FINAL TRANSCRIPT

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PRESENTATION

Emmanuel Faber - *Groupe Danone - Co-COO*

Okay good morning everybody, thank you for joining this meeting. We are here to discuss our first half results for 2008. There has been a press release issued this morning and you now have on your table our full presentations of this period.

It's been quite a hectic first half for Danone, an incredibly volatile environment, with -- even within the period some changes, [hockey] sticks in our markets, in our environment, which -- or in which hopefully we've been able to adjust our business model and continue the growth story of Danone.

I think the -- in a nutshell, the management team is extremely pleased with the performance of Danone on this first half. We have been reported -- reporting two very solid quarters of growth. The second quarter at 8% is a very strong encouragement for us and good sign that we will be well into our top line target for the full year, 8% to 10%.

And we've been able to report margins, which are in advance of the progression that we had targeted for the first half and that has led us, as you know, to increase and raise our target for the full year from the minimum 30 basis points that we have been discussing with you so far, to now a range of 40 bps to 50 bps.

All of this should allow us to deliver what I would personally call a rock bottom 15% EPS growth minimum for the year. And through the questions today we'll be able to discuss that further.

Some of the other elements, I think that we will focus on going forward in -- during this year will be our free cash flow. You know that Danone has been focusing a lot of our management attention on free cash flow. For several years now, we have a unique cash flow model with a negative cash conversion cycle and we intend to make sure that we bring our Numico friends and businesses into the same model. That takes time.

We are doing that as we speak and hopefully we'll be also able to deliver a cash flow number at the end of this year, which will be above our initial expectations.

All of this I think happened in a period where Danone has gone through a major transformation, one year ago and compared to what it is today. The integration of Numico is doing great. We'll come back to that.

I would finish these opening comments by saying that during the last ten years of tenure of the current management team, we've been very focused on improving our return on invested capital year after year. We took it somewhere about 6% or 7% ten years ago, brought it to more than 16% last year. And obviously with the Numico acquisition, we have now dropped below 10%.

This is an area and will be a continued area of focus. And the second half of this year will be the starting point of the same agenda to bring again our ROIC up to create and make sure that we have a comfortable margin between our WACC and our ROIC, probably around 100 basis point improvement year after year from this low point today.

So, this is on the agenda for the future. Let me share with you the details of our performance for the first half of the year and second quarter. I think I'm not going to comment in detail those numbers. We'll come back to that and if you have questions, we'll be happy to take them.

The 9.6% like for like growth is obviously, as I said, a very comfortable advance on the first half of the year towards our full year guidance. Trading operating income has grown 12%, delivering 35 bps in trading operating margin on a like for like basis. With, in total, an underlying EPS of 16.6% for the first half, which again for us is a good sign of confidence, or gives us confidence on our ability to deliver our full year rock bottom 15%.

Free cash flow is up EUR571 million, compared to pro forma, and we will discuss this. This is an increase. It's not exactly where we'd like it to be. So, we're working on this. And again as I said, I think the full year number will be ahead of our initial expectations.

Nothing more to say about our Q2 overall number in terms of sales growth on the next slide, page four; 8% growth on the Q2. This has been supported and I think probably this chart one year ago would have been the most important to discuss with you.

So, I'm happy to report that the Numico integration is fantastic. I think for those of you who -- whom I met in Paris in April, I said that we were on the verge of finishing the integration process. We have now dismantled the integration team as of July 1st.

So, we -- in about six months we consider that we have now embedded all our plans into the operations of the Baby Food and the Medical Nutrition teams. They're working as normal teams within Danone now and will continue to deliver the synergies.

As you know, the cost synergies are slightly in advance of what we thought they would be on the first half, which again gives us a good level of confidence on our ability to deliver the EUR45 million of synergies -- cost synergies that we expect for 2008.

Beyond 2008, we're working on revenue synergies. We're not going to discuss these today. As I said, and I repeat that, during our Investor Day in November, there will be ample opportunities to discuss those. Only thing I can say is the teams are working on this as we speak. And we have all reasons to be confidence on our ability to deliver the EUR120 million of synergies that we've been putting in our plans and discussed with you in the past for 2011 horizon.

From a management standpoint and organization, this integration has been very smooth. It's been incredible from, I would, say a momentum and cultural standpoint. How much the Danone team on one side and the Numico teams have been able to find common ground to build further the business of Baby Food, and actually as well Medical Nutrition. This has been true in many, many areas of the business. And we are pleased to confirm and reconfirm that the organization is now all set.

We had to regret less than ten people in managers departure, which for an integration of that size for us is well below what we had expected to be and we were prepared to face.

So overall, it is an extremely satisfying position so far in terms of the integration. And this is obviously shown and backed by the strong business results that the Baby Food division and Medical Nutrition divisions of Danone are currently delivering.

A couple of slides just as background and I won't go into any detail on this; it's just to -- in those times of volatile environment changes in all the places, just to remind you very quickly a few of the fundamentals about the Danone model.

On the left side, the Danone model really relies on the fact that we have focused our business on the food categories that grows fastest in the world. By definition, we believe that this will allow us to deliver a superior growth compared to any other large food company in the world just because of that, and provided we manage those categories in a manner, which from a competitive standpoint makes sense and delivers more than our competition.

Second, we have a diversified geographical portfolio. Yes, we are very focused on four businesses, but we have a pretty wide diversified portfolio. As you know, and we will discuss this today, France is still 15% of our total sales and when France is really doing poorly in terms of business, that impacts our numbers. But that does not prevent, and we've said that in the past, I repeat this; that does not, and will not, prevent us from reaching our top line growth targets in total.

And one of the reasons for this is on the right side of this chart. You know we discussed new frontiers as being five selected countries in which we would accelerate our capital expenditure and our business a few years ago. The list of these countries is here. And you can see that on the Q2, they have continued to grow very fast. And we have added two other geographies to this list as examples, Argentina and Brazil. Overall, we have a very strong Latin American growth currently.

Second slide about health; you know that we've been -- the focus is -- we believe that we have superior growth, because of the categories; that those categories we have chosen, because they have inherently a link to health. We believe health will be a continued and increasing concern, either in developing or developed countries.

We believe that health creates a very different pattern of consumption and bonding to the brand and the product than any other food product. When you are taking food, not only because it's tasty and affordable, but because it brings health to your body, you are on a program. It is not something that you decide to buy on an impulse basis. You buy Activia. You buy Actimel. You buy Danacol, because you are on a program. So, we will discuss this later, but health drives penetration and drives frequency and, therefore, loyalty to the brand.

We believe that health is a global issue, public health and private. And we are absolutely determined to ride this wave and change the way we work including with NGOs, health, public authorities and our consumers to make sure that Danone continues to be uniquely placed to seize this health opportunity.

A good example of what it creates in the very short term is we have 100% health portfolio compared to any other food category or company, sorry. Entirely our food products now -- our products are driven by health. The reason people buy our products, any of our products, now is related to the health benefit that it brings compared to other opportunities or substitutes that they could have.

Turning to the numbers, H1; well, you can see that the growth compared to our reported H1 2007 is 18%, one eight. Half of that is linked to the pro forma restatement with our new scope of business. And the other half is basically the like for like growth, which has been 2.5% volume and a very solid 7% value.

Let me reassess that this means that we believe, and we are very confident now, in our ability to deliver our full year guidance, which we have summarized on this chart and that, again, we will be discussing later.

Let me start by looking into our various businesses, to start with, our Fresh Dairy operations. The Q2 has continued to be very strong, 8.7% growth like for like. This is on the back of a very solid 11.2% that you can see here on -- in the Q2 2007.

As you know, it's been entirely driven by value, with France being strongly negative, in terms of volumes, and our volumes outside of France being very slightly positive. And I'll discuss this further.

Blockbusters have continued to significantly outperform our average sales and volume growth in the division. And here is what they have delivered on the Q2 of this year.

