not only commenting the evolution of the emerging countries just to be the best in class. We have also to consider the global company.

Having said that it's a fact that now this Company, the Danone Company, deliver more than two-thirds of the turnover - of the net sales - in the emerging countries. We are lucky because within these emerging countries, two of them, and especially one of them, is a very stable one and a very rich one, the US. I will present to you how do we deliver the results in the US. For us it's an emerging country, with perhaps less risk than the classic ones. But for us it's an emerging one. We grow double digit, the buying power is very strong and evolution is good. Here we see some good news also in the market, on the dairy one.

Now if you look at the right side of the chart, it's just incredible. Germany is no more there, Brazil took the place. If you look at the ranking, France is still number two, and we are lucky because within Europe, France is a country where we are delivering the best result.

Spain is now number five. So it's a totally different model for us. And if you look at the curve on the left side, I don't know if we will continue with the same speed, I don't know. But it's clear that whatever we think about the company we can also say, we do nothing in Europe but time after -- it's like the snowball. The emerging snowball is going very fast, bigger and bigger year after year. We improve the margin, we improve the sales and the snowball of Europe is going lighter and lighter. So even doing nothing, this company will reinforce the model within the next four or five years, but on top we are going to do things in Europe.

The CO₂, just to show you that even if you are taking care of environmental issues or even social issues, it's not because it's nice, it's because we are convinced it's impacting positively the results, even the financial results of the company. When we decide to achieve the five year 30% CO₂ impact, for example we have to reduce the weight of the PET of our plastic bottles. Doing this we save money.

When you look at what happened with the meat in France and everybody talking about proximity, when the main the center of the strategy of our basic plain yoghurt in France is the "milk of our farmers", it's because of the environmental issue also, social because we want to pay the right price to the farmers, which you can see that now the actuality what you see in different markets is becoming a strength to claim the "milk of our farmers". So that's the reason why we present to you also the results, even if you can consider it is something apart for us, it's totally in the center of our strategy.

So the 60/40, that's the Danone Group. I have nothing to explain, you can read. Nothing to explain. On the left 60% and you see EUR12.5b sales, growing 12.4% and that will accelerate. On the margin, something I explained since now 20 years, we are where we planned to be. It means we grow faster in a country where the margin is growing faster, and one day the margin of the emerging are going to be above the major markets, so we will have this famous double positive click effect, growing faster with better margins.

And you have the figures, nothing more to comment. 80 basis points improving the margin, and I know I remember all the questions I got on the emerging, from you, saying do you think you can improve the margin in the emerging? Yes, because basically we achieve a critical size. And we are talking about the country we start 10 years ago, and as you know we open new countries and in these new countries we will roll out exactly the same strategy than the one delivering this results today. So it's not the end game, for me it's the beginning of the new story.

And on the other side, yes 40% and you see also the reasons. Like-for-like minus 3% top line and 190 basis points like-for-like margin loss. Okay, but we deal with this and the wrong thing will be to focus on the left, on the green, and just milking the blue. We are going to restate the blue and I will explain that to you.

Obviously the idea is not to have them to switch from minus 3 to plus 10, forget this. But you will see an example in the Water business, when you fix Europe you grow 10%. That's the leverage we are running after and it's exactly what we are going to explain.



The result of this equation - sales plus 5.4%. So we can say we are in trouble in Spain, at the end of the day, the Danone model still delivers 5.4%. Is it good, is it as we say in our jargon, our language, is it an empty glass or a full glass? It's a full glass for us. It's a full glass. We still have a huge opportunity on the green side, but we are going to fix the blue one.

How long? We'll see, not tomorrow, but anyway the snowball of the green side is running much more faster. And you have the result - plus 5.4% whatever the difficulties in Europe.

Margin, yes, we missed. We make a profit warning and I remember you that we did it just to protect the green side. We don't want to push up prices in China just to deliver margin in Europe. No, no, no. Otherwise we will kill China and one day we will be in trouble. So we have to fix Europe with Europe solutions and continue to deliver and to push as fast as we can the emerging countries.

The free cash flow, as I said, we achieve the target. So for me the results of 2012 are positive, definitively positive.

So the green part, the one you like, me too. I will not comment again on this because I did it. But just to explain to you with some examples. The Fresh Dairy, Fresh Dairy US. On the left you have the full range of Danone including Stonyfield. Because when you are talking of the US you have to look at the global Fresh Dairy division, not only brands.

So when you look at all our brands and the translation in the middle in terms of market share, for the first time we are leading the category with 31.9% market share. The second player, 27.2%.

That's the first time of our life, since 15 years we are neck to neck or just below the best. And the reason why is because the competitor number one didn't react as we react on the Greek segment. Okay, we were wrong here, okay I was, I can't translate that in English, upset, I want to say more in French about this situation. But it's a fact that the team find a way, not only the US team, the way we decide to invest, the way we decide to react and you have the result in the bottom, in the middle. Danone Greek 9.4% in a segment which is now between 30% and 40%. You will see the position on the Greek segment on the next chart.

Oikos multiplied by 2.2 and the main important thing you have to understand, the main one, not the market share, not the result, the one here -- category advisor. We are now covering more than 32% of the retail as a category advisor. Because the only thing we have to deal with in the US is to expand the shelf. Otherwise when you look at Activia declining, not because Activia is declining, just because they need space to list the Greek. So they put out Activia because there is no maturity on the market. But we have good news on that subject.

The good news is the title of this chart. Forget yoghurt, forget the category, for the first time of our life we have a food product called yoghurt, called Greek yoghurt which is fitting with what the American consumers are eating. I even don't want to say diet, because diet in French means something else. It's too restrictive.

For the first time the yoghurt category called Greek, which is no more a specialty which is now a category, is fitting with what the US consumer expects as food because of the protein, because of the history of their diet, and that's the reason why this segment is now more than around 40%. It's moving every week.

You have there the blue line, the vertical blue which is the segment, the Greek segment. I'm not sure you have already seen that in every market in every country, whatever the product. That's the first time in my life I saw that. Now we are very happy to have decided to invest and not to answer the question about overcapacity, price war, you know all that kind of question. We are there.

And if you want to understand why I'm saying it's a good news that we have a product fitting with the Americans' diet, because we have a full range of products. We launched a Greek Oikos and you have the market share. But we launched also Light & Fit Greek. Light & Fit is a very old product in the US diet and it works, it's flying.



