FINAL TRANSCRIPT

Thomson StreetEvents℠

BN.PA - Q4 2008 Groupe Danone Earnings Conference Call

Event Date/Time: Feb. 11. 2009 / 3:00AM ET

CORPORATE PARTICIPANTS

Franck Riboud
Groupe Danone - Chairman and CEO

Pierre-Andre Terisse
Groupe Danone - CFO

Emmanuel Faber
Groupe Danone - Deputy General Manager

CONFERENCE CALL PARTICIPANTS

Pablo Zuanic
JP Morgan - Analyst

John Parker
Deutsche Bank - Analyst

Cedric Lecasble
Kepler - Analyst

Jeremy Fialko
Redburn Partners - Analyst

David Hayes
Nomura Securities - Analyst

Xavier Croquez
Exane BNP Paribas - Analyst

Marco Gulpers
ING - Analyst

Michael Steib
Morgan Stanley - Analyst

Pierre Tegner
Oddo Securities - Analyst

Joseline Gaudino
Societe Generale - Analyst

Chris Wickham
MainFirst - Analyst

Mario Montagnani
Cheuvreux - Analyst

Sirus Azkamin
Credit Suisse - Analyst

PRESENTATION

Franck Riboud - *Groupe Danone - Chairman and CEO*

I'm going to speak in English because we have a lot of people watching this presentation on the other side of the Channel. As usual at this period of time, I will not make a lot of comments. I will let Pierre-Andre go into the detail of the result of 2008 and what we think about 2009. Only two things about 2008.

First, it's another very good year for Danone. And most important for me or more important for me is the end of the year, because, as we told you in November, our visibility about the end of the year was not so good. And at the end of the day, in time we will see that in detail, but I think that what we achieve, even the quarter four, is a beautiful result for us. So we have good news, bad news, average news, whatever, but at the end of the day the model of Danone is still incredibly well working.

The second good news for me is Numico. And I remember all the questions you asked us about difficult for Danone, the first time you swallow a so big company, different countries, two businesses, you know nothing about the businesses, what about the management, everybody's going to quit the company, blah blah blah. And I can tell you that the success of the integration of Numico is more than 100%, and it's not even an integration. I think we accelerate the good results of Numico and you will see that, and that will continue.

About 2009, I'm not going to be the very happy guy saying we are better than the other or we know everything, we have a good vision. No, the reality is the reality. The world is declining in every country. And I remember your surprise when Emmanuel explained to you in November what is this question 'obviously', 'obviously' the emerging country will slow down, 'obviously', and that was a surprise for you that a consumer goods company told you very frankly that we don't plan the same growth in the emerging countries for the future. I confirm, except that the issue for me on 2009 is to find a way to pilot the Company the best way.

It's exactly, if I take an illustration, when you drive a Ferrari on a dry road or on a road with a lot of snow. The road is full of snow so we have to be very careful. We have to change -- not change, but we have to confirm our mindset. The way we manage people, we have to be very close to them. I add -- I ask to all our managers to call to their managers every week. Not a very strong reporting, just a discussion. How are you? What are your troubles? What -- how could we help you? That kind of very simple thing which makes the management very, very close.

The thing I can say is that the management of Danone -- and I'm not talking about Bernard, Emmanuel and myself. I'm talking about the 1,000 managers of Danone. They really want to benefit of this crisis. They want to take benefit of this crisis. They want to create a bigger gap with competition, they are confident that the culture and the decentralization culture of Danone is a competitive advantage and they know exactly on which items they have to focus for the next year.

And you will see, perhaps, if you read my comment, there is one which is not a new one for us, but something very important for us, which is market share, because market share is the right indicator to tell you if you have to accelerate or slow down. If you are winning market share, means you grow, because you have different ways to grow. You can benefit from the business itself or you can gain on your competitor. During a crisis, to make volume or value on gaining market share is very important.

Means, if you remember what I explained to you, which is the best tool we have in this Company, roll out best practices. Perhaps that's the thing we know the best to do, roll out best practices. Means that the only thing we have to do in 2009 is to look at what is working in which context and if it is working, we roll out very, very, very, very quickly.

And I will give you one example about a product I read a lot of stupid things by the time being, Actimel. Actimel in Spain, just now, is growing double digit again because of a new mix in terms of advertising, price positioning, new taste and so on. So we have -- it's a very brand-new evolution for us. It's very new, means perhaps three weeks, four weeks. We have to roll out.

We will decide today if we have to roll out the campaign. It's a one-minute advertising campaign explaining very clearly what Actimel is. So if it is really positive, we will roll it out and we will roll it out in a country where we think the growth could be. If we think the growth will not be there, we will not roll out, because we have to put our effort where we will gain a very short return.

I got a lot of questions about Essensis. Why do we stop Essensis? And please, we are not a car maker so when we stop a product it's not very expensive for us. And at the end of the day, if you do nothing, you will stop nothing. Okay?

So Essensis, we stop it because we feel that we need three or four years, perhaps, to improve the quality of the scientific illustration, the benefit. We explained to you in November that that will work if we find -- if the consumer finds a way to measure by himself the effect of the product. I think it's too early for a product like this. It does not mean that it does not work. Scientifically speaking, it works.

And we continue to support the product in Italy and Spain, just to improve, let's say, the marketing mix of the product. But we stop it because, after four, five years, you will ask me the same question you asked me this morning, how much does it cost? And we are not in a position, by the time being, to spend money and to take risks, because we need this money to support Activia, which is a 25-year-old product, which is going to achieve more than 2.5b at a world level, which is still growing double digit everywhere.

So for me the strategy of the Company is an add-value strategy for our products, definitively. The best products we have, the one who resist -- which resist the best are the health positioning products, definitively. Base business is another story. We try to find solutions, but the best news for us is that products like Activia, Actimel, Danacol -- Danacol is now the number six product of our Dairy range.

If I go to the Baby Food and Clinical Nutrition, you will see the result. They are wonderful. They are -- we have some, let's say, exceptional explanation of that, but the base business of these two categories are incredibly resisting, which is normal, not very difficult to understand, and still very -- scoring very strongly.