Activia's been growing 26%. And this is like for like sales value growth, riding the benefit -- the transit digestive benefit. Actimel, which is about immunity, has been growing 8%, like for like. Danonino, which is about strong bones and growth for kids, growing 6%. Vitalinea, [it suffer]. I think we shared some of that with you and we are addressing these points. This is our weight management product. And Danacol has registered very strong growth of 33% on a like for like basis and that's a cardiovascular product.

If I focus briefly on Activia, Activia sales growth 26%, as I said, for the Q2. In terms of volume, we are talking about 13% growth. And we have flagged here our French performance for Activia, which has been basically 0% in terms of volume growth and 10% in terms of sales growth. So, you can see that, even in France in the environment that we have been through, Activia has been able to sustain the 0% or positive volume growth.

We have highlighted the volume growth in a selected number of countries around the world for Activia in the Q2. There are five countries in Europe and then four or five outside of Europe.

You can see from the numbers which, for those countries, represent about 50% of Activia sales number. There is not like one country, which contributes to the overall growth of Activia. It comes from many, many countries, where the brand continues to grow quite healthily. And I remind you that here, we're talking about volume growth. All of these numbers are volume growth.

France, the [total of chart] in France; well, you probably remember when we met in April I was probably less pessimistic about France that we've had to be. And in late April we didn't have the consumer confidence index yet. Consumer confidence index had dropped four points in May, four points in June to hit record lows.

I have to say that we follow consumer confidence on a worldwide basis, with a regular monthly study that covers 300,000 consumers around the world. Overall, the confidence is declining significantly, even in some emerging markets. But out of, I think, 48 countries that we follow, France is 44th in terms of ranking. So, our [friends] in France, are pretty pessimistic and they show that in their shopping and consuming behaviors.

This has obviously been in the context where in France, other factors have made our life a bit complicated for the first half of year. First of all, there was a change in the regulation. And the law has meant that even though our negotiations have gone pretty well and quite fast with our retailers in the initial part of the year, several issues of negotiations have been reopened by the fact that (technical difficulty), which is now in place.

So, it has meant that our relationship with our retailers has not been very easy during this period of time, where none of them have the same view as to how we should deal with the new legal advice.

The second point is that the hypermarkets, such as (technical difficulty) we are over (technical difficulty) market, particularly to [hard discount on shop can be played. We've (technical difficulty) playing the role of (technical difficulty) to a large extent.

I have to say that we have been very quickly gaining shares -- several points of market share in hard discount, which really shows for us the strength and the relevance of our product offering, on top of what the hard discounters proposed to their customers, in terms of their own private label and low price range.

But obviously we -- the predominant format is still the hypermarkets and supermarkets. And, therefore, the performance of this channel has affected negatively our own sales.

This has led, I'm talking only Dairy here, to a decline in sales and volume growth for the second quarter of the year of 6.4% in sales and 15% in volume. And this 15% is heavily skewed towards the back end of the second quarter.

Outside of France in Dairy, well, markets show resilience, I would say overall, despite the very strong price increases that we transferred to our consumers and customers, slightly positive volumes.

Are we satisfied with this? The answer is no. But we still believe that it is in the range that we can manage. And I will go back to how we want to manage this going forward in the second half. Particularly Eastern Europe, Latin America, Asia have continued to have single-digit volume growth with, however, in those markets, some distinct countries where we have seen softening of consumption patterns.

Market shares overall, we can say that we have been able to hold, or increase, our market shares on a global basis with 16 countries, if I only take the 25 top countries where we operate, 16 countries we've improved our market share. Three countries we've lost more than one point of market share during the second quarter of the year.

I can say that some of them have been managed losses when we have been focusing ourselves on finishing the execution of our price increase, as opposed to fighting on promotions. Particularly, and even in France, one thing that you have to have in mind is, we have been quite low in promotion activity on the first half.

And actually, our market share of promotion is much lower than our standard market share on the first half of the year in France, and in a selected number of European countries. We expect to reverse this trend, and I will come back to that with a number of promotion plans that we have for the second half.

Two examples of what will build the future beyond the current market where we operate, Chile and Egypt. We started Egypt through a brown field in 2005. It has been delivering great growth in the first half of this year. We now have 26% market share, co-leading the market now in Egypt after only three years, or two years and a half, of presence in this country.

Chile would be another example. We entered only one year ago. And we already have grown our market share to nearly 20% as we see. I could speak about Columbia. I could speak about Thailand, a couple of others. I'm just telling this because this is the way we manage our overall portfolio. We are constantly opening new countries. Two years, three years from now we will discuss them as part of the emerging countries that bring the growth of today.

So, that program is continuing, and it is costly in terms of margin, as you all know. We have -- when we open these new countries, for a couple of years, we operate at breakeven and gradually we bring the margin to where our blockbusters allow us to bring it, which is well into the average of the Group. But it takes time. And we have chosen, consciously, to continue to invest despite the difficult environment that we face, because we know that this will be the growth of 2010, 2011 and 2012.

Let me spend a few minutes with you on, I think, what is a very important aspect of sharing with you how we manage our Dairy operation.

We do not take lightly the consumption changes and volatility that we see in our markets for at least the last six months and the acceleration of the last three months. So, what I will share with you is not what we intend to do from a tactical basis, to work around and make sure that we continue to grow. I'm going to share with you insights on how, strategically, we intend to continue to adjust and build our models in these circumstances.

What you have to understand is this is not tactical. This is strategic, for many reasons. One is the recipes and some of the examples I'm going to use here are things that we are researching, testing, executing, rolling out, sometimes for several years, including in emerging markets, and even in Bangladesh. We've been learning about new ways of addressing the needs for health of our consumers, with completely different business models.

Second, we are a focused company, and as you know, we even focus on big brands. So, if we transform the way we manage Activia, or Actimel, or Fortimel, or Bonafont, we -- certainly, we have the leverage to transform the company on what is 20%, 25%, 30% or 40% of our business.

So, when we discuss the idea of extending or changing or adapting our business models, we do this with a view that it will be scaled up and rolled out in a manner that ultimately will transform the business.

So, let me go quickly into this. One of the clear issues that we have is that, for the Dairy category, and particularly for the Danone brand, there is a perceived price, and that -- in the mind of the consumers, which is actually higher than what it is on average. But the perception of price --pricing and premium is higher than what it is in reality.

And second, we have to improve the perceived value, and actually, the fundamental value in our product.

The recipes for this, you have a few of them, which I will discuss the first two in terms of perceived price. But you have to know that, and I won't go back on this at this stage, we -- to make sure that we were able to adjust and make our products even more accessible to consumers, we have accelerated our productivity program to a tune where we believe that we will be delivering significant room for maneuver to reinvest in the pricing of our products. So, we will discuss a few top line initiatives in terms of price. And we will also discuss a few initiatives in terms of value for our product.

First example, Ecopack; while this is not something new to us, perhaps you know that already a couple of years ago we designed a product based on our worldwide research in Poland, called Gratka. This product is sold. It looks like it's a Danone yogurt. It's actually a product that is priced at PLN59. So, it's about EUR0.15; EUR0.17; so, very cheap one, which delivers the health benefit of a yogurt, but is reengineered in terms of its formulation and contains partly vegetable plant protein on top of milk protein. And the way we ferment it, and we engineer the product ensures that it delivers the same benefit with actually a mix of fat, which is not only animal but also vegetable fat.

This product has been launched two years ago from zero. It is now 10% market share in Poland, which has allowed us to considerably reduce the gap, which was 10 points, with Jogobella, which is the market leader in Poland, to less than 5 points now. The way this product works in terms of its margin -- it's very confidential, so you can't see it any more for whatever reason. Can I have the screen back? Thank you, yes.

The gross margin of the product is lower, obviously, but it's a very simple one to engineer. It's got very limited fixed costs. There is no advertising. By definition, there is no promotion, because it's like a really low price. And the result is that it's a very profitable product, growing fast and where basically it's not tactical. It's not like when you downsize and increase your price per KG. We do not downsize. We decrease the price per KG. And we deliver the same superior health to our consumers.