We will launch an Activia Greek and Greek for us means cheese, nothing else. Because of the technology we did not have. Now because of this volume we can invest. The product behind the technology we have it. Jockey is a Greek yoghurt. We are launching in Europe, Danio in the UK, in some other countries even if we already have, but we are playing the positioning, the protein positioning. The satiety positioning.

So it's a new segment for us, not only in the US, not fighting with the existing products, Greek in Europe means indulgent with a lot of fat. In the US, 90% of the Greek segment is 0% fat which is totally different from Europe. But we launch and you can see the results of this.

Russia, Russia we are on track. We are delivering exactly what we promised and exactly what our plans were. It means at the end of the year we accelerated because of the relaunch of the big brands of Unimilk and besides this we have also good news on the Danone range. Activia and Actimel are really growing in Russia.

You can see the result of the relaunch of Protokvashino and Tema and Bio Balance. And on my chart I have plus 8% but I think that plus 8% is 13% or something like this. So there is a mistake. The plus 8% is plus 13%. When you know that Protokvashino is the core range of Russia, that we change totally the packaging, work on the quality, we work on the product basically all across Europe and all across the world we are working on the quality of the packaging, the product, the texture, flavors, everything.

Baby Nutrition, a few comments. Just flying because of emerging countries. For your information what we are doing in baby food, and you can see how we gain market shares on our universe, country universe because we are not everywhere. We have a strategy which is called Blue House, the one here what we call "for expert and ambitious mums" and a Red House. We just relaunched the Red House in China and I am sure we will roll out one day in some countries and why not China, the Blue house. The Blue house is more valuable, much more value than the red one.

On top of that we have also beautiful results in China with the way we connect to consumers, less and less advertising, more and more digital which is something you will find also on some other products. And also Hong Kong and internet businesses, we are not disclosing the figures by the time being, but just imagine that the sales through internet is booming for us in Asia and in China in particular. So not a lot of comment, it's going very well.

Water, not only Waters because Waters is doing quite well. Waters, H2O, thanks to Evian thanks to Badoit, thanks to Salvat, thanks to Bonafont in Brazil. The best score is delivered by the Aquadrinks' strategy where we grow as you can see our CAGR 20%. Margins are better in this product than in plain water. And if you look at in the room beside we are going to launch the Pure Aquadrinks in France, in the UK and it's really a winning story. So we are going to roll out this.

And you have the result of the new steps for us, for example Aqua in water, above 10b liters of water in Indonesia. In front of big competitor but more it's just a question of water. If we have more water we can sell more. So more than 10b liters.

Bonafont is a brand which is now above EUR500m turnover. Poland, Brazil, Mexico. And Mizone, Mizone the brand we sell to the Japanese, we sold to the Japanese but we keep it for Indonesia and China. It's more than EUR500m.

We are launching, that's the small thing you have on the right, a product called Blue, because we don't have the Mizone brand for the rest of the world. So we launch it in India and we are testing in a big city, we consider the city as a country and it works! So now we have to decide what will be the best road to market, how to roll it out in the full country, but city by city to make the same success in India we have here, for example, in China. At least it's our ambition.

Europe, not yet, just the example, just to help you dream a little bit. That's the situation of the Water Division. The only difference with Danone equation, we fixed Europe. Because Europe is, depending on countries between minus 3%, plus 3%. Evian is doing well and you can see the results of the division which is growing double digit, because the main subject we have in Europe are linked to the dairy, not because the dairy is not good, because historically the weight of the dairy in Europe is stronger than in the other divisions. It's just arithmetic. But that's the equation we fixed since now two or three years in the Water division.

On top of that we launch in Europe the Aquadrinks, so we will see an improvement and so on.



So now I go back to the global equation and I go to the European part. Again the same figures you saw a few minutes ago. First of all, and the idea for us is to explain quickly how do we want to tackle this European situation, because we will tackle it. We are not going to sleep waiting for better days or a better environment, as everybody explains to us every day. No, no, we are going to take care of our situation.

First of all, like in every country in every business line, we have to take care of the category, forget the Danone market shares, the private labels, no. We are going it's our job, we are the leading brand; we are going to work for the category.

Translation means one yoghurt a day. So we are going to do everything we can do to explain to consumers, to explain to stakeholders, to explain to the health community, you have to eat one yoghurt a day. Just doing this that will refurbish the category.

On top of that we are working on nutrition, we are developing on internet the health benefits, and so on and so on. But this is how to drive the category.

Second, value for money. I know that everybody is laughing because we are talking about the KISS cup and whatever. But it's our job. We are not in the technology. It's our job to make the difference in the shelves. We can't continue just to make productivity by reducing the quality of the pack, by reducing the quality of the mix. We have to invest in a new ferment to get a better texture. Or we must have -- I was visiting Firminich company in Geneva last week, to talk about flavors, to get the best natural ones. How to forget Aspartame, how to move in that direction. We must have the best products and the best marketing execution.

And I have this cup in front of me. Go to the shelves, look at the old fashioned cup and look at this cup and you will see the difference. When you know that people are buying product 60% of them when they are just in front of the shelves! So we have to work on this and it's exactly what we are going to do. The best product, and you have examples, the best packaging, again you have examples and the right price point for sure.

Some products we even don't have to advertise. It's much more important to promote them. It's like an investment if you find the right way to speak to consumers. And obviously we still have differentiation and innovation. Some of them are really innovative; some of them are just -- an example.

If you look at the size of our format, in every country we have big cup of Activia or big cup of cheese. Not in France, not in Spain. Why? So we are going to benchmark all our best SKUs to see how we can roll out them not big innovation, but clearly we will develop consumption. And for me the idea is first - to grow volumes. Second - the mix and you will improve the margin. It's a very simple equation, not so easy to deliver, that will take time but that's the right track we have to follow.

Example of this in Europe, I already speak about the KISS cup. But just you have the example of Veloute. For French people, Veloute is a very old-fashioned product. Okay the mix is less than with Activia whatever, but I told you volume, mix and the margin will follow. Veloute we grow, you don't have that on the chart, but the growth is 20%. Every week we grow 20% since the relaunch.

Badoit is growing plus 7% and Salvetat is growing double digit. Nobody knows Salvetat, it's a local brand for everybody, but we grow double digit. It is in volume the biggest sparkling water in France, in volume not in value. So that's the reason why we think we have to really reinvest in Europe.