The Water you have to divide by two, emerging country, and you remember what I explained about our geographical portfolio in Water, which is mainly China, Indonesia -- I said China, I'm not thinking about Wahaha, I'm thinking about Robust, which is doing -- and Health, which are doing very well. China, Indonesia, Mexico and Argentina and France, Spain and UK exporting Evian, just to give you a flavor. Now, 60% of our volumes are done in these new countries where we grow double digit, even in Mexico, even by the time being. So obviously the value is less, but the value is now 52% of our total Water sales.

So we are working on different subjects if we are in an emerging country or in, let's say, western Europe countries like France, Spain and UK. But we have some good signals, especially on market share, because globally Evian is gaining market share. So we think that will take time, but I think it's a business we still have to focus on.

So now, I will let Pierre-Andre -- because I call him Pat, which is -- Pierre-Andre -- normally, I call him [Patrick]. So Pierre-Andre, if you want to --

---

Pierre-Andre Terisse - *Groupe Danone - CFO*

Okay, so good morning to all. This is Pierre-Andre Terisse speaking. I run through -- I run you through the results before I hand over back to Franck and we go through Q&A.

I start first with -- yes, the summary pages, which give a glance of all the main indicators of the Company and which basically says that all the targets which we set ourselves at the beginning of the year and then during the rest of the year have been achieved.

That's obviously the case of sales, which amounted to EUR15,220m and grew like for like 8.4%. That's the case of the margin, which has grown 53 basis points like for like, which is above the 40 to 50 basis points we indicated at the end of the first semester. That's the case of EPS, which has grown 15.1% in line with the 15% at least. And that's the case as well of the free cash flow, for which we had not specified any target, but which has grown not only in absolute value strongly, but also in percentage of sales. You will see that later on.

A look at the evolution of our sales, the growth of our sales over the past few years and the evolution from benchmark to our guidance. I think what you can see on the screen is basically a demonstration of two things. Number one, the confirmation of our ability to deliver what we commit to. And number two, the fact that the Danone model, as we have defined it, after the Numico acquisition and even in a very specific context, is working. Out of -- if you want to split these figures, Dairy -- out of the 8.4%, Dairy contributed 7.7% growth, Water 1.9%, Baby 17% and Medical 12.7%.

If you have a look at the evolution of the margins, you've got three blue blocks, which stands for, on the left side, full year 2007 as reported. In the middle, full year 2007 pro forma, which means after the addition of Numico for last year and after the accounting for the change of accounting method on Wahaha, which is now in equity. And you get to a base of EUR14,468m. And on the right side, you've got full year 2008.

There are two main block of elements explaining the variance in performance. First, currency and scope, scope being the addition of two small subsidiaries, Japan and Chile mainly, and currency which have basically weighted on our sales growth by 3.5%. If you strip that out, the rest is what we call the organic performance, which is 8.4%, made of 2.8% of volume and 8.4% of value -- sorry, 5.6% of value, for a total of 8.4%.

If you have a look at the same chart for the Q4 only, an important element to notice is the relative weight of the volume and price on the total growth, which has been indeed 6% for the Q4, on the higher part of the range of 5% to 6% which we gave ourselves during the investor seminar of November. The value part has obviously decreased significantly by 3.3 against the average, and that's the result of basically the timing of the price increase, which was mainly at the end of 2007, very beginning of 2008. And volume, on the other hand, stands at plus 3.7% versus an average for the year of 2.8%.

I will now go through the various divisions of the Group, starting with Dairy, which has made a good year in 2008. A year, first of all, where we've been able to protect the margins after the increase of the cost of milk which took place at the end of 2007, to digest it, and yet to grow -- mainly through price, indeed, but to grow altogether 7.7%. The total performance on volume has been minus 0.6% for the year, value 8.3%, which has been made of approximately 1% of mix and the remaining as the price. If you look at Q4, Q4 has obviously decreased in terms of growth because the price effect is fading away. It's been growing at 3.5% with volume growth of minus 0.3%, in line with what was delivered during the third quarter, which means that the evolution of the volume has been stabilized.

Important factors regarding Dairy, by geography, first. We have seen, over the fourth quarter, western Europe, big countries in western Europe, being Italy, Spain, France, Germany and the UK, recovering compared to the trends which we have seen during the rest of the year. You remember that, in Q2 specifically and in Q3, France was very difficult. The situation has improved.

On the other hand and on the other side of the Atlantic, we've seen Americas suffering. We had talked to you about Mexico during the last quarter, which had difficult performance. This has continued and the US with Dannon has had a difficult quarter as well, with negative volumes. It's had a difficult performance with negative volumes, but not on the back of blockbusters, which have continued to perform well, as they have continued to perform well for all the geographies.

One of the things which has been observed consistently across all the quarters of 2008 has been - and we have mentioned that several times and this is confirmed in Q4 - the relative high performance of blockbusters compared to the rest of the range, which again has essentially continued during the fourth quarter. If you take them one by one, Activia has been obviously still growing very fast, as Franck mentioned. Danacol is still growing extremely fast, at levels above 30%. On the other hand, Actimel had some less growth, as we mentioned that again in the past quarter, but we are fixing the issue as we talk.

In Dairy in 2008 and 2009, we will continue and we continued to launch renovation of our line extension. You have examples on the -- on this chart, which are Activia Drink, Danone Danacol in Poland, Savia in Canaries. Essentially, we'll be acting on three fronts. Number one, and the most important one for these products of course, is to keep reinforcing the benefit understanding of our products by the consumer and therefore the value for the consumer. Number two, to keep bringing value to the consumer through line extension and marketing activities. And number three, again, to continue bringing value to the consumer through an adequate price positioning.

I skip to Water, the second of our divisions by size. What we've seen in Q4 has been basically the continuation of the trends which have developed and been observed during the whole of 2008, with volume growth of 3.8%, which has been fueled by predominantly the -- I mean only the emerging countries, the ones which Franck mentioned. But on the other hand, a negative value effect, which is coming from the fact that western Europe, or what we call the industrialized countries, have continued decelerating and therefore have brought this negative mix, resulting in a negative growth for the quarter.