So, it comes at -- the idea is how can we engineer an affordable, Danone quality health product, which is derived from our yogurt technology? This Gratka example of Poland, which we have never shared with anybody in particular, is currently being rolled out in other countries.

In the back, the lowest part of this chart, you will see that we will introduce in one or two months' time, it's currently being presented to the trade in France, an Ecopack, which is derived from, not exactly the same model, but goes in the same direction. But this Ecopack will be a six-part pack of 115 runs, at EUR0.99 in France. So, that's just one example of how we can re-engineer the formulation of our product to still bring the health benefits at an accessible level.

The second point is about price points. Price points, I think nobody really cared in developed markets, you know, a couple of years ago when we've been doing business in Asia, Latin America, South Africa for many years. We know that price points are essential, when food starts to become a constraint in terms of consumer spend. So, we are adjusting, even in developed countries now, our offer, to make sure that we work the full ladder of price pointing of the market.

This chart in the middle shows you that for Activia, we -- you take, [instance] in France, you have a single pot of Activia, EUR0.7 here, which is not price point strategically. The Yoplait product is at EUR0.8. Then you have a EUR4.99, which is the eight-pack. You have -- and you will have a 500g pot at EUR1.99.

We know from all our research in emerging countries that when consumers start to be looking at price points, you have to go with the price points in the market. So, we are currently looking at all our product range in the countries in which the volume growths are most of an issue, and particularly in France. We revisit the price pointing, and making sure that we are using all the range of the price points, and positioning our products on the right ones.

On the left part of this chart, you have another example, which is a Ecopack in Brazil, for example, which has produced a 50% uplift in volume. It's positioned at BRL0.99 and that's worked very well in only a matter of a few months.

On the right side, that's another thing that we do in emerging markets, and that we will do increasingly in also developed markets, which is to break the psychological and the price point on the pack itself.

This, in total, will be engineered in the course of the second half of this year. If I could clarify, or put a bit of light on how we see volumes for the second half, we have been slightly positive outside of France on the second quarter of this year.

We expect volumes overall to be positive in the second half of the year. We expect a gradual improvement of the volume situation, obviously. And Q3 and Q4 will be important and visible checkpoint in terms of volume growth, to show the road map that for next year will create the volume growth that we need, which is roughly mid single digit for Dairy, to support healthily our global 8% to 10% at Group level, top-line level.

So, let me repeat, next year, what we have in the program is a mid-single-digit growth for our Dairy business. Sorry, volume growth, yes, sorry, volume growth, to support the 8% to 10% like for like sales growth of the Group's equation. And we expect Q3 and Q4 to be clear checkpoints on the roadmap to achieve this.

Obviously, not all the markets will evolve at the same speed on this. Most of the emerging markets will be ahead of phase, and France will be trading back, and we are treating France as a specific situation, as we speak, with a stronger action.

Beyond this, and I won't discuss this now, but this is just the agenda for our Investor Day in November. We will discuss even more strategically the pipeline of innovation and the growth plans that we have for 2009 and beyond, I'm just talking here Dairy, which will address a number of opportunities that we concretely have for next year and beyond.

And again, I'm mentioning this, because we want to be ready in case some of the consumer spend attitude that we see changing nowadays are going to be sustainable. If these are sustainable changes, we've been working for a couple of years already on the recipes for success in those environments. And we are just making sure that the pipeline of innovation will be ready and will be tested in the markets, where we need to test them to ensure that we continue to deliver superior growth, even though the consumer spend environment would change in a number of countries.

This is why I'm talking about this today, because it's really at the heart at what we continue to do and obviously that doesn't show in the numbers everyday, but we continue to invest heavily in the future.

Very quickly, two other points that go into this transformation and how we manage this transformation.

We're increasingly using new media. And that's a good example that we run in Italy in this quarter, when we shifted from TV advertising to web advertising, just giving an uplift in Danacol sales, which is actually higher on the web than on the TV, for a fraction of the cost. So, we are exploring more and more these opportunities.

And again, the fact that we are working on health programs, and particularly Danacol, but Actimel could be the same and a number of others, is allowing Danone compared to many other food companies to be much more relevant in terms of our ability to use these new media. Particularly, because they are part of networks about health and science and foods on the web, which are endorsed, and which also work with key opinion leaders. And this is one, or a couple of, examples of how we work with AOL here.

We have the (inaudible) in Paris that endorses some of our programs and are able to create those on the web that allows our new communication strategy to develop.

I'm sorry I've been a bit long about what we do in Dairy. But we felt it was important to share with you, not only some of the quantified issues, but also how we continue to manage the transformation and the adaptation of our Dairy strategy to the current situation.

Second division, Water; well, I think most of what can be said is here on this page. We had a good volume performance. We are pleased with the volume performance of nearly -- or a bit more than 5%, which has been strongly offset by the mix.

And this is mix is entirely, due to the fact that, as I said in Paris a few weeks ago, this is the perfect storm situation in Europe and a number of -- or at least in France in water. And that has not helped, obviously, the overall volumes or value growth, sorry, of the category.

We -- the performance has been impacted by factors that I think you well know. The weather conditions have been very bad in a number of countries actually in the second quarter.

In France we had strikes that had created issues, including when we wanted to -- you know that we are one of the biggest container exporters from France by shipping them Volvic and Evian to a number of countries. Our sales in Japan had been short by a few millions, because of the strike in the French (inaudible) situation. We had strikes in Spain as well. We had strikes in Argentina. And there -- it was a challenging quarter and obviously you know about the stories on environment and we'll go back to this.

I think the second chart here is an interesting -- or gives an interesting reading of the geography of our performance.

If you -- you have Western Europe, 41% of our sales. Volume growth, I think this is last year's volume market growth, is that right?

Unidentified Company Representative

Yes.

Emmanuel Faber - *Groupe Danone - Co-COO*

So, that's 2007 market volume growth of 0%. So, this year it will be negative in Western Europe. Danone growth for the short term has been minus 5% in volume, and value, minus 1%.

Eastern Europe, driven by Poland and a number of other countries, 8% of our sales; significant volume growth and Danone growing faster both in volume and value than the market.

Latin America, on the left, 18% of our total sales; market growth in volume 5%; Danone growth 13% in volume, 23% in value.

And Asia, 29% of our total sales; market growth 11%; Danone volume growth 7%; Danone value growth 4%. This is impacted by the Japan issues that I just mentioned.

Our Indonesian business is growing incredibly well and continues to develop.

China is doing well as well and our beverage business in New Zealand and Australia is doing well as well.

I'll be very brief on page 26. I think you all know that. We are operating with very well established leading brands in water, and the majority of our portfolio is now mineral water. This is a portfolio in value terms. If that was volume, the picture would be much bigger with multi source being impacted by the aqua volumes overall, and absolutely focused on spring water as a whole.

We take the environmental issues of this category extremely seriously. We have been doing that in the past. We continue and we have accelerated this recently, including in terms of the corporate and the brand communication to our consumers on what basically mineral and spring water brings, which is health and stability of the composition and the mineral composition of the water.

I think you know most of the numbers which are here.

Just to clarify, on the first batch of bullet points here, 300 analyses per day for both brands, in terms of the composition -- mineral composition of water, brings an absolute certainty of the quality that we put in -- of the water that we put into the bottle, which is absolutely untouched by any process or human activity.

Second point in terms of environment, we have introduced this year 25% recycled PET in Evian and Volvic, which is a brand new approach. It has taken time for us to convince the authorities that we could use our PET for our bottles, and we intend to use more and more. We will increase that number in the coming years and the number of SKUs that will be using our PET. And as you know, we've been reducing and we continue to reduce our weight of our PET -- of our bottles overall.

Last point transportation; 70% now of Evian water is being transported by train, which is a multiple fraction of the CO_2 emission of what would be road, and -- which is here about a twentieth of what it is.