I will not spend a lot of time on this, but it is clear that how to connect to consumers directly is the most important thing, and the next step, I don't know when, but very soon will be when people will pay with this, because if they pay with this we are linked to them directly. We don't have to make a big gondola head. We can send directly to one guy or one lady the promotion directly on the phone, which is already working. So the revolution is for tomorrow. The link between consumers and ourselves is for tomorrow. When you know also that if you have a big consumer you put EUR1 on them, you grow the volume. If you are a small consumer I put EUR1 on you, you will not move.

It means with, like in Spain, even if Spain is declining but we are still - even in Spain we have product growing. If with 2 point -- let's say with 3mln consumers, you reach 60% of the growth. Now with the new technology we can really reach this 3m consumers and they are heavy consumers. We know how to keep them in our portfolio. We know how to build loyalty with them and that's the future. That's the reason why you look -- you switch from classic advertising to digital, including promotions, because with promotions you recruit this consumer. That's the reason why I said



that promotions are not throwing the money through the window, but it's really an investment. So we are going to, and you have some examples everybody knows them.

The competitiveness plan in Europe as announced this morning, yes, we said a few weeks ago we want to save EUR200m. How? Honestly the target for me is not to save EUR200m it's a consequence. But I think it's time for us to readapt the way we work in Europe. As we said, we consider that the crisis in Europe will not stop tomorrow. So we can't wait. We have to adapt ourselves. You know that when Danone decides to adapt we adapt, because we react very quickly.

So we give us two years to readapt our organization. It means to simplify. For example, we have 67 CBUS, we are going to switch in our language to cross CBUS, cross country CBUS, which is very well known for Anglo-Saxon company. But it's going to be a little bit different for Danone because we will keep the specificity of each of our businesses. If we are talking about brand activation and consumer activation we will keep the management and the people we need to stay specific for the category because we don't have a link between baby food and water and dairy in terms of brand activation and consumer connection. We have some but not a lot. We want to keep this specificity.

Not all functions are concerned. Support functions are going to merge. At the same time we are going to ask less to small countries. Just imagine that in small countries we have the CODI which is a Direction committee, which is exactly the same as for the big countries. So we are going to ask to big countries, in terms of support functions to take care of their small brothers beside. And that is the explanation of adapt and simplify. As a consequence we will be saving the firm EUR200m.

We have more explanation on this chart if you don't understand, but it's exactly what I just explained.

The conclusion of my presentation, and I try to make it with only one chart, which is this one. 2013, a year of transition because we need this year to deliver everything I explained. Europe, adapt and fix and in Growth Markets obviously we will accelerate. I am not saying that we will continue, we will accelerate, that means we ask our people to focus on their profitable top line growth, which is a model we know perfectly. And 2014 we expect the group will go back to this strong sustainable profitable growth equation.

That's the future of Danone. Now I will let Pierre-Andre translate that in figures because I know you like figures.

Pierre-Andre Terisse - Danone SA - CFO

Okay, thank you, Franck. So I will run you now through the main financial elements of the year 2012 starting as we always do with a snapshot/summary on which you can see a few things. The first one is that indeed we have crossed some important milestones this year with sales at more than EUR20b and with a cash flow which is in excess of EUR2b as we had fixed to ourselves as a target.

The second thing you can see is that we have finished the year in line with expectations, with our expectations principally in fact slightly above for part of the objective. Top line wise we end up with 5.4% organic and I will come back to that but this is slightly above what we expected. Margin minus 50 bps as we announced back in June of this year. EPS EUR3.01 in line with what we expected and free cash flow is slightly above as we already said. So a year in which globally towards the end has been slightly better than expected.

If I start with sales, so nothing major on this chart. 8% reported growth is made of ForEx effect which has been positive by 2.5%, driven by the relative weakness of the euro and the strength of other currencies, in particular the Chinese yuan, very little scope effect and then the more important element is the organic topline growth which is at 5.4%. Well balanced between volume and value 2.3% and 3.1% respectively.

The fourth quarter has been more or less in line with what you see for the full year with 7.3% reported; ForEx effect which is positive, close to 2% and topline growth for Q4 which has been 4.9% with a 3.2% volume which is the highest of the year, I'll come back to that, and 1.7% value effect. In fact when you look at the sequence the interesting thing is that we end up at 4.9% despite comps which were higher in Q4 last year, in particular on Waters, we'll come back to that.

This reflects three different trends. Underlying trends in Europe which have remained very much in line in Q4 with what they were in Q3, with of course, putting aside of course the question of the comps. Performance in emerging markets which remains strong and I'm talking in particular of China, Indonesia and Brazil. And a performance in the CIS and the North America which has been accelerating as Franck mentioned, we see that but we are close to 10% for the combination of CIS plus Noram this quarter.

Volume value, the good thing is that volumes are growing, re-growing, versus previous quarters at 3.2%. And the second good news is that this is true for all categories, all businesses i.e. Waters, Baby, Medical, but also Dairy.

Geographical dynamics, I'm not going to stay on this slide, this is the way we used to present the geographies. For those who were in St. Petersburg we have introduced a new way to present geographies which is this one. This is the one we are going to use from now on because we believe this is showing more consistent geographies. So showing Europe excluding the CIS. So was what we could call Western Europe and Continental Europe.

Showing the CIS and Noram together because we believe we are in the same strategy in these two countries i.e., developing the dairy category in volume and value, investing heavily to do so and trying to improve and build the margin.

And last region which we have called ALMA for Asia Pacific and Latin Middle East and Africa which is essentially in fact the emerging markets of the Group.

What you see on this chart is interesting. So it's on Europe a situation which remains under pressure with minus 5%. The difference versus Q3 being essentially in the comps of Water. The trends otherwise remaining very similar.

CIS + Noram acceleration and in particular North America have been crossing the 10% this quarter, while CIS is high single digit. So very much as we expected but a real acceleration in Q4 and the region ALMA has been still very strong with a 14% top line growth.

I will now go through the performance by division, I start with Dairy. Everything I told you so far really applies to Dairy in the sense that we have a 1.3% topline growth which is up versus Q3 and this is very much a consequence of Noram and the CIS accelerating while Europe is fundamentally staying with the same trends.

Volume value reflects this as well. Volume are up 0.4%, it's too early to say that they are up for good and for the long run, but it's clearly a positive sign after seven quarters which have been negative. The value element reflects the fact that we are starting using a bit more the price promo element on top of innovation and added value to consumers, the price promo element in certain countries in Europe and in particular in Spain.

So, as Franck told you a lot of things are going on in Europe, in the whole world but in Europe particularly, I think we introduce a lot of things. We have here the KISS cup, which is a new cup of yoghurt which has been introduced in France on some SKUs and is going to be extended to the others very soon.