If you have a look at the following page, you can visualize these trends very well, see that in the industrialized countries the trend has been confirmed with minus 14.6% value during Q4 2008. This has come predominantly from the UK of course, from France, but also from Spain. We are, we have been for the past few months and we continue addressing this issue through a number of initiatives about the environment, about the perception of the quality of the water by the consumer. These are things which will take time. We are very confident about our ability to implement them and the improvement will come gradually.

On the other hand, developing markets, which now represent 52% of our Water division and this percentage is obviously increasing year after year, have been confirming their trends of a growth which is double digit and which, even if it's a bit counterintuitive in some cases, has been basically confirming and showing no sign of weakness, whether in Mexico, whether in Indonesia, in Argentina or other countries. So this part of the business is extremely sound.

In Water, again, I mentioned you the initiatives we are taking in western Europe to strengthen the positioning of our brands and the perception of the quality of our water. On top of that, we keep adding some innovations.

One of them is Touche de Fruits, which I have here on my table. I encourage you to drink. There is only 2% sugar. It's very good and very healthy. Another one is Brazil. We have started the rollout of Bonafont in this country. Too early to talk about figures, of course, because there's only a couple of months, but it's basically on track and even better than what we expected, so we'll keep you updated about that.

Baby Nutrition, that's been a fantastic year and a fantastic quarter, historical performance, with a 17% growth during the year, 20% growth during the quarter. Obviously, there are some specific elements which explain the performance. One of them is the low base from last year following the adjustment of inventories we did after acquiring Numico. Another one is obviously the expansion of our market share in China for the past three months, which has been remarkable.

These being said, the business continues to be extremely sound, both in volume and in value and as well in terms of market share, taking market share everywhere in all countries, with an underlying performance which we assess of being for the fourth quarter of 10% to 11%, driven with the same mix of volumes, mix and pricing.

Again, in this division, we keep innovating and strengthening the benefit perception by the consumer. We basically work on two different concepts of blockbusters as we would call them in Dairy. One is Aptamil immunity and the other one is Bebelac complete nutrition, with different price positioning and with different value to the consumer, working as well on extending the range for these products.

Last division, Medical Nutrition, which has been growing in line with the full year trend and the medium-term expectations at 12.1% for the quarter. There is obviously -- because a very significant part of the products of this division are under reimbursement, there is obviously less exposure to the evolution of the environment, with a few exceptions, one being the US.

All the products and all the categories are growing. That's the case of Fortimel for the independence. That's the case of Infatrini for faltering growth. That's the case of Neocate for allergy relief. And we are really focusing our energy now on these disease-targeted products.

Again, innovation. As I said, we'll be pushing on the selection of products which we think have the potential to grow fast and deep and wide. That's the case of Fortimel, for which we are going to switch to a compact version during the first quarter of this year. That's the case as well of KetoCal, which is a food dedicated to people subject to epilepsy.

If you now look at the geography, you would unsurprisingly find the reflection of what I've said about the divisions. Europe has been growing 2.6%, the slowdown being attributable for a large part to the pricing, with two parts. Western Europe, which has been more difficult because of Water, principally, and Eastern Europe, on the other hand, which has kept growing well.

In Asia, the growth has been strong in all markets. It's been particularly strong in baby food in China, but it's also been very strong in Indonesia with our subsidiary, Aqua, in Water.

And in the rest of the world, the performance was softer at 8.6% growth, with strong performance of the Latin American countries with the exception of Mexico and, on the other hand, as I mentioned, a lower performance than the previous quarter in the US for Dairy.

I now switch to the profitability and the margins, starting with the breakdown of the operating income between trading operating income and other operating items. You've got, on the other operating items, minus EUR83m, which compares to minus EUR57m in -- at the end of the first semester, which means an addition of slightly more than EUR20m, which is related to legal provisions on which I'm not going to comment further for obvious reasons. The other part is obviously the trading operating income, which stands at EUR2,270m, equivalent to a margin of 14.91%.

Elements of improvement of this margin, again, the three blocks. We've got full year 2007 reported. We've got the pro forma thanks to the addition of Numico and change of consolidation method for Wahaha, which brings 130 basis points. There are impacts, all negative, from translation, country mix and scope of consolidation. And then, the addition of country mix, input costs, operational performance brings a margin of, margin evolution of 53 basis points, again higher not only than the guidance expressed at the beginning of the year, but even than the 40 to 50 we gave later on.

These 53 basis points is, number one, helped by the Numico synergies, which you remember contributed 25 basis points at -- during the first semester. They now contribute, for the full year, 34 basis points out of the 53. The remaining part is essentially operating leverage and result of the management, with of course a very significant impact of the increase of the cost of raw material this year compared to last year, with a negative 191 bps 2008 total compared to 2007 total. And, on the other hand, the positive effect from the price increase taken as a result.

Again, if you look by division first and then by geography, on -- in Dairy, the majority of the improvements come from Western Europe. They come in particular from Spain, Germany, the UK and Benelux. France has, on its side, contributed negatively to the evolution of the margin. Outside Europe, the margin improvement was supported by Brazil.

On Waters, the negative change of the margin was -- is coming almost exclusively from western Europe, of course, with a very strong negative leverage effect, which has been partly, but only partly, compensated by the positive leverage in emerging countries. And in Baby, there was improvement in all areas, of course, with a reflection of the synergies as well, but margin improvement in all of our markets and more especially in Asia.

If you look by geography, Europe was of course negatively impacted by France, as I mentioned, and by Water, while Eastern Europe and the other European countries contributed positively. Asia, same as sales, it's China and Indonesia leverage. And the rest of world saw a positive contribution of Brazil, offset almost completely by a negative contribution from the US and Mexico.

Going through the operating income to the net income, you know this table. On the left-hand side, you've got 2007, then 2008 in three columns, reported, non-current items and the underlying part.