Essentially, what we say about our -- or what our consumers say about using our brands is that they are an alternative that for drinking water that brings naturality and health. The triggers that our consumers need to consume more of it is even a better understanding of the health as an alternative to other solutions, and a clear commitment on our side on the environmental issues linked to the business model.

I'd like to share with you very briefly two short films that would allow us to share on what I (inaudible). It's in French.

(Video playing).

Emmanuel Faber - *Groupe Danone - Co-COO*

First one.

(Video playing).

Emmanuel Faber - *Groupe Danone - Co-COO*

Okay. That will be also supported by other forms of communication. You have here [this] in France, again a quite clear and direct message about what mineral water brings in terms of alternative compared to other drinking solutions for our consumers.

The result of this is that this has reinforced our market share in a declining market overall in France in the short term. But you can see that from last year to this year, Evian has actually increased both its value and volume market share. And this is a trend that we will continue to drive in the future.

Outside of Western Europe, I don't think I will be very long. The growth is there, as you can see, continues. We are talking here about volume growth and we are extremely pleased by the performance of our brands in Mexico, Argentina, Indonesia and a couple of our other big markets.

Baby Nutrition, this is now the numbers part of the Numico story. The business continues to show a very strong growth, both volume and the ability to pass on prices to consumers. I won't comment further on this. I think that the numbers speak by themselves.

Just one word or just one [shout], we can go very quickly. I know there have been some concerns about competition and the way the Danone plus Numico teams were performing versus competition after the integration. You have a list of countries, which I think are pretty representative of the markets in which we operate.

Basically it says that our volume market share has been growing anywhere between zero and 4 points in Finland positive. Our biggest competitor in each of these markets have basically lost market share, except for Russia, which is a local competition and China, where also it's been a local competition. The market in China is growing so fast that we're growing slightly slower than the market against local competition.

This is just to reassure you that the guys on the ground at Danone are absolutely determined to beat competition as they've been at Bledina now for many years in France. And we'd like most of the countries to turn to the French situation from a market share standpoint, if that was possible. So, don't worry, we work hard.

One thing about China, just again an illustration of what I said earlier; we are going to introduce a new segment between the very high premium segment in which we play and the standard segment, which is essentially local players like Yashili and Yili.

There is a new segment in this huge price range here and this is an example of another price positioning that we develop. It's been started by local players and we will be entering this segment soon, which we believe is relevant to continue to grow the Chinese market. There will also be other countries in which we do that and we will discuss this in November.

Medical Nutrition continued very strong growth across the board literally, with the continuation of the very solid double digit growth track record that has been the case so far on the back of a very, very strong Q2 '07, 15.5% growth. So, this is the evidence that the model works well -- continues to work well despite the overall current situation.

And again, that the Danone teams have been able to welcome the Medical Nutrition activity in a way that has created already some support from even a commercial standpoint to develop this category further.

I think that's all we wanted to share other than a very quick update on Alzheimer. I know that Numico has been sharing with you in the past their progress towards finding a product that could fight Alzheimer disease. We have released a few days ago, and we will explain in one week from now in a symposium, where we are on this.

The situation is that we have now the results of the first phase of studies. Those results are promising. There are basically two tests that the products need to go through. One is a memory function test that has shown a significant effect; a very clear effect.

And the other one is the traditional test for Alzheimer diseases, which needs further -- is again a promising one, but needs clearly further evidence. So, we are entering into the second phase of study, which will immediately start with, I think, a confirmation that there is potential here.

The first test on memory is significant enough for what could have been a decision to launch a product, but we decided not to do it yet, particularly because this first test is not enough to obtain reinvestment. So, it could be an [H2] product and we'd like to go through the reinvestment route. So, we've launched already the reinvestment authorization process on the overall product offering. But we have refrained from developing a commercial version of the product just on the back of memory function improvement.

Having said that, this is a very promising update and again, I think we'll discuss this later when we meet in November.

I think I have nothing to say about our geography growth, other than to say that despite the French situation, Europe is growing at rates that we think are healthy, 4.5% and the rest of the world is where basically we make the difference.

A few words on raw materials; milk price, you could read this chart as some good news, or some relief. At least for us this chart means our assumptions were reasonably right. Still today, the milk prices that we take into account are -- or that we bear in the business, are still 20% higher than what they were in the Q2 '07.

There may be some relief on the back end of the year. Having said that, we also have to compensate for things where our focus has probably been less as good as it's been on milk, which is oil, which we did not expect to be where it is today when we overall started the year. So, one against the other will be probably balanced in terms of good or bad news for the second half. And that does not -- or I would say this balance is embedded in the guidance that we've given for the margin.

I will stop here. I'm sorry I've been long. I've been trying to give you as full as possible explanations on our top line situation. I would like to turn to the chairman of this meeting, Pierre-Andre to continue to tell you more about our results. Thank you.

Pierre-Andre Terisse - *Groupe Danone - CFO*

Okay. Thank you, Emmanuel. We now go through the financial stuff of the company, starting with the operating income and margin, with the -- with an operating income, which has amounted to EUR1120 million this semester, being the result of two factors; one negative non-current item of minus EUR57 million and a trading operating income of EUR1.177 billion, resulting in the margin of 15.30%.

The EUR57 million relates principally to legal provisions and litigations on the one hand and on the other, to capital lost -- or capital loss on the disposals of our small water business in France

Going to the development of the margin; so we're starting with 13.67% of reporting number last year, we have first an effect of scope of consolidation, which is mainly represented by the first time consolidation of Numico, as well as the different accounting treatment for [OR], which has been reclassified from global consolidation to equity consolidation.

It includes as well some effects of other change of scope, in particular, acquisition in Japan and Chile.

Translation foreign exchange rate and country mix compensate each other, and are not very significant.

And then the bulk of the margin evolution of 35 basis points on a like for like basis stands in the input cost on the one hand, as has been explained and developed by Emmanuel. And on the other, operational performance, which includes number one the effect from the price increases we have passed to compensate for the input cost; number two, the synergies which we have extracted from the combination with Numico; and, number three, some additional efficiencies; this to reach a margin of 15.30%.

If you have a look at the changes of the margin by division and by area, there are three main factors explaining that.

The milk is one of them offset by the PET. The milk has been obviously a positive factor [with] in terms of geography, a positive factor compensating -- in Europe, sorry, compensating a slightly negative factor in the rest of the world, but overall a positive factor, as opposed to the PET -- the increase of costs of PET and the increase of costs of transportation, which has clearly impacted the margin of the Water division, and even more so, those countries which have an [NPT] in dollar, which are in Argentina, Mexico and Indonesia.

The second factor is obviously the synergies, which are displayed mainly on the Baby Nutrition and Medical Nutrition division, and mainly, of course, in Europe. And the last one is some improvement in efficiency, again mainly in Dairy and in Europe.

So, all of that translates into an increase of margin of 35 basis points.

If we now move to the net income from the operating income; on this table, you have on the left side the pro forma, in the middle the reported numbers from which we extract the non current items and get the underlying evolution of the operating income and net income.

On the current items -- on the non current items, sorry, I've already commented the EUR57 million. On the top of that, the main important -- the main element to outline is the EUR256 million of net income, non current from discontinued activities, which is basically the proceeds from the last -- the sale of the last part of the Biscuit division, which is a joint venture we had with Japanese on [Mikadu] in France. So, that has been done and completed.

If you now turn to the underlying evolutions, the facts to be noted are on the financial expenses, an improvement of EUR40 million, which is coming from -- for approximately half of it -- sorry, EUR40 million, which is coming from -- approximately half of it from an improvement in the level of debt, and for the other part of it from a mark to market effects on the reevaluation of some of our hedging instruments, the caps.

As you know, we have 80% of our debt which is protected against the rise of interest rates, and whenever this rise materializes, which has been the case for this semester; there is a mark to market on some of these instruments.

Income tax has amounted to EUR241 million, out of which EUR235 million are recurring. I'll come back on that in the coming slides.

Net income of affiliates reflects the sale of two participations last year, which we have in (inaudible) and Eden in HVB in Europe.