Actimel is being introduced with additional flavors and there's gonna be many more things coming in particular on the Greek side in Europe in the coming quarters. We obviously continue to innovate as well in emerging markets and you have examples of that here; in Argentina and in Brazil.

Waters, it's another really good quarter, 8.5%, but the 8.5% has to be seen in the context of a base in Q4 '11 of 23%. So that shows the performance is indeed very good. It allows Waters to end up the year with 10% topline growth which means that for the second year in a row they are growing double digit and I think that's a very good performance which reflects what Franck was mentioning to you, i.e. steady trends in Europe and at the same time the emerging part and in particular, Mizone in China and Argentina are really going very, very strong.

You see that as well on the volume value equation. Volume remains strong and this is very much Aqua, Mizone and Levite. The price mix remains positive despite the comps in Europe and thanks to the positive mix which is induced by the development of the Aquadrinks in all geographies.



And again a lot of things keep going on and we keep introducing new products, mainly on the fields of special edition on water and you see that with a new bottle of Evian made by Diane Von Furstenberg. The My first bottle of water by FontVella and then the Aquadrinks with new flavors being introduced in France this quarter and the beginning of this year. After Danone success in the UK it's been working very well. You have some examples by the way, for those who are in the room, at the exit of the room.

Baby Nutrition, that's an engine which is growing very steadily, very strongly, very regularly. Another quarter which is very strong, 12.1%, allowing the year to end up at 11.6%. Again this is after last year, another year of double-digit growth.

The trends remain very much the same, i.e., the milks are leading the pack. The food is a bit weak, in particular in Europe. Milks are growing in all geographies and they are obviously growing faster in Asia, with the examples shown by Franck in China and in Indonesia. In fact, in China the renovation of Dumex went extremely well over the second half and allowed us to take the first position in terms of market shares in this market.

In this WBU as well, in this business line as well we keep innovating. This is true in the food. We are renovating all the range of jars in France with Bledina Fruit Jars and 17 new recipes, more adapted we believe to the growing trend of consumption, less salt in particular and better taste. We are as well introducing new ranges in all markets on the milk side, in all markets.

Last, Medical Nutrition. It is a continued soft performance, we say soft because this is clearly below the performance of last year with the year at 6% versus 9.4% for 2011. We all know this is very much due with some pressure in Europe in particular on the part of the business which is reimbursed.

The good news for this quarter is the fact that North America, which was under competitive pressure is doing better. And emerging markets keep doing very well as well, in particular China which is developing at an impressive pace.

And here again we keep introducing new renovation. Souvenaid is being introduced very gradually. This has been the case in the Netherlands in Q3, Q4 and this is the case now in the UK. We continue doing it again very gradually.

So that's very much it for the sales. I'll move to the margin element and the rest of the P&L now.

So margins I'll start with the total margins which is split between current items and non-recurring items. Non-recurring items have amounted to EUR200m which corresponds for half of it to acquisitions, i.e. integration costs on one hand for Unimilk which are ending up and on the other hand some acquisition fees. And the second part of it corresponds to some impairments in some businesses, in some small businesses. So that gives us margins which goes from 14.72% to 14.18% in terms of trading operating margin. Most of it is of course like-for-like. There's a few elements of currencies and scope.

Now within this the analysis shows that we had at the end 6% inflation on our costs as we expected, which has been partially offset by a productivity which was up to EUR589m but that was not sufficient to fully offset the increase of our costs, inflation of our costs. We decided to go for some price increase, some pricing in some geographies but not in all of them, which means that part of this difference has been offset by price increase. But there remains a gap of 50 basis points which drives the margin from 14.72% to 14.18%.

Another way to look at the margin evolution is of course very importantly this year the geographical one. Again with the new geographies you see very much what is happening i.e. that in Europe we've been under pressure, all businesses have been under pressure of inflation which we decided not to translate into pricing for all of it at least. And on the other hand, the deleverage, which has been very steep and which has driven us to decide to target EUR200m cost saving for 2013 and 2014.

In the other markets margins are up. In the region ALMA which is very consistent with what we are trying to do. And of course the important thing as well is to see that the margins are strongly up in CIS and Noram which means that we have not only, in these countries, managed to accelerate the topline and to win the battles that we had to win, but we have also been able to do so while keeping improving the profitability. In particular at Unimilk for the second year in a row we have a margin step up which is in excess of 100 bps. And that's as well in the US this year.



The rest of the P&L shows an improvement of the recurring net income. The topics to be noted are the increase of the income tax. I'll come back to it on the following slide. Financial expenses are up, fueling a decrease in the non-controlling interest with the buying of some minority in Spain -- I'll come back to it as well -- and fueling as well the reduction of the number of shares. Non-controlling interests are therefore down reflecting what I said plus the fact that the result of Spain are anyway down, not fully compensated by increase of the result of Russia.

Taxes have been -- the tax rate is up, broadly speaking, from 26% to 28%. This is showing tax pressure in different geographies and in particular in France with the application as soon as in 2012 of the non-deductibility or the limitation of the deductibility of the interests which has already -- which has started impacting us this year. Clearly we are going towards 30% with the additional taxes which are going to be weighing on us in France from 2013 and 2014.

So this drives an EPS which is up by 4%, the number of shares being modestly down since we have positioned the share buyback more towards the second part of the year and therefore that will have a gradual impact in 2013. So it's going from EUR2.89 to EUR3.01 clearly helped by the currency and scope which represent most of the increase. The organic or underlying increase is of 1 point which can be analyzed with 5 points on the topline, minus 3 on the margins, minus 2 on the taxes and plus 1 for the rest, and in particular for the financial items.

Cash we generate in excess of EUR2b this year. And you have the waterfall. I'm not going to be too long on this one; I'm going to switch to the other one which is more interesting and which shows what Franck said, i.e. we have indeed driven the cash flow from EUR1.2b in 2008 to EUR2.1b in 2012. This is a commitment we had and we have delivered it. The interesting part to me is that it's been done while keeping investing strongly in our business because we have maintained our CAPEX level between 4.5% and 5%; 4.7% this year. And thanks to a continuous improvement in working capital, in particular in the businesses which were new back in 2008 i.e. baby, medical to some extent and more recently Unimilk. That gives us the EUR2b. Our objective for 2013 is very much as well to continue delivering EUR2b, obviously ex non-recurring items. I'll come back to that in a minute.