I'll focus first on the non-current items. I've commented already on the elements on the operating side, which are EUR83m. For the rest, there is a EUR269m on the net income of discontinued activities, which comes from the finalization of the sale of our Biscuit division during the first semester. And you can see a negative EUR142m which is attributable to a mechanical impairment passed on our stake in Wimm-Bill-Dann due to the evolution of the market price.

Looking at the underlying part, from 202 -- sorry, EUR2,270m operating income, the financial expenses stood at EUR442m, better than the pro forma. That's under an improved base, while the interest rates have been on average 4.75% for the year, with the second semester slightly higher because of the different elements of our debt. As you know, we've been issuing long-term debt and therefore taking higher spreads. Altogether, we expect this level to be continuing for the -- for 2009. Income tax, I'll come back on that, EUR429m, and then no major change on the other lines.

Income tax, you remember we mentioned during the first semester that our income tax rate had fallen from slightly over 27% to 24.5%, if I'm not mistaken. We achieved full year 23.5%, which we see as something sustainable for the coming years, around 24%. And that's been achieved mainly under two factors. Number one, decrease of rates in two countries, Germany and Spain. And number two and most importantly, a strong mix element coming from the acquisition of Numico.

This has resulted in an EPS -- sorry, yes -- in an EPS of -- in a net income, sorry, of EUR1,313m, for an EPS of EUR2.74, increasing of -- by 15% versus the pro forma and increasing by 10% versus the historic, which has led the Board to propose a dividend per share of EUR1.20.

A word about cash flow to say that we have done a very good year on this slide, with a change of working capital, which was negative during the first part of the year, which is now positive. We've put a lot of focus on our two new divisions for them to progress towards the Danone model, i.e. being in negative working capital. They are making progress and will continue. The CapEx stood at 4.6%.

And altogether, this delivered a free cash flow of slightly less than EUR1.2b, 7.8% of sales, progressing versus last year, despite the financial charges which have been taken from the acquisition of Numico last year. Furthermore, this 7.8% is a significant progress compared to the 7.2% we showed during the first semester.

This has helped reducing the debt. Our financial debt has been reduced by an amount of approximately EUR400m. On the other hand, the put have been growing by EUR150m, which leaves us with a reduction of the debt total by EUR250m. The equity on its side is showing variance, which reflects the evolution of exchange rates, which as you have seen has been pretty significant for the past three months.

A word about the debt, I think it's important we now show it regularly, because we keep strengthening it. I think we have a picture which is now fully satisfactory, with a maturity profile which is well balanced and which is well in relation with our cash flow capabilities. CP is at EUR1.6b. The 2010 maturity, which is drawn down at the moment only for EUR1.2b out of the EUR2.4b total possibility, and this has been achieved of course with a new bonds issue we've been doing during the second semester.

On the debt, always, further comments. Just reconfirm that there are no financial covenants in any of our financing and to tell you that we have now a coverage of our short-term commitments which is far more than 100%, made of EUR1.5b of undrawn amounts on the syndicated credit line, EUR3.8b on the back up lines and, in addition, EUR0.5b of treasury shares, which cover on the other hand EUR1.6b of CP and EUR2.9b of stock options. So approximately EUR1b of overcapacity compared to what we need.

That's the end of the presentation for finance and for the (inaudible) I'll hand back to Franck for further comments and/or questions and answers. Franck.

Franck Riboud - *Groupe Danone - Chairman and CEO*

I have no comments so we can go direct to --

Pierre-Andre Terisse - *Groupe Danone - CFO*

So we can go direct to Q&A

Franck Riboud - *Groupe Danone - Chairman and CEO*

And if we go to Q&A please wait for the microphone otherwise the people on the webcast or on the conference call can't hear the questions, so please wait for the microphone before you state your question.

QUESTIONS AND ANSWERS

Pablo Zuanic - *JP Morgan - Analyst*

Good morning everyone, Pablo Zuanic from JP Morgan. I have to say, when I look at the dairy business, the lack of volume improvement in the quarter, it's a bit of a concern to me. When I think of pricing trends, your price realization for the first nine months about 9%, obviously that's easing now, about three points for the fourth quarter. How should I think about Dairy in 2009?

And really there are so many questions there, but one, for example, would pricing be zero or is there any element of pricing resilience, particularly in emerging markets, or mix benefits that will come through? That's one question around 2009 Dairy.

Second, you talk a lot about the growth in blockbuster brands having driven the performance in 2008 and the question that we keep getting is that blockbusters are recession sensitive, perhaps, and that they could even be down in 2009. So how do you think about blockbuster growth in 2009 and still being able to drive growth?

And lastly, related to Dairy, what is the impact so far of the Eco-Packs in Europe and of NutriDay in the US?

And fourth, I would say in the case of Dairy, if I may -- it's just Dairy, one question, I'm sorry, I'll pass it on. The US and Mexico, I don't have much visibility of Mexico, but the US to me, wasn't a category issue, it's just a competition. It's a bit like what happened with private label in the summer here, what's happening with General Mills now there. So how are you responding to that?

And I know you're not giving guidance, but how should we really think about Dairy performance and growth in volumes and price in 2009? Thank you.

Franck Riboud - *Groupe Danone - Chairman and CEO*

I will answer very quickly to the last two questions and let Emmanuel come on the two first. First of all Eco-Pack NutriDay, NutriDay is in tests in the US. Eco-Pack is not a test in France because we launch it nationally. The only thing I don't want you think is that the strategy of Danone is to enter that kind of category. The strategy of Danone is to continue to drive the market with innovation, add value innovation.

If we make Eco-Pack in France, that was a tactical answer to a specific context. The story is that it was quite difficult to list the product in the trade, not because the product is not good but perhaps somewhere this product was attacking another product category in the shelf where they are making more money.

Second it's clear for us that Eco-Pack is not the future of our range but it's clearly the strategy we explained to you, how do we segment vertically a category. Some countries we are testing Eco-Pack and NutriDay, some countries like Spain are using one of our base business, we don't call it Eco-Pack but we have a pricing strategy which helps us to cover all the consumption.