All that allowed us to get a net income of EUR779 million, which, for the part of the Group, stands at EUR701 million versus EUR606 million last year, which means an increase of approximately 16%.

One word about the tax rate, which has made some significant progress; this progress are on the back of equally some positive mix effects, and on the other hand, some reduction of tax rate, principally in Germany and Spain.

Can I -- okay, -- going forward, we do expect the tax rate for the coming months and year to be around 25%. And, therefore, continuing this trend which has been observed for the first half of 2008.

So, if we move from the net income to the EPS, you can see that we have an underlying net income of EUR701 million against the pro forma of EUR606 million, which means approximately 16% -- a bit less than 16% increase. We have an additional one point, which is contributed by the number of shares which has decreased on the back of the evolution of the coverage of stock options, to end up with fully diluted underling EPS which has increased by 16.6%.

One important note about that, the evolution of the EPS is at current, and not constant, currency, which implies that the 16.6% already covers some negative, which we have had from the evolution of the currency.

Free cash flow, one word about that, if you -- so we've delivered EUR550 million this semester to be compared to EUR571 million reported last semester. The reported number of last semester did not -- did including Wahaha, but did not include Numico and the financial charges.

If you restate for that, you would have a basis of comparison of EUR546 million, which means basically that the cash flow has increased very slightly, or remained stable.

As Emmanuel has mentioned, we are, in terms of cash flow from operations, now at we consider a lower point, which is a basis for an expansion, because we have the financial charges of the acquisition. And we are yet working on the leveraging of the cash flows of Numico. So, going forward, we very much expect this to improve and we are actually working on that.

Other than that, you have two effects which offset each other. One concerns the lever of capital expenditure, which has been lower than what we expect for the full year and what we had last year, which is, therefore, bringing positive news.

On the other hand, the change in the working capital reflects the fact that we have -- we had last year a significant loading ahead of the summer in the Water division because of spring, which was very favorable. We don't have at all this loading this year, and this has obviously impacted the working capital.

The result of that is free cash flow from operations of EUR550 million, which represents 7.2% of our sales.

Going forward in 2008, we expect this percentage of sales, this ratio to remain in the 7.8 -- in the 7%, sorry, to 8% of sales. And, in fact, we expect that to increase.

If we move to the cash flow statement of the Group, so we start with the free cash flow from operations, which I just commented. Investments in subsidiaries and affiliates for EUR62 million has been principally from purchase of shares of Numico, because we don't have yet the 100%, as you know; something below 0.5% of it. It has been as well the purchase of minority of our Water entity in Uruguay.

On the disposals side, the EUR170 million reflects the disposal of Biscuit, which we have completely during this quarter, net of the tax and fees, which we have paid for the whole of the acquisition, which was made last year.

Dividends is EUR677 million, which has, of course, weighted on the debt of the first semester, and will not do so in the second semester. And the net of all this has allowed us to reduce the net debt during the first semester by EUR240 million.

Looking at the financing, therefore, you've [heard], indeed, that reduction from EUR11.261 billion to EUR11.021 billion. This is including the reductions, which have been granted to our minority interest. Without it, the debt is in a level close to EUR8.3 billion. And these reductions have been revalued very slightly by EUR16 million.

One important element about the debt is that we have continued during the first semester to strengthen it. We've done mainly two things. One has been to fully repay the bridge loan, which had been taken for the acquisition of Numico. So, this is fully repaid now.

And to refinance that, we've done several bond issues, including some in euro, but also going to get some long-term financing from other markets, like Switzerland and Japan to diversify the debt. We now have a geography of -- sorry, a maturity of debt and a composition of debt, which we consider as being quite satisfactory. However, we are going to continue optimizing it and strengthening it in the coming months and quarters and, therefore, growing opportunistically on the market.

I terminate with the guidance, which has already been mentioned by Emmanuel. So, we confirm our guidance in terms of top line like for like growth of sales of 8% to 10%. And we believe what we have achieved in the first semester, and what we anticipate for the second puts us in very good condition to achieve that.

We have reviewed the EBIT margin in our guidance in consideration of the first semester, which we have achieved, from above 30 basis points to a range, which is now of 40 basis points to 50 basis points. And we reconfirm the target in terms of EPS growth as being of at least 15% for the full year.

This is the end of our presentation. I will be happy now to take questions and answers, coming from the room first. Is there any microphone? Please, maybe you can start?

QUESTIONS AND ANSWERS

Unidentified Audience Member

On Dairy first, one question, if I may. If milk prices or your cost base ease a little bit over the next, let's say, 18 months, what is then a possible scenario for that business? Will you perhaps make it more affordable again and bring down prices? Or will you use the extra margin to investment back into promotions and advertising, etc.?

And then a question on Water, if I may? Q3 in Western Europe is a big quarter. We're now nearly at the end of July. So, your thoughts on Western European (inaudible) --?

Emmanuel Faber - *Groupe Danone - Co-COO*

Do we have the mike? How does it work? Thank you.

On the milk, I think, frankly, I don't know yet. Our assumption today, and it looks like -- we have no reason to believe it is challenged, is that we intend to compensate with any upside in the milk situation the overall oil and other raw materials risk that we have. This is the position.

If there was a situation like the one we describe, I don't know. We adjust our spending on a country by country, and I would say then SKU by SKU basis, because in such a volatile consumer attitude, things can change from one month to the other, and certainly from two or three months from now, in countries where today we have no issues, or we think we have an issue and there won't be an issue anymore.

So, what we have designed is an overall program that I would say rain or shine in the second, and this is not an answer to the second point -- your second question. But the -- in the second half, we will deliver what is on the screen here.

We have no pre-designed plan on the way we will attribute any surplus from the savings, nor actually any surplus from the productivity programs that I have described. We will answer quite soon now in the preparation of 2009, and I guess that surpluses will be mostly devoted to building a very strong 2009 performance, as opposed to short term '08. But this is a very general attitude.

Pierre-Andre Terisse - *Groupe Danone - CFO*

And on Water, yes, I think it's fair to say that the weather we see so far in some of our geography is better than the one we had last year at the same time. It's -- we can say that we see part of that in the figures we have for the time being. This being said, we are not going to go further in detail.

Unidentified Audience Member

Hi, it's Warren Ackerman at the back, a couple of questions on France. Can we actually get a like for like number for the actual quarter? You told us Dairy volume was down 15%, but what about Water and Baby Nutrition?

And secondly, you also said that France was worsening as the quarter went on. Can you perhaps clarify that, or quantify that?

And then, lastly, on the regulatory situation, can you explain what exactly is happening in terms of the retail structure, and how you will reposition your business because of that? Thanks.

Pierre-Andre Terisse - *Groupe Danone - CFO*

On the first one, we won't give full figures on your questions.

This being said, you have (inaudible) for France, indeed, Water has been difficult, as we have said, in particular because of the poor weather this year to be compared to quite good weather last year, there is a difference in temperature in France, for instance. There has been a difference of two degrees between the weather this year and the weather last year, which is material at this time of the year. So it's been a like for like negative.

On the opposite, you've seen the evolution of market share on Baby Food, which, to me, reflects the evolution of our sales [some how].

On the second question, you want to [speak it]?

Emmanuel Faber - *Groupe Danone - Co-COO*

Yes, the second question is about the situation worsening, as I said, in the back end of the second half -- sorry, second quarter. I have nothing more to say than, April was better than May and June in terms of growth. What else can I say?

We -- the dynamics that we have now for the third quarter will, I think, deliver what we expect in total for the year. France will continue to be difficult for the balance of the year, no doubt. We won't be solving the situation of France by the end of this year. But this is embedded and, I think, well taken into whatever guidance we've given.

Warren Ackerman - *DKRW - Analyst*

But do you expect July to be down on June in France?

Emmanuel Faber - *Groupe Danone - Co-COO*

That looks like a very much current trading discussion. So, I won't comment on this one.

You wanted to have a word about regulations in France. So, the new law will be, I think, voted at the end of this month.