This cash flow has allowed us to do three things, A, to do some M&A and in particular for last year to pay for the most of it for the acquisition of a business in baby nutrition in India, Wockhardt. It's allowed us to pay dividend for EUR1.2b and it's allowed us as well to make some share buyback, EUR400m and to keep deleveraging the Company for EUR342m.

This means that the balance sheet remains strong with a net debt which is ending up at EUR6.3b down versus last year -- and credit metrics which are extremely strong. The other interesting feature in this balance sheet is the fact that the total balance sheet grows very modestly, EUR26.3b versus EUR26b which means that the expansion of the means or the capitals to grow the business is very much under control.

Two quick points before I conclude, about two -- the financial decisions. Spain you remember that we said in July that we had been buying back one of the minority shareholders for, 8.6% of the stake of Spain with a net impact on the debt which was EUR80m. We have basically reproduced the same with another group of minority shareholders between July and now. And therefore by buying back 9.4% with again a net impact on the debt of minus EUR80m, so positive impact on the debt, we have now 75% of Danone Spain with EUR1.2b of remaining minority shareholders. It's more than that in the balance sheet at the end of 2012 because part of that has been done in the first weeks of 2013.

And for the rest of the balance sheet management we have completed share buyback as we had announced back in October for an amount which was between EUR500m and EUR700m. It has been EUR639m since we announced that so we are very much on track with the EUR700m we said. We are proposing to the Board of Directors to cancel part of the treasury shares as we are obviously moving on with the buying back of shares. And we are going to propose to the AGM a dividend which will be with a constant distribution ratio, payout ratio of 48% and therefore a dividend of EUR1.45 per share which will be paid in cash.

So that's what I wanted to say -- wanted to give you in terms of numbers for 2012. With respect to 2013 Franck gave you the most important part of what we are trying to do. Our priority is to go back to a strong and profitable growth as soon as 2014, a strong and profitable growth which is going to be driven by two things. The ongoing developments, fast development of our categories and brands in the Americas, in Russia, in Africa, in the Middle East and in Asia. And on the other hand, gradual stabilization of Europe, both in terms of sales and in terms of margin.



One of the tools to achieve that is going to be the cost saving plan which aims at reducing our cost by EUR200m but also at simplifying our processes in Europe and making us more agile and more able to catch the growth opportunities. The organizational part of this plan is being presented this morning and together with some savings in terms of purchasing make the majority of the EUR200m. It will imply of course some non-recurring costs and we estimate that the total non-recurring elements including this are going to be amounting for 2013, at EUR450m. EUR450m that's the estimation we have.

For the rest of 2013, for the other elements, we therefore expect sales to be up by at least 5%, with a first quarter, which is going to be more challenging given the comparison base.

We expect the operating margin to be down by between 50 basis points -- which is very much the trend we had in 2012 -- and 30 basis points if we take into account the fact that we expect to have some saving from the saving plan coming as soon as the second part of 2013 which would make us go towards minus 30 basis points.

And last we expect free cash flow to be still strong with another year at EUR2b, except of course the cash elements of the non-recurring costs I just mentioned to you in relation with the cost saving plan.

So that's really what I wanted to add. And we have now, I hope, a bit of time to take some questions and try to answer them. We'll start with the room.

QUESTIONS AND ANSWERS

Pierre Tegner - *Natixis Securities - Analyst*

Good morning. Pierre Tegner from Natixis. I have three questions. The first one is considering the below the line items you will probably face in 2013. I ask this question because my feeling is that you have done the job in guiding the market considering organic growth and operating margin evolution this year, but should you take the opportunity to remind, as you have made considering taxes and other below the line items we will face this year, just to have more the focus on fundamentals and less on EPS. That's the first question.

The second one is on Yakult. You said one year ago during the Q1 that you were discussing with Yakult. I understood that you continue to discuss with the company. So could you give us much more color on where you are now and what you want to do as you change your plan considering your collaboration?

And the last one is on US, could you give us an idea of the yoghurt market you had in 2012 and what do you expect for 2013? Thanks.

Pierre-Andre Terisse - *Danone SA - CFO*

Yes, I'll take the three. Starting with the first, we expect the EPS to be modestly up in 2013. That's as a result of what I told you in terms of sales and margin, but also in terms of tax which are clearly going to be up. I remind you that we have the addition of the tax on dividend this year in particular plus a few other ones. Minority interests are clearly going to be down. Equity interests are going to be down as well if and when -- but that's a matter of days -- we end up signing and closing Morocco, Centrale Laitiere. And, last, financial charges, should be fueling share buyback as we want to maintain our credit ratio to a level which are consistent with our current rating, i.e. A as always. So the sum of all that gives you an EPS which would be modestly up.

Yakult, it's really an operational alliance, an operational story. We've been having very good cooperation for the past few years. Today we are in discussion with the management to try and enhance this collaboration and possibly to go further than the fields we have been exploring together so far which were limited to research and development on one hand and some JVs on the other. So the idea is - are there fields in which we can mutually take advantage, one from the other, in terms of synergetical operations. This is very much an operational story and not a capitalistic story.



We have absolutely no intention to make hostile move or to increase our shareholding in Yakult in any manner. The game is really to keep cooperating and developing synergies. So that's where we are for Yakult.

Last on the US markets, well there are many, many aspects in your question. The market has kept being up in value for the year 2012. It was down in volume at the beginning of the year and it's been progressing and going up in volume towards the beginning of the year. So that's clearly an improvement.

We expect the market to continue growing and still driven by Greek. In fact today we are still, despite our pace of growth, we are still in a position not to have sufficient capacity to deliver the demand. So we are still in the process of increasing the capacity in the US to match the demand of Greek. Greek went to about 35%, 36% of the total category in 2012. Today it is above that. It's about 40% and it keeps expanding and growing so that, we believe, is going to continue driving the market and driving us in 2013.

Liam Rowley - *Barclays Capital - Analyst*

Hi there. Liam Rowley from Barclays. Just -- I know you [had] a loss in Europe, but just specifically on pricing. You mentioned that at the end of the third quarter that you'd taken some adjustments and a little bit of an increased promotion and that's come through in the fourth quarter. But I'm just wondering whether there's much incremental to come in 2013 or whether just in the fourth quarter you've done what you need to do, I suppose, in Europe? That's the first question.