So it's not a new brand, it's not a blockbuster, it's not everything I read. It's just how could we cover the full range of price segmentation, because below Eco-Pack you have all the strategy we explained to you, called the Affordability Strategy. And even we changed the name now, we call it with our special language Affordvaluity, which means being affordable for the consumer and making money for us.

So we are testing in different countries. Okay in France the name was Eco-Pack because we want to test it. Is it a success? Yes and no, the product is okay where the product is but it's not a real success in terms of how could we have listed the product in the trade. If you look at (inaudible) Eco Pack is doing quite well. If you want to look at -- I will not take the fair share but in center of the cities in France it's difficult to find it because we don't succeed to list the product for other reasons and we are not ready to invest money in terms of price listing in the trade to reference the product.

NutriDay, the test is 'comme ci, comme ca' for the time being, which is another illustration of what I explained. The success of Dairy will come from products like Danacol, Activia, and going to the US, Activia is still growing very strongly. Now the base business as we explained to you was really attacked by the competition, you are right, in terms of promotion. So we have to adapt our tools for the base business and the blockbuster, not only in the US everywhere, everywhere.

It means you will see some transfer from advertising to promotion, not globally, but we will have a specific tactical way of supporting our brand, depending if it is a base business, if it s a blockbuster, if it is a product we just launch. And we will also transform the way we support our brand, not only in advertising. As we explained to you in November, to speak to the medical community is more and more important for us and we learn from Numico about this.

So I think that we are still incredibly confident in the blockbuster strategy and, let's say, the health benefit of our products. The only thing we already explained and I already said at the beginning, the consumer must trust. So we have to improve the credibility of our product and improve the credibility means the consumer must see by himself the effect.

And that's the reason why you've Danacol. If you have cholesterol, at least three or four times a year you will measure your rate of cholesterol so you will have directly the illustration of this product with a diet, with obviously perhaps also some medicine to control or to reduce. And it's exactly what we are going to do for everybody. It means, for example for Essensis, one day we will have perhaps a tool, I don't know what, to measure the humidity of your skin. That will come, that will come, we are sure about this, so the only thing is we were in advance on that process.

Emmanuel?

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

You will have a short answer to your short list of questions. I think that we cannot discuss the way we look at volumes for Dairy in '09 without discussing the outlook, so I will come back to that.

Just to finish first on '08, the total market share gain of Danone on a worldwide basis in Dairy in the countries where we operate for 2008 has been more than half a point, globally, compared to the 2007 position. And we have indeed lost market share on the first half of the year 2008, which has been where we were finishing the execution of the price increases. And since the low point of June we have gained more than two points on the same scope. Our global presence in all the markets where we operate at the end of this year, we came from 26%, which was the lower percent market share in the lowest point of last year, in December we were 28.1%. So overall the equation that Franck has just described, talking about a few of our key products, has delivered more growth than for our competitors on our category.

I think you can summarize year 2008 for our Dairy business as one where basically we have had flat volumes quarter after quarter. We had been expecting a rebound and talking with you about a rebound since the early part of this year -- of last year, sorry, and even before. But in the middle of the year, as everybody else, we were put in gradually a more and more difficult economic environment and indeed, as Franck reminded you, in November we told you we expect we see some weakness signals, weak signals in emerging markets and we expect emerging markets to slow down, which has been the case in the fourth quarter and in our scenario will continue to be the case for 2009.

If I look, however, at the way our volumes have evolved, I think you also have to look at France versus the rest. I'm sorry to say we're back to another French situation but the total Dairy sales have grown more than 9% overall in 2008 -- Dairy sales, I'm not talking volumes only but Dairy sales -- outside of France and declined by 4% inside France. So you can clearly see that there are different geographies and the truth about France is roughly I would say the direction is the same for a number of western Europe countries, which are dragged by the similar macroeconomic patterns as France for the last six months and we expect for the next 12 months. So that's basically what the situation is.

If you look at the outlook, we have reconfirmed the guidance or the elements or the key elements of the guidance constituencies that we have depicted in November to the financial community for 2009. A few points below our mid-term target range for top line, an improvement in the margin and an EPS which will grow 10%, now on a like for like basis. This is a change in the target. Given the volatility of the currencies and the depreciation, we don't want to bet on whatever currency will be by the end of this year and we prefer, in order to guide you on how we build and continue to build our business, to use a like for like basis for the EPS.

Having said that, today our scenario depicts a 6% to 7% negative impact on our EPS on the currencies, so it means that in real currencies, in real euros, by the end of this year we would expect our target means that on a historical basis the EPS would grow by 3% or 4%. So that's, in essence, the way we are looking at our targets for this year.

It's important for me to remind you that we have depicted a macroeconomic scenario in November. We keep this scenario for 2009 so we believe that there will overall not be any significant improvement in the overall economy nor any dramatic breakdown.

We haven't accounted for a huge devaluation in Latin America that would completely change the perspective in Brazil. Brazil is doing pretty well these days overall in a macro standpoint. We have not thought that China is going to close down for the next foreseeable future. We still believe that China will go into and is currently already in a phase of significant slowdown in consumption battles locally. We think that Russia will continue to be a difficult country for year 2009 as it has been at the back of 2008.

So in essence we are not optimistic for 2009, but we don't think that, or we have built a scenario where we don't think that there would be major breakdowns impacting our business beyond the current, pretty sluggish overall consumption pattern. I'm taking time to say that because this has significant impact on the way we manage the Company. We believe that this 2009 situation is a transition, I don't think -- we wouldn't call it a crisis, we would call it a transition towards patterns of consumption which we think are going to be structurally impacted by the current situation. So there will be a before and there will be an after. And what we have been working on for the last 12 months, and we are working every day, is how the Danone mission will continue to be relevant to our consumers and society beyond 2009 and beyond this transition, and it is very clear that our blockbuster strategy is core to this answer.