To make it in a nutshell, the situation, compared to where we were with the [Regulon], will be that the retailers will not have to justify compensations -- or business compensations in exchange for the back margins. So, we are back to the old times where basically they're asking for back margins. We say yes or no. If we say, yes, we pay, but we don't know what they do with it, to make it simple. We have been living with this environment for many years. I'm not sure how long this law will be in force. So, we take this with a bit of philosophy.

I think the concrete -- well no, the one point of difference probably with what the situation was before the [Regulon] is that in the meantime, privately labels have developed in a significant manner in certain food categories. And, therefore, today, there is probably less negotiation power for manufacturers in front of the trade, unless you have again a very strong brand.

For us today, the level of uncertainty is more on the cash flow side, because there is likely to be no particular -- or put it this way, we have a risk on the trade terms with the payment of these margins, which would be a couple of dozens of million euros in terms of cash flow, nothing that we feel terribly worried about. But it's certainly not going to improve the ability of France to help moving our cash flow in the right direction. So, to us the short term uncertainty is more on the trade terms and, therefore, the working capital situation.

Martin Dolan - *Execution - Analyst*

Yes, thank you. It's Martin Dolan from Execution. Three questions if I may. The first one is if we look at the 7% price inflation in the first half on your sales base, that would imply EUR560 million of recovery, yet the raw material increase you guided to was only EUR390 million and that's only on the first half. Do you risk raising the [OR] of the retailer has given at what looks like over recovery of raw materials?

Second the margins as reported by Numico for Baby and Clinical in the first half of 2007 are significantly higher than those supported by Danone. Could you give us some reconciliation there?

And thirdly, could you tell us exactly how much A&P was down in the first half?

Emmanuel Faber - *Groupe Danone - Co-COO*

Yes. On the first one, what is not volume is mix and price. So, the EUR560 million that you mentioned includes the mix, which has been significant in this quarter. When you see Activia growing 26% and our core range basically declining overall, there is clearly a strong mix effect.

So, in terms of pricing, there has been no change. And I can assure you that retailers and our selves were pretty clear on what the price increase program has been in -- over the last 12 months basically. And it's been negotiated one by one, SKU by SKU (inaudible). So, we have no room for maneuver unless we renegotiate with them to further increase prices beyond what we guided both then in terms of what we needed to do to cover our margin issue and what we shared with you, which is basically the EUR300 million that you've been discussing, no?

So, the rest beyond this recovery of -- which order of magnitude is exactly in line with what we have guided, the rest is coming from the mix which traditionally has been the case. And in the past, we've always had a couple of per cent in our organic growth coming from the mix.

Pierre-Andre Terisse - *Groupe Danone - CFO*

On the question of margins, if I understand well, you're asking -- you're saying that the margins we have here are different from the one you used at Numico. There are two elements of -- very clear elements of difference.

One is, of course, the fact that Baby Nutrition now includes Bledina. And the other one is the fact that, if I'm correct and maybe Robin can comment, Numico was publishing EBITA margins and we are publishing EBIT margins. These are the two main elements. Maybe Robin you want to add something?

Robin Jansen - *Groupe Danone - Director of IR*

No correct, the underlying data exactly the same. The only difference that you might see is, indeed, related to the fact that, of course, the non-allocated costs have been spread over Baby Food and Clinical Nutrition.

Unidentified Speaker

As well, yes.

Robin Jansen - *Groupe Danone - Director of IR*

Which Numico split out in the past.

And secondly, of course, if you start looking at the improvements and you deduct it from our current numbers, you get to a different, which is explained by a little bit of scope in terms of Numico selling its celiac business last year and, of course, some of the Baby Food businesses in Spain -- in France and Belgium. And on top of that, there's a little bit of currency. But the underlying numbers are exactly the same.

Pierre-Andre Terisse - *Groupe Danone - CFO*

And as for the A&P, the level we've seen during the first semester are extremely close to the level of last year in percentage of sales. There's no significant imbalance between the first semester of this year and what we expect to have for the second semester of next year.

If you go by country, of course, you have plus and minuses. France, we've been very clear on the fact that promos have been pushed to H2. On the opposite side, Italy has been quite aggressive on A&P, as we have seen with the web for a part, which has resulted by the way in volumes increasing from one quarter to the other.

Jeremy Fialko - *ABN Amro - Analyst*

It's Jeremy Fialko at ABN Amro, just got three quick questions. You referred to some dairy markets softening a bit. Can you just talk about which ones they were, as in the non-French market?

Secondly, could you just say what this EUR57 million legal provision is exactly related to?

And finally, can you talk a bit about the operating cash flow, about the EUR820 million was about EUR20 million down on the EUR840 million you reported last year? Can you just talk about some of the moving parts behind that number?

Pierre-Andre Terisse - *Groupe Danone - CFO*

Sorry can you repeat the last one?

Jeremy Fialko - *ABN Amro - Analyst*

The last one was on your operating cash flow --

Pierre-Andre Terisse - *Groupe Danone - CFO*

Yes.

Jeremy Fialko - *ABN Amro - Analyst*

Which was around EUR820 million I think versus EUR840 million last year. So, can you just talk about -- this is slide 47. Can you just talk about why is that number was down on last year?

Pierre-Andre Terisse - *Groupe Danone - CFO*

Okay. On the Dairy softening, we have -- I will mention two markets. One is the US, where we have seen clearly more aggressive competitions, a promotion driven by Yoplait. So, we continue to grow in a satisfactory manner, but I disagree that Yoplait has gone a bit more aggressive in terms of promotions.

Another one I could mention is Germany, where there has been an increased competition between retailers, which has resulted in some loss of volumes for us, which we think will be temporary.

On the other hand, you've got some markets, which are -- and that's why we cannot talk of consistent evolution and consistent move across all markets. You really have to see each market by market and to look at situations.

We have seen -- I mentioned Italy increasing its volume growth, so further increasing volumes from one quarter to the other, so from Q1 to Q2. We've seen Brazil, which was very close to no growth in the first quarter, which has increased both 5% growth in the second one. So, you have really plus and minuses.

Emmanuel Faber - *Groupe Danone - Co-COO*

Just -- sorry to add Jeremy on this, in terms of pure consumer spending I think Mexico would be an example of a country where we start seeing some change in the trend of consumer spend. The US would be another one. Beyond the competition, just really talking about consumer spend.

Jeremy Fialko - *ABN Amro - Analyst*

And then the question on the legals?

Pierre-Andre Terisse - *Groupe Danone - CFO*

Yes. Well legal provision, I'm not going to go further for obvious reasons, because -- well, we won't go further on that. Just know that out of the EUR57 million, you probably have something like 60%, which relates to it and the rest relates to the capital losses I've mentioned.

On the cash flow, what I've said is that if you take the EUR571 million, which is a reported number and you take into account the fact that you have within this number Wahaha and you don't have Numico, in fact, the EUR821 million will be -- will need to be compared to something close to EUR810 million as opposed to EUR840 million. And therefore, the cash flow from operations has been increasing.

It has not increased as fast as has increased the operating income, for very simple reasons, which is the leverage of the debt and the acquisition debt and the company we have acquired with that.

So, that's really for us the starting point. And, of course, this number will expand as we continue generating cash flow, repaying the debt, lowering the financial charges and expanding the operating margin. But, yes, as a starting point, it is positive if you take away the element of comparison.

Jeremy Fialko - *ABN Amro - Analyst*

So, just one follow up and it's a related follow up. Has your depreciation charge fallen significantly over the period? So on a like for like basis, would your EBITDA margins be also up by around 35 basis points?

Pierre-Andre Terisse - *Groupe Danone - CFO*

There's been no significant evolution on that side on the depreciation.

Jeff Stent - *Citigroup - Analyst*

Morning. I was just checking it was still morning. Jeff Stent here from Citi. Just a quick question on Spain, if you could talk us through what's happened in the second quarter, and whether you've maybe seen Vodafone style effects in Spain? Thanks.