And then secondly on Baby in China, clearly it's gone spectacularly well this year, but I'm just wondering, one of your competitors talked about a ramp up in the promotional environment, a more competitive intensity. I'm wondering whether -- and particularly around Chinese New Year, I know this is this year rather than last year -- but whether you're seeing that and how you see the competitive dynamics in 2013. Thanks.

Franck Riboud - *Danone SA - CEO*

The first one we think it's exactly the inverse. The way we manage people, by the time being it's exactly the inverse. The classic answer to the difficulty in Europe is more promotion, go pushing down the price -- something we did in the past in 2008, 2007. And in term of mindsets it's exactly the inverse, we want to play the mix. So obviously on some products we are cutting advertising and making promotions and it works and we get the right volume. But with some other products it's exactly the inverse. We valorize -- when you do the kiss cup, you valorize the product because we don't think that the only way of finding a solution is to reduce and pushing down the price.

Having said that, there is a difficulty. The clear difficulty is raw materials impact which is growing. And we will expect, because of the crisis, a decline of the raw materials and that was not the case. So and it's not a question of what usually we call pricing power. We are no more in that game of you have a strong brand, you can push the price up. If you go to Spain, whatever the strength of your brand -- and we are strong; Danone in Spain is very strong -- you can't transfer to the consumer 100% of the raw material price increase. That's the reason why you have to play the mix. You have to be careful about your existing product, you have to launch more add-value product. So when you launch an Aquadrinks, it's a better mix. And on the same time we have to be careful not to let your people driving the situation, they will damage your product because they will reduce protein, they will reduce the number of fruits, they will reduce the ferment so you damage the product.

So the way out is not by going down; the way out is by going up which is exactly what we are doing with this new strategy with a result we know. So it's not a dream. We know that we have some success.

The question after in term of promotion or pressure or economic situation is do we think that France will be the same than Spain? Spain is very different. If you look at the price gap between the brand and the private label, it's 200%. France the average is 120%. Totally different. And the margin in France was already less, much more less than in Spain so the impact is less whatever the situation will be.

Having said that, the idea for us is to, let's say, reduce costs, not of what we put behind the product, meaning advertising, promotion, digital, increasing sales force, but to reduce the cost we have in the, let's say, functional jobs around, just to support brands because we continue to think



that we can really animate these brands and having success with these brands. And you will see ,and difference between you and me is that I traveled more perhaps in the division of Danone, but we have growth plan everywhere.

And I leverage your question also to explain the bonus system of Danone because we changed a little bit. We were focusing people on different items. And this year we asked all our general managers so at least for 70% to focus on topline growth. And our financial team will take care of the rest to be sure we are not doing stupid things because we have to control everything. But in term of management, the mindset of Danone is switching to the topline which is exactly the same for the emerging countries because the main difficulty for us is to manage people declining and manage people flying. They are part of the same Company. So we need the right KPI to manage them and the right KPI is topline growth because you improve the margin by growing the topline with better product, not by pushing up the price. And if you do promotion it's because you need more volume because of your factory, because of many things. So that's the way we are going to deal.

Pierre-Andre Terisse - *Danone SA - CFO*

China, not to make too long answer, two things. A real help in our performance in 2012 has been the re-launch of Dumex, what we call the Red House. And this clearly has been taking market share away from competitors. So I think what people are mentioning is that. There is two figures I would like to give you which illustrate that. We have grown in Q4, as we have in Q3 and Q2 and the year, we have grown single digit in China in volume. We have grown double digit in value. So there is absolutely no promotional or price cutting to be read in these figures as you understand.

Franck Riboud - *Danone SA - CEO*

And we will improve the mix in 2013 with new product.

Pierre-Andre Terisse - *Danone SA - CFO*

Next question, maybe in the room or we take from the phone then.

Operator

From Warren Ackerman of Societe Generale. Please go ahead.

Warren Ackerman - *Societe Generale - Analyst*

Morning guys. It's Warren Ackerman here at SG. A couple of questions. The first one is for Pierre Andre. Can I just check the phasing of exceptional charges for 2013 and 2014 from the European restructuring program? I'm just wondering what those impairments you talked about were. You said small businesses in 2012, I think that was about EUR100mln, could that repeat in 2013. And is there any other exceptionals on top of those? So the question really is what is the fully-loaded exceptionals for 2013 and 2014 and how should we think about the phasing of those charges.

And then a second one is, I was just wondering whether we could just discuss the Actimel brand. It's your second biggest brand after Activia. It's the brand that in St. Petersburg you mentioned was seen by some European consumers as being quite artificial. And I was interested, Franck, in hearing that you were seeing Firminich you talk about natural. I was just wondering two, three years down the line what are your thoughts about that brand, how you'd turn that brand around, how you reposition Actimel to try and get it to grow. I know it's growing in Russia but not in many other markets.

And then the final one is just on France. I think you said at the beginning of your speech France was actually the best-performing country in 2012. I'm just wondering whether you saw any change in trend in Q4 in France given the recent budget and what are you budgeting for France in 2013 in terms of topline growth and margins. Thank you.



Pierre-Andre Terisse - *Danone SA - CFO*

Okay I'll take the first one and I'll pass then the mic to Franck for Actimel. On the exceptional charges, so first about 2012 and the impairments. This is about -- the biggest part of it, this is about our discontinuation of the fruit operation, of our JV with Chiquita which we announced, I believe, some months ago and which we have provided for in the accounts. There are some small impairments as well in some Water operations in difficult environments such as Middle East but which are unlikely to repeat. So to take your questions in fact globally about the impairments, no, I don't expect that this is going to repeat next year.

On the phasing of the expenses, well, I will say that most of it is in 2013. I don't expect to have additional provision to be taken in 2014, at least not for any significant amounts given that we have most of the savings which are covered by this to-be-passed provision or this estimate of provision. Franck?

Franck Riboud - *Danone SA - CEO*

Yes. On Actimel I will be short because we are going to relaunch Actimel, adapting ourselves to, especially in Europe, the regulation in term of advertising. So there is room to do things. So we are going to change a little bit the formula to adapt ourselves to claim what we want to claim. On top of that, Actimel is -- not only Actimel but all the fresh dairy where we are exposed to Europe it's less growing or even going down. But it's true that in emerging countries, [but quite all of them where Actimel is, we are growing, including Brazil, including Russia. And we have also project to use the capacity we can have in different factories to launch new product, perhaps totally different, but to have new product proposition for the consumer. So that will be -- that will take time, but that will be fixed.

And honestly I think we achieved the level of sales with what I was calling the high consumer or the heavy consumer. We still have a very, very strong heavy consumer target group on Actimel. We have to reactivate, especially through digital. So we will change totally the mix of Actimel.