Now how are we going to implement this blockbuster strategy in the new environment, that's the question, we believe that there will be more concern for health and we are going to therefore continue to improve the health functionality, the benefit and the way the consumer can perceive that benefit in our blockbusters. At the same time we have probably some advantages going through this transition compared to a few of our competitors, which is that we've had terrible headwinds on the milk price inputs for the last 18 months or two years and now we have tailwind. How do we want to use this tailwind?

We could put it all in the margin but we could also put it in the price. And it's very clear, looking at what the next consumption pattern will be in a number of key geographies, that we believe that price repositioning will bring significant volume growth opportunities when we look at the price elasticity of some of our products and when we also take lessons from the very, very significant price increases that we had to put in 2007 and 2008 and when we looked with you at the impact they had on our volumes. So in essence we will use 2009 to manage day by day how we build the 2010 and beyond story using the tailwind of milk price inputs to make sure that our blockbusters continue to be relevant for a frequent and high penetration consumption by our consumers.

So I am saying all of this to say basically that we manage, we want to manage 2009 in a way that will do two things. One, prepare the future, meaning that we want to be stronger even than we are today, than we were tomorrow, when we exit this transition phase on a number of indicators, including market share, which will be indeed a good acid test of how relevant our strategy will be. We are not going to push growth where we don't think that growth can be reasonably achieved.

We will be extremely consistent on pursuing any growth opportunities when and where they make sense, which will be in a number of countries, but I can tell you that we will just plug the pull on a number of growth opportunities that just don't make sense these days. This will be just money lost for nothing. So we will be very pragmatic in the way we manage our growth.

The one thing that we want to add to the perspective I'm describing is that we want to continue to have a Danone model that delivers superior, profitable, cash generative growth. And the acid test for this year will be our like for like EPS growth and that's why we are very committed to our target of 10% like for like EPS growth. Whether we achieve it by a few points higher sales than our guidance here -- we may be lucky and that's fine -- or whether we achieve it with even maybe a few, a couple, whatever, several points below the mid-range is also a possibility depending on how all the markets are evolving during this transition. But we will manage the EPS growth through the adjustment of our margin because we spend EUR1.7b of advertising each year and we know what the return on investment of this advertising is and we will be particularly cautious on the cost and cash efficiency of our organizations this year.

I'm sorry for this long introduction to the answer to your questions but then we can discuss about blockbuster strategy. There is no doubt that we expect our blockbusters to continue to be the drivers, not only in Dairy but this is true for Baby Food as well, for example, to be the drivers of our growth in 2009. Whether there will be volume growth will essentially depend on what I said, we are not going to push growth artificially, this would be nonsense. What I am confident on is that there will be a mix contribution because precisely of the fact that we will continue to have blockbusters pushing faster than the rest. So there will be a mechanical mix effect in the growth of Dairy.

And pricing will entirely depend on how much price do we reposition or how much margin do we actually take into our pocket from the tailwind of the milk input prices. So I would not expect, and we said that already in the past but this is even more true now, we don't expect any significant pricing, positive pricing effect on the growth of Dairy this year, in a nutshell.

John Parker - *Deutsche Bank - Analyst*

John Parker from Deutsche Bank. Could I ask one little detail question and then a broader one? And the detail is what contribution from Wahaha are you consolidating in these numbers, if any? Are you able to give us any indication of that?

And just picking up on this costs issue, are you able to give any sort of quantification for the tailwind on raw materials that you refer to for 2009? I think you said that there was an adverse 191 basis points on costs in '08, any guidance there would be helpful.

And still on that costs issue, are you, as part of your plans for this year, looking at your own operating costs more aggressively than in the past? And, if so, are you able to say anything about that or might there be some significant restructuring announced during the year?

Pierre-Andre Terisse - *Groupe Danone - CFO*

Okay, I'll take the first two and Emmanuel will take the last one. On the Wahaha contribution I'm not going to give you details about that, just to say that we've been extremely cautious in the way we've treated that. So, yes, it's consolidated as an equity investment and therefore we have a contribution from this company. We've been cautious in assessing that and that's all.

On the raw material tailwind, again we're not very -- I don't think it makes sense to give a quantification given what Emmanuel explained about the way we are going to actively and dynamically manage the equation of the Group in various countries, meaning in all the key geographies during the year, because that will be essentially an equation of volumes, value, margin and, with margin, costs, which we will have to adapt again dynamically depending on the evolution of the market and what we want to do with the evolution of those markets.

On the costs side?

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

Yes, on the costs side for 2009, I would say, unfortunately, there is no doubt that the cost of doing business is declining. The costs of GRP, for example, for advertising is declining because less and less people want to advertise so we are able to maintain our volumes of GRPs and advertising at a lower cost than last year, for example. And that applies to a number of the functions of the Company. In addition to that, we have productivity programs which are ongoing on a long term basis and yes, we will be more than ever focusing on the efficiency of our organizations.

At the same time, your question on the restructuring, no, we have no plan today. We don't think, we don't want, this is not what and how we want to prepare 2010 and the future. There won't be in our scenario, in the scenario that I described before, the need to achieve either our numbers for '09 or the Company we want to build for beyond, any large restructuring amount charge taken and big layoffs.

Franck Riboud - *Groupe Danone - Chairman and CEO*

Just on this question, because it's a recurrent question about restructuring plan, Danone since, I don't know, 50 years, wants to be the lowest cost producer, so that's the reason why we don't have huge plans suddenly saying we have to close 10 factories. We did it with the Biscuit, but clearly in the other businesses we have, let's say, an ongoing efficiency which helps us every year, crisis or not crisis, we have to be and our managers have to control their costs and have to be the lowest cost producer and they have to improve their efficiency. And if you remember how do we offset the milk impact, not last year 2008 but 2007, a big part was coming from this ongoing efficiency. So obviously, in the time being, we will ask our managers to really focus on that, but nothing special.