Pierre-Andre Terisse - *Groupe Danone - CFO*

There's been no significant evolution in Spain between the first quarter and the second quarter overall in terms of all sales. However, within this no significant evolution, we've seen different factors. First of all, there's been, as you know, a strike in Spain, a strike of transportation national, which has lasted for two weeks and which has brought some negative elements.

There's been some (inaudible) evolution observed on the mood of the consumer. But on the other hand, our market share is resisting pretty well. The sum -- the addition of all these numbers has resulted in an evolution of our volumes in Spain in the second quarter pretty much in line with that of the first quarter.

Xavier Croquez - *Exane BNP - Analyst*

Xavier Croquez, Exane BNP. We generally speak of developing markets without discriminating between all of them and they are all different. Can you help us in getting a sense of what market trends are doing in these various regions? Apparently Latin America is holding well. But can we get really a very fine granularity on what's going on the -- in these markets recently? Thank you.

Emmanuel Faber - *Groupe Danone - Co-COO*

Right, well, I'm not sure we can give you satisfaction on this. Overall, let's -- if we go through the -- I would say, the key markets for -- no, let's assume first that the markets in which we've entered in the last three or four years are continuing to develop, not only because of the market, but because of our own internal momentum.

So, there should be no change from probably 20 smaller markets, if we focus on the bigger ones. And the bigger ones in Latin America are Mexico, Brazil, and Argentina for us. Mexico is doing great in Water. And as I said, we see some softening, particularly in Dairy, with some competitive -- well, yes, aggressive overall moves on all sides, ours and our competitors locally. So, to be it's to be monitored, and we work on this in Mexico.

Brazil is doing very well in Dairy. We have no other business now in Brazil of significance. Argentina is doing extremely well in all fronts, Baby Food, Water, and Dairy, despite the fact that there have been strikes that have created some short term issues. But it's doing very well.

And it's one of the countries where I think, particularly in Dairy, we benefit from the fact that in 2001, Argentina faced this huge financial and economic crisis that we went through. I think at some point in time it would be interesting to share with you beyond what we did in the past, how we managed the Argentinean crisis, because we basically emerged from this crisis after 18 months with a market share that had gone from 55% to nearly 80%, through a complete reengineering of our trade strategy, channel strategy, and product strategy. So, Argentina is doing well.

Turn to Asia; China is doing great in Baby Food and Beverage. In Indonesia, same thing; Aqua is performing very well and the Dairy is starting. So, it's one of these markets where you don't really see the overall momentum. We focus on our own corporate momentum there. And that's -- these are the big markets in terms of emerging Asia for us. Thailand is also a smaller market, which we develop well. Malaysia for Baby Food is doing well. Thailand is doing well for Baby Food as well. Baby Food is doing well across the board, so you can check all the countries. I mean we could.

Now, turning to Eastern Europe, Poland is doing well, Russia -- I think Russia needs to be put under scrutiny. It's doing very well these days, but I think this is a market in which there could be consumer changes in the future. Although, again, both in terms of Baby Food and Danone performance, it is doing very well in the quarter, no?

Turkey is doing well despite a difficult environment.

And what else? South Africa is doing well. That's enough.

Pierre-Andre Terisse - *Groupe Danone - CFO*

Poland?

Emmanuel Faber - *Groupe Danone - Co-COO*

Yes, Poland, as I said here, is pretty well.

Arnaud Langlois - *JP Morgan - Analyst*

It's Arnaud Langlois. As you look at [and surely] seeing some Ecopack and looking at addressing some of the price points in the Dairy category, also taking into account the fact that probably there's no need for you to increase prices in the next couple of quarters. Is there actually a risk we could see a negative price mix effect in the Dairy category next year?

And could we look at what you're doing as an organizational of self-cannibalization and down trading within the Dairy category?

And my second question is related to your tax rate. Is the 26% a sustainable tax rate?

Pierre-Andre Terisse - *Groupe Danone - CFO*

Yes, I take both. On the Ecopack, let me give you two examples. You've seen Poland as an example now, which -- because we have already experimented that in this country some time ago. And the result has been that there has been no erosion of margin at all. And in this country, in which you can see that the Ecopack is -- represent a part which is significant of the business, the level of margin is higher than in some countries, significant countries, of Western Europe.

So, the introduction of that has not at all resulted in that, because we have monitored it by monitoring the whole of the portfolio, making sure that we have the right opportunity to finance that, and making sure we had not cannibalization and Ecopack eating on the other product, but have been touching some consumers with these products, but keeping increasing the penetration and sales of the (inaudible), which have health benefits to other products. So, no, we have not observed that.

There is another example, which is Brazil, which you have seen. And again, in this example there has been no impact on the margins. So, we don't have -- we don't expect that to happen, and we have two very specific and clear examples showing that we've managed to do so.

The second question was about tax, and you say, is 26% sustainable? And my answer is, what we see as sustainable is a tax rate around 25%, not 26%. What we have this quarter is 24.6%, which is a bit low for different reasons, but again around 25% is, for the coming two or three years, what we consider as sustainable.

David?

David Hayes - *Lehman Brothers - Analyst*

Hi, it's David Hayes from Lehman Brothers. Just to pick back up on the Water comparison in the third quarter, if weather was to contrive to be no better than last year and, therefore, there wasn't a bounce-back in the third quarter in water, would you still be confident of that 8% to 10% guidance for the full year, or is there an assumption that you will get that benefit from that comparison?

And then, in terms of Dairy, if I put together some of the comments you've made in terms of France, (inaudible) that it's going to get better second half, the consumer sentiment in the 48 countries that you're studying generally getting worse. Is it fair to say that that assumption that dairy, going from where we are at the moment in terms of volumes, the plus 5%-ish at the end of the year as a run rate is quite optimistic and aggressive? Or do you think that's actually a comfortable target until April? Thanks very much.

Pierre-Andre Terisse - *Groupe Danone - CFO*

I'll take the first one, and then you want to take the second?

On Water, well, it depends very much how you qualify very bad weather, ranging from a storm to a great shine. Let's say that we know that we can have meteor conditions, which are not as good as the ones we have at the moment. And yet, we confirm the guidance, which means that we are comfortable enough, given what we see at the moment to confirm the guidance despite the uncertainties on a number of points, including this one.

Emmanuel Faber - *Groupe Danone - Co-COO*

But the guidance goes from 8% to 10%.

In terms of your question on volumes for Dairy, I probably have not been clear enough. I did not mean, and I do not mean, to lead anybody to believe that volume growth will be at 5% by the end of the year.

What we -- I intended to say, and I will repeat, is that we are building 2009 with an assumption to be well into our 8% to 10% guidance overall, for Dairy volumes to be in the mid single digit region; mid single digit, call it 4% to 6%. So, this is for 2009.

What we expect is Q3 and Q4 to be clear and visible checkpoints on this roadmap. So, in no circumstances you will have, coming from where we are today, and having shared with you everything that I shared, including, as you say, the consumer confidence in France and elsewhere. In no circumstance do we expect or do we need for our guidance, Dairy volumes, to be at 5% on either of the two next quarters. They will be significantly lower than this.

And as I said, we expect volume in total for Dairy to be positive of the second half, which will already be a rebound from where we are on the second quarter, where to be positive you have to exclude France. So, it means that including the French situation, and given all the actions that we have started and we will continue to start to develop, we expect a gradual turnaround of our volumes towards the equation that I described, which we built in our next year's models.

Unidentified Audience Member

In terms of Western Europe and the Dairy business, could we have the split in terms of sales in -- concerning your price positioning, [economy] and (inaudible) premium? And at what pace you can change it?

My second question is relating to your guidance. You confirm your top line of 8% to 10%. You increased a little bit [in France], you [precise] the range 40 bps to 50 bps. You say that tax rate is going to be a little bit lower. So -- but, all in all, you confirm your EPS growth at least 15%. Why don't you increase it a little bit? And where do you stand in your negotiation with Wimbledon?