Talking about France, I don't know if it is much more better but it's less bad than some other South European country. And in term of topline what we expect, not only from France but as I said I don't expect and I don't want to ask to people of the European countries to switch to plus 10%. It's a whole story and I'm not sure this story will come back any more. I don't think we will grow up in France or in Spain or in Belgium or in Italy or in Portugal plus 10%, plus 8%. We will find product growing like this. As I told you Salvetat is growing 20%. It's a sparkling water in France. Veloute is growing 20%. So we have example within France which show us that we can perhaps expect to grow or let's say to be in the range between minus 1%, plus 3%, something like this. Don't ask me when but we know it's possible.

Now if we do that we will leverage incredibly strongly the emerging countries. And the equation we present to you, we will continue to switch the equation between emerging country and major country, but not by letting go down the major countries. Just by accelerating the emerging and doing our job in the major countries.

On top of that I think we can imagine to gain market share. If we are suffering, some other players are much more suffering than us in our categories in Europe. So the idea is and the good news is that ideas are no more coming from Europe. Ideas are coming from the rest of the world. The best practices we have in the emerging countries in term of product execution are now coming to Europe. The Aquadrinks are not coming from Europe, they are coming from Argentina or Brazil or countries like this. The new packaging of Badoit and if you look at the new packaging of FontVella in Spain, it's coming from Argentina.

So this rollout is going to change also and that's the reason why the idea for us, step by step, is to bring back, not only France -- and France will participate to that -- but Europe between minus 2%, plus 5% something like this. And if it works -- you have the example of the Water division. The Water division is exactly in that situation. And we grow double digit two year in a row. So that's the idea. Now I will not develop all the plan we have.



Warren Ackerman - *Societe Generale - Analyst*

Quickly clarify, just with Pierre Andre, just going back to the restructuring question again. So just from a modeling point of view, should we be modeling EUR500m of exceptionals in 2013 -- I think you said a two- to three-year payback on the EUR200m of cost savings -- and would it be true to say most of that is cash?

Pierre-Andre Terisse - *Danone SA - CFO*

Yes. I have no -- I would not see any significant mistake in your analysis.

Warren Ackerman - *Societe Generale - Analyst*

Okay. Thank you, guys.

Pierre-Andre Terisse - *Danone SA - CFO*

Thanks to you.

Operator

We will now take our next question from David Hayes of Nomura. Please go ahead.

David Hayes - *Nomura International - Analyst*

Good morning, gentlemen. Just two areas from me. Firstly on the just following up on that US discussion, could you just confirm, you made the point about the concerns some people have had about the price point for Greek. Can you confirm over the last two or three months if you've seen that Greek price point generally hold?

And then coming back to your capacity limitation point, can you give us a little bit more details or as to how the capacity comes on line for 2013 and therefore that volume constraint basically improves?

And then the second question from me is on the cost savings. Obviously a bit more detail today about the EUR200m very focused on admin, support functions. I just wonder whether you can talk about whether there is a review taking place on the operational side in Europe, whether there is opportunity you think in the future of cost efficiencies by plant rationalization, distribution changes, etc. Thank you very much.

Pierre-Andre Terisse - *Danone SA - CFO*

Thanks David. So I'll take the second first on the cost savings to say that what we are going ahead today in terms of cost saving is, a, the vast majority of the EUR200m target and b, concerns very essentially organization in Europe and therefore head offices more than anything else. There is no operation in it and we don't believe there has to be operation in it because our diagnosis is that we have global cost issue in Europe given the inflation, the difficulty to pass price increase to the consumer and the overall weakness of the economy. Our diagnosis is that we have the whole issue of organization which we want to simplify and make more agile. We don't believe we have an overall question or issue of capacity. There's been no drop of volume in France; there's been no drop of volume in the UK. It has been -- in many countries capacities continue to be utilized very well and this is true in all businesses. There may be capacity issues to be dealt with in some countries and on a local basis but certainly not at a European level.



So don't expect us as part of this EUR200m objective to come with things related to any -- Franck reminds me, which is obviously important, that this is all coming on top of the productivity which we regenerate year after year which used to be, long time ago now, at levels of EUR300m, and which we have been able to step up significantly since, if I remember well, 2009, going gradually to EUR500m. And this year I think specifically high number of EUR589m, but the EUR500m plus is basically a good benchmark of what we can repeat year after year and therefore in 2013. This is obviously completely apart from the topic we have been discussing at the beginning of your question.

US, price holds basically. There's no pressure on price and this is very consistent with the fact that there is a lack of capacity. There is a lack of capacity at our end. There is a lack of capacity at the end of some of our competitors. As you know, capacity are being installed but as they are being installed the demand continue to expand. And therefore we continue to be in an equation where we are building capacity to match the demand which keeps increasing.

With respect to our capacity there's no precise date. We have several tranches which are going to increase capacity progressively as we move into the year. It's not like last year where we had a big focus at the end of December. This year there's going to be several ones helping us to progressively ramp up.

It's obvious that at some stage there may be some more competition on the pricing and we do expect that. We don't believe there's going to be no competition on pricing forever in the Greek. But we don't believe either -- this is something I have explained several times -- that there will be a huge price war which will be destroying the profitability of everyone. The profitability of the US market is a profitability of a nationwide growing market and it's, on the contrary, increasing year after year to reasonable levels. So I hope it answer your question.

David Hayes - *Nomura International - Analyst*

Yes, just two follow ups on that. Just on the Greek side, with the new capacity coming online and with that in-house, is it fair to assume that the mix is starting to improve as well on the Greek product range as you bring in new products?

Pierre-Andre Terisse - *Danone SA - CFO*

The what?

David Hayes - *Nomura International - Analyst*

The mix. Sorry, is the mix starting to improve as well on the Greek side as you've got now in-house capacity, more flexibility in that sense on new innovation.

And then on the cost side, just wonder whether you can confirm in terms of raw materials, you mentioned 6% inflation in 2012, whether you can give us a range for that equivalent in 2013? Thank you.

Pierre-Andre Terisse - *Danone SA - CFO*

Yes, for 2013 we expect low to mid inflation versus 6% this year and we expect cost saving to be closer to EUR500m.

The other part of your question? Yes, on the Greek, indeed the fact that we have more capacity in-house is indeed helping, but as I said and I repeat, the demand is increasing and therefore we keep using external capacity as we need it. So it's helping but it's really marginal.