Cedric Lecasble - *Kepler - Analyst*

Yes, Cedric Lecasble, Kepler. I would have a general question on your relationship with the trade and how the situation evolves. They are facing also an equation with lower food inflation and so on, how do things evolve, not only on the current negotiations where you might tell us in the different countries how it's going on, but more generally on the will to organize promotions with you? And are they responsive to more aggressive, eventually longer promotions to help their sales? Could you tell us about that maybe?

And in this equation you told us you would monitor the cost savings on milk. What's your best guess today regarding '09? Do you think all the benefits will be reinvested to sustain volume? Could you maybe help us a little bit to understand this equation where you have plusses and minuses? Thank you.

Franck Riboud - *Groupe Danone - Chairman and CEO*

I will answer and I will not help you on the last part of your question because if you follow what Emmanuel explained and if I translate the way I understood what he said, it's we have a target and we have different ways to achieve the targets. That's the big news because as you know every time we fix a target for this Company, if we fix a target it's because we feel we can achieve the target whatever the context.

So going back again to what Emmanuel explained, if we have -- and I will not do it because I need two days to explain to you because I have to go product by product, SKUs by SKUs, country by country, businesses by businesses, that the way we will fix our pricing strategy.

And also our relation with the trade. Everybody's looking to the crisis as something negative. Okay it's negative. It's obviously easier to grow when everything is doing well than when everything is doing bad, but as I'm used to say I'm always looking to the glass full, not empty. That's the case for the relation between the trade and ourself because as you described very well, perhaps we have some difficult context but the context is perhaps more difficult for some of them than for us because of their economic model, basically.

You are talking about private label, wonderful, okay, [zero] private label you have the first price and they are discount and so on and so on. Means I can tell you we have no difficulties to have top to top meeting focusing on how, mister customer, I can help you to develop, add value, top line growth in your shelf, which is basically the role of the leader of the market.

And since now 10 years ago -- no, sorry, 12 years, I explained to you that the strategy of Danone is to be locally number one with a big gap with number two, means for me the end game will be the leader, private label, first price. And something around just because you need something else, it could be a local producer for example, a small one with a specialty.

Even Mr. Leclerc, if you look at Michel Edouard Leclerc for the time being now he gets what he want. And if you read the last declaration from Mr. Leclerc he explains just one thing, I'm going to work with the brands, I'm going to protect the brands, obviously I will negotiate, I will control the inflation of the country. Okay, but basically when he is speaking about brands he is with us, so now we have to give to him the right answer in front of his political positioning, but it's not very difficult, so it's an example.

The milk, the price of milk -- something just to give you an example, because obviously globally speaking everything that Pierre-Andre and Emmanuel said was true. Just take France. There is now more milk in the market than the industry need milk, but as Emmanuel said always and as I'm saying always, we are a social responsible Company. We have farmers behind us. We continue to pay the milk, to buy the milk, but with a surplus we have to do something, which is less valorized than the milk itself.

So for the time being in France, we don't see for us an equation with the milk going down dramatically. So we have to explain that. So we have nothing to transfer. In the same time, you know, I know that the last five years our price, our consumer price grew 2% in Danone Fresh Dairy in France.

So obviously if you think at the beginning, the price, France is very expensive, so you have to reduce your -- they are not the good assumptions. First of all, France is the second cheapest country of Europe after Germany. France is not the most expensive country of Europe. That's the second one. So you see that we have really to explain and it's exactly what we are doing with the trade by the time being.

So in terms of negotiation, as I told you, since I'm 53 years old, I start in this Company at 25 years old as a rep, I see no differences now 25 years ago and I think for the next 20 years. Let's say 10 years, I don't know. So clearly the buyer or a retailer tries to buy cheapest as he can and we try to valorize what we sell to the trade.

But when you have Activia growing double digit even in a crisis environment, even in the US or whatever, again, and I explained that since now ten years, we are very close to the trade because they need also to have products with growing where they are making money. So we will pilot, and I think pilot is the right wording for 2009, how could we pilot very, very precisely brand by brand, SKUs by SKUs, country by country and customer by customer.

So if I look at it, I will not enter into negotiations. As usual we can decide to fight with somebody because -- not because we hate this guy. Just because he asks us something and if we give in to him, all the other will ask. So it's better to stop and to work with the other, that's all.

While saying that, don't forget that especially in the emerging countries you know that we have a double strategy. One which is to grow beside our classic big retailers and the other one is to protect and to continue to develop this traditional channel, okay? And we have specific brands, specific range of product. And especially a country like Mexico, we are now selling products at the cross road as you know if you go in this country. And for the first year we start to make money by selling our product at the crossroad.

So I think basically this crisis will help us to reinvent not the Company and the culture because I think that the culture is really adapt to this situation. And I'm sure that the culture is more and more a competitive advantage because we are decentralized, because our people are focusing on their businesses and nothing else. But we will have to reinvent some part of our businesses, the way we drive, the way we are producing. And we can also reduce the cost of production not by making -- by closing factories but perhaps by reinvent the process of some of our products.

So but as you know we start this not this year. That's the only thing I want you to understand. Danone is not entering in what everybody described as the beginning of the crisis which is going to be worse within two or three months. Honestly I don't know, I'm just listening.

The only thing I know is because of this culture of this Company we don't have to transform the way we work even with the trade because of the crisis. We did it before. The Affordable strategy is not something we create for the crisis. It's something we create because we have a mission to bring health through food to the maximum number of people. Nothing to do with the crisis, okay?

Unidentified Company Representative

The next question will come from Jeremy and then we will take some questions from the conference call.

Jeremy Fialko - *Redburn Partners - Analyst*

Hi, it's Jeremy Fialko with Redburn Partners. Two questions. The first one is on your Baby Food business. Obviously the reported like-for-like of 20% was an extremely good number but some one-off factors in that. If you were to strip those out, do you think there is any sort of a slowdown in the Baby Food business?

And perhaps you could comment specifically on a few of the big markets, maybe the UK, Italy, Indonesia and France obviously.

And the second thing is on A&P spending. In terms of the EUR1.7b that you're spending a year, would you expect that would actually decline in absolute terms in 2009? Or do you think it would merely go up by less than it has in the usual year? Thanks.