Emmanuel Faber - *Groupe Danone - Co-COO*

Yes, on the first question, I think you should keep in mind, roughly, for Western Europe that blockbusters represent 35% to 40% of our total sales in Western Europe. And this number is particularly lower in France.

So, this is one of the reasons why, despite the growth of Activia in France, as we have shared with you, we continue to have a drop in the volumes, because the core range is dropping, and we don't -- we have not tried tactically, to maintain this core range or tried to inject short term growth into this core range.

The current process will lead, I think, in a natural manner, in the next several quarters, to the fact that there will be further blockbusterization of our portfolio in Western Europe.

Pierre-Andre Terisse - *Groupe Danone - CFO*

On the --

Unidentified Audience Member

I thought it was in Europe that you were trying to make more economic product and to be more present in the economic segment?

Emmanuel Faber - *Groupe Danone - Co-COO*

Yes, I think we have to be clear on what -- or clearer on what I said. There are two different strategies for us in terms of making sure our products are accessible.

One is the one we described with Ecopack or Gratka, which is not a blockbuster approach. It is basically changing our core range into a more value-added product, more profitable for us, and focused on price points that make sense for the consumer. So, to a certain degree, it's a renovation of our core range.

How far, how fast, all of this we will discuss later. But we do not expect this to eat into the blockbuster's strategy.

The second aspect of getting our products accessible is a strategy that we have described already as afford [evaluating], which we have started in emerging markets, and particularly in Asia, and that we are now considering to expand further in emerging markets, and gradually and selectively introduce in developed countries, which is to ensure that our blockbusters are price-positioned, both in terms of price per SKU and price per KG, at a level which meets consumer constraints or needs.

We are developing currently new product forms for products like Activia or Danonino. We will expand on this in November, but these products will deliver the same health benefits in completely different product forms, with different business models, which will not create margin issues, because they are profitable ones for us, but which will allow us to address the needs for these health benefits for many more people than we do in the current circumstances.

Pierre-Andre Terisse - *Groupe Danone - CFO*

On the second question there are different elements, which obviously impact the net income. One is, indeed, the sales and the operating margin, and we have reconfirmed the sales guidance and increased the margin guidance, EBITDA, other things. One of them is tax. One of them is financial charges and two are positive. But the other one is foreign exchange, which as you have seen on the sales slide, is -- has impacted our sales by 4.6%.

So, there's a combination of things, and at this stage, we consider that we have sufficient element for a KPI, which I recall is in current currency, not at current currency to re-confirm the guidance, i.e. that we deliver a growth of EPS exceeding 15% full-year.

Robin Jansen - *Groupe Danone - Director of IR*

In view of the time, I would now like to switch to the questions coming from the conference call.

Emmanuel Faber - *Groupe Danone - Co-COO*

Any questions?

Robin Jansen - *Groupe Danone - Director of IR*

Yes, there should be.

Operator

(OPERATOR INSTRUCTIONS). We'll take our first question from Marco Gulpers from ING Bank. Please go ahead.

Marco Gulpers - *ING - Analyst*

Yes, good morning, still, to you. I have two questions, if I may. The first is on Clinical Nutrition. We are seeing some negative value there. Is this the reaction to perhaps a step up of competitive action by one of your peers? Or is there less behind it?

And the second question is on Asia, I've seen a step up of the value component being negative. Could you, perhaps, explain what is behind this negative value component for Asia? Thank you.

Pierre-Andre Terisse - *Groupe Danone - CFO*

I'll take the Medical one. The growth is, as we've said in the first quarter and [we've got that] in the second quarter, mainly driven -- in fact, fully driven, by volume. There are very marginal negative value effects, which come more from mix than from real value.

Plus, in some very limited markets, we have, indeed, some decrease of reimbursement. But again, that's very specific and -- yes, very specific to some markets.

The global question keeps being the same, i.e. very strong growth in volume, followed by growth in value, which is equal. And at the same time, what we are trying to develop faster now is on the (inaudible) products rather than the general Medical Nutrition.

As for Asia, Emmanuel, do you want to --?

Emmanuel Faber - *Groupe Danone - Co-COO*

Yes. In Asia, there is no change in the strategy. It's only a question of mix of countries. The Japanese situation, as I said, due to the strikes in France, has made the life of our colleagues there difficult for two months. And, therefore in a quarter, that's a lot with extremely [value-ized] sales in Japan of Volvic and Evian.

And actually, if that hadn't happened, the performance of our Water division in Asia would have been, I think, about 16% growth on the second quarter. So, all the negative that you are referring to is actually coming from the missed sales that happened -- that occurred in Japan during this period, that's all.

Marco Gulpers - *ING - Analyst*

All right. Thanks a lot.

Operator

We now take our next question from Francois [Digard, Natexis] Securities.

Francois Digard - *Natexis Securities - Analyst*

Good morning. Do you hear me? Good morning, just a question about, mainly, promotions, actually. Would you be able to quantify the share of volume sales you missed in France, notably, due to lack of promotional activities?

And could you tell us what usually the level of promotion you reach on these Dairy sales in France and Western Europe? Thank you.

Pierre-Andre Terisse - *Groupe Danone - CFO*

Thanks Francois. That's a very specific question. And your question, we're not going to provide numbers on that. Just to confirm that, when you look at the numbers, the proportions of our volumes, which have been under promotion in France in Dairy for the second quarter -- for first half, in fact, all together have been substantially lower than what we observe normally. But I can't give more details than that.

Francois Digard - *Natexis Securities - Analyst*

Thank you.

Emmanuel Faber - *Groupe Danone - Co-COO*

To spare you the cost of an [infant] study, and without giving the absolute number, as Pierre-Andre said, our market share had dropped by about 5 points on promotions, just promotions.

Francois Digard - *Natexis Securities - Analyst*

Thank you.

Operator

We'll now take our last question from Chris Wickham from MainFirst.

Unidentified Company Representative

One more question, maybe?

Operator

We shall take our last question from Chris Wickham.

Unidentified Company Representative

Okay.

Chris Wickham - *MainFirst - Analyst*

Yes, just to follow on from that, can you just confirm how many markets, please, again, where you're losing market share in fresh dairy to private labels in the second quarter, because I understand that it was more than you lost in the first. Is that correct?

Emmanuel Faber - *Groupe Danone - Co-COO*

No, there is no big change. The question is about, how many countries did we lose market share in? Three countries we lost four -- more than one point of market share. Four we lost less than one point and 16 we gained. Other countries are much smaller countries. And there is no big difference between Q1 and Q2. I don't think there is an issue change of trend in our overall market share situation there.

Chris Wickham - *MainFirst - Analyst*

Well, I infer that you did lose share in more places in Q2 than you did in Q1 to private labels.

Emmanuel Faber - *Groupe Danone - Co-COO*

I'm sorry, can you speak a little bit louder?

Chris Wickham - *MainFirst - Analyst*

I'm sorry. I infer that you did lose market share to private labels in more countries in Q2 than you did in Q1, maybe that's my error, but that's what I'm inferring.

Emmanuel Faber - *Groupe Danone - Co-COO*

No, I don't think that's the case. What is the case is that the French situation, as I -- as we said, has worsened during the second quarter compared to what it was in the first, and particularly at the back end. But there's nothing more than this.

Chris Wickham - *MainFirst - Analyst*

Okay. And if that's at the back end, I know you're not commenting on current trading, but we can probably read Q2 -- Q3 read for Q2, yes?

Emmanuel Faber - *Groupe Danone - Co-COO*

I think you made the right comment about current trading.

Chris Wickham - *MainFirst - Analyst*

Well, I made two. The question is which one I choose?

Emmanuel Faber - *Groupe Danone - Co-COO*

Okay.

Pierre-Andre Terisse - *Groupe Danone - CFO*

I'm sorry, we have to close. Thanks very much for your attention -- your patience, and we'll see you soon.

Emmanuel Faber - *Groupe Danone - Co-COO*

Thank you.