David Hayes - *Nomura International - Analyst*

Okay. Thank you very much.



Pierre-Andre Terisse - *Danone SA - CFO*

Thank you, David. Next question? No? One last from the floor?

Operator

The next question Celine Pannuti of JP Morgan. Please go ahead.

Celine Pannuti - *JP Morgan - Analyst*

Yes, good morning. I have a few questions. The first one is on Europe. We have seen a worsening trend in Q4 versus Q3. Could you elaborate in which divisions we've seen that. And could you give us an update on the situation in Spain and Italy in terms of like-for-like decline and what has been your pricing initiative? I think at the Q3 conference call you said that you were starting to look at your price point. Can you give us an outlook for what to expect in the coming quarters in Southern Europe.

My second question was on Water. Should we be looking at double digit as a sustainable like-for-like growth?

And finally on your equation for 2013, can you give us a bit of guidance on how to balance H1 versus H2? And when you talk about modest EPS growth should we look at low single digit as modest? Thank you.

Pierre-Andre Terisse - *Danone SA - CFO*

Look at what? Sorry?

Celine Pannuti - *JP Morgan - Analyst*

Low single digit, is that modest?

Pierre-Andre Terisse - *Danone SA - CFO*

More or less yes. Modest is modest. It's clearly not mid single, neither double. So yes. Another term would be in fact a low single digit, you're right.

So several things. On Europe I think you're referring to one of the chart of the presentation which shows that we have minus 5% versus minus 4% in Q3. As I said during the presentation, this is mainly due to the comps in Water. A significant part of the 23% of last year performance in Q4 was due to Europe and therefore the base of comparison was very high. If you take in particular what is of interest to you, which are the trends in Dairy, they are very much in line, Q3 to Q4 in all countries volume wise. And there is a big negative pricing in Spain as we have indeed, as you mentioned, started changing, adjusting the price points.

The result of that are going to take a bit of time to be seen. We expect to have gradually more visibility on this in Q1 and Q2. I think at the end of Q2 we'll have more visibility. Before, it's going to be difficult again because we have significant unbalance in the base of comparison which makes the reading difficult. For the moment what we see is the positive reaction, in particular on some products in which we have changed specifically price points consumers react well, but this is in an environment which remain extremely shaky. So to make it short, we continue doing what we had planned to do. We don't see any -- we see reactions which are pretty positive, but we need more time to be fully reassured about Spain.

And I think that's all.



Celine Pannuti - *JP Morgan - Analyst*

And my --

Pierre-Andre Terisse - *Danone SA - CFO*

No, no, you had the question about the balance H1 and H2.

Celine Pannuti - *JP Morgan - Analyst*

And Water.

Pierre-Andre Terisse - *Danone SA - CFO*

I said Q1 is going to be clearly tougher in terms of comps. You see that simply when you look at our base in 2012 with Q1 being in excess of 7% I remember well when Q2, 3, 4 had been at 5%. So Q1 is going to be more difficult. For the rest of the year -- apart from weather condition in Water but it's always very difficult to predict -- no reason to see unbalances.

For the margin there is an unbalance factor which comes to the fact that in H1 we should essentially see the same trend as the one we have seen in 2012, so closer to the minus 50. And we should see the cost saving coming from H2 and therefore H2 is going to be better in terms of margins than H1. Plus, as Franck reminds me -- I'm too financial from time to time -- there's a lot of innovations coming which are clearly going to help as well from these standpoints.

Celine Pannuti - *JP Morgan - Analyst*

Thank you. Just on Water, my question was whether double digit growth which you did in the past couple of years is now the good run rate given the balance, regional balance and innovation you are bringing in Europe?

Pierre-Andre Terisse - *Danone SA - CFO*

I'm sorry, Celine, I didn't understand the beginning of your question.

Celine Pannuti - *JP Morgan - Analyst*

Double digit, like for like in Waters which you did in the past couple of years, is that something we should be looking at given the balance of emerging markets and the new innovation in Europe?

Pierre-Andre Terisse - *Danone SA - CFO*

It's on the high end. What I said last year and I think is still valid is that Water has an underlying pace of growth of 7% to 8%. We can go up to 10% as we have done last year, but I think 7% or 8% is a better proxy for the underlying growth of the business.

Celine Pannuti - *JP Morgan - Analyst*

All right. Thank you so much.



Pierre-Andre Terisse - *Danone SA - CFO*

Okay. We'll just take a very last one from the phone.

Operator

We have a question now from Robert Dickinson of Citi. Please go ahead.

Robert Dickinson - *Citi Investment Research - Analyst*

Good morning. It's Robert Dickinson from Citi. Just a couple of questions please. The first one is on your comment about returning to sustainable profitable growth in 2014. Can I just clarify that that means that you expect margins to start expanding again from 2014 onwards?

And the second question is

Pierre-Andre Terisse - *Danone SA - CFO*

Yes to the first.

Robert Dickinson - *Citi Investment Research - Analyst*

Launches. The second question is around the launch of Souvenaid. I realize it's early days but could you provide any feedback on the initial launch and success for this product, please.

Franck Riboud - *Danone SA - CEO*

I will answer on Souvenaid. As you know we decided to launch Souvenaid very, very, very slowly. Means we need the agreement of not only the health community, but much more important of the families suffering or the communities suffering from this disease. And in some countries we have to go slow because we want to be reimbursed. So we can't promote also otherwise we are not legally correct. So it's a very slow process, doing quite well but not impacting, by the time being, the division that we will extend to two or three new countries just now. And it's a real in-process situation; nothing to really comment.

Where we are it's good, but we are not booming we want to be accepted by the community really suffering from the disease. So we don't want to just advertise and launch a product as a yoghurt. It's clearly a serious product so we have to build the loyalty and the seriousness of the product, which is a long process. But there are so many products about Alzheimer going up and failing because they don't have the support of families and communities. And we prefer to take this process to launch, even if it is much more slower.

Pierre-Andre Terisse - *Danone SA - CFO*

And I'll just add the last comment about profitable growth which I answered very quickly. Our definition of profitable growth is indeed margin being up. So what we expect and target is for margins to be gradually stabilized with all the innovation and topline we are talking about in Europe and at the same time being helped by the effect of the cost saving which are going to impact, for the majority of it, 2014. So that's indeed a good understanding from your side.

Thank you all. We'll end up here. Thank you very much for those who have made the effort to come into this room and we look forward to seeing you or talking to you on the road. Thank you. Bye, bye.



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