Pierre-Andre Terisse - *Groupe Danone - CFO*

On Baby Food, I think I said during the presentation that indeed specific effects. But outside these specific effects we estimate that the underlying growth for the fourth quarter has been 10% to 11%, which considering that there are some pricing effects fading away as well, is a level very much in line with what we expected.

If you talk about the evolution of -- by geography sorry, the underlying trend is positive in all geographies. It's in line with what we had in all geographies. It's accelerating in China of course.

Markets globally are far better I think than others. There are some markets which are not growing -- which have not been growing as fast as in the past. France is one example. But because we have been able in all markets to take market shares we keep growing in all markets.

So in the performance of -- in the performance you can see besides the specific effects we see very, very sound numbers.

On the A&P I would not answer the point specifically with numbers. I would just say that we have no intention of using A&P to make our results. We have no intention of milking. We have an intention to invest wherever we think it makes sense to invest to support the growth because there is potential for growth. That has been the case and will remain the case for 2009.

Unidentified Company Representative

Questions from the call?

Operator

Thank you. We have a question now from David Hayes of Nomura. Please go ahead, sir.

David Hayes - *Nomura Securities - Analyst*

Hi, thanks. Just two questions if I can. Just to push my luck a little bit on the guidance for 2009 and perhaps the points that you've made. If we see a breakdown if you like, to use your term, in terms of the macro and sales were as low as 2% to 3% growth underlying, would you still be confident of margin expansion based on the flexibility you talked about in terms of the cost base? I'm just trying to get a feel for, if you like, how much growth you need to get margin expansion and where that gets at risk in terms of your budgets at the moment.

And then secondly, just on dividend payout, I think the dividend payout ratio declined marginally from about 44.5 to just about 43.5. Could you just talk again about the dividend policy for the Company and whether that's a ratio that would increase moving forward or whether it will gradually decrease.

Thanks very much.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

I will take the answers. Can I have a mic'? Can you hear me? Thanks.

Well, by definition, a breakdown would be a breakdown. So I think we would have to meet again and discuss. If as you said, our sales, in the case of a breakdown, we would still grow 2% or 3%, I think we would call it a good news, if there is a major breakdown.

But this is not the case of the way we've built our scenario today and I will just stick to what I said. We believe that we have a band. Obviously this scenario is not a given GDP growth number. But within that band which reflects the current trend and we understand that as Franck just said it may get to be worse in a number of countries including some big ones. We are confident on what I have behind me on the screen.

On the dividend policy I think the average payout historically for Danone has been about 40%. I have to say on the long term basis we are quite committed to this number. Last year we made a very conscious choice at the Board level, approved by our shareholders obviously that beyond the short term dilution of the Numico acquisition that had created a blip in the growth of the EPS last year, we would basically swallow that and serve a dividend that would still represent the growth of the underlying EPS. And that's why that payout rate grew to 44%, 44.5% I think or something of that order.

We don't think that 44.5% is what we want to be the financial policy of the Company. And we see no reason not to, at some point in time, be back to the 40% that we've had for a number of years.

Having said all of that, in the current circumstances and given where the stock price has taken the value for our shareholders over the last 12 months for 2008, our Board has decided that we should be still paying a dividend that would reflect nearly all the growth of our reported earnings. Because if you look at the pro forma earnings that we've been working with you over the last 12 months, this is 15%, so the growth of our reported earnings is 10%. That 10% is basically reflected in the payment of the dividend. So it's another year where the Board has decided to be very friendly to our shareholders in this situation and this is because we are confident on the model that we are building for 2009 and beyond.

Xavier Croquez - *Exane BNP Paribas - Analyst*

Xavier Croquez, Exane BNP Paribas. Two questions.

The first one on the slide 19 regarding margins. The 190 bps negative on input costs, could we get a sense of what the gross input cost impact has been because if we assume that the pricing is hidden there? Pricing might have been around 500 bps, so that could help us to get a sense, the net and the gross figure. Pricing is normally not in operational performances, that's my assumption. So what is the gross impact?

And the second question is Danone is particularly effective in rolling out what works. We are entering the year where you tell us that whatever the way to get there you will deliver the goods. Can we get a few examples, two good ones and perhaps one mistake in terms of what has worked for price elasticity? There must be places where you have not been increasing prices or you have been doing a few aggressive promotions, just to get a sense of what can be achieved in this equation of elasticity, price and volume over the last four, six months. Thank you.

Pierre-Andre Terisse - *Groupe Danone - CFO*

I'll take the first one. Maybe the slide is not fully clear but indeed the 191 bps is reflecting our input costs and the 259 is reflecting the rest, which we have placed under operational performance, which includes pricing and all the other elements. It includes everything. We used to show it in only block. Because of the increase of the cost of raw materials we've chosen to show it separately but it basically includes everything.

Xavier Croquez - *Exane BNP Paribas - Analyst*

(inaudible question - microphone inaccessible).

Pierre-Andre Terisse - *Groupe Danone - CFO*

Yes.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

On price elasticity, a few examples. I think we discussed with you in the past that even before the melamine crisis in China, we had introduced a big change in the Bebelac positioning, which is our second brand in China for Dumex, with a very significant discount to the super premium brand that we have. And that has allowed us to take very significant market share while still developing our profitability in China. When I say very significant we're talking about several points of market share that we have gained on the matter of not even a year in China. That's an example for Baby Food.

In Dairy, I could say Actimel in Poland for example. We have very significantly decreased the price of Actimel and as a result of that the trend that was double digit negative for several months after several price increases that we had taken, is now back to a multiple of double digit growth basically. So it's growing very, very fast.

You've asked for recent examples. I cannot say that we have taken or we can fully take the learnings from the Actimel Poland story. It's still going as we speak. But this is definitely something on which already a few other countries including Spain, says Franck, are working on in terms of rolling out that strategy together with, and it's a full repositioning including as we said mix, communications, etc.

For examples who haven't worked I think you can read the papers in France at least.

Unidentified Company Representative

We'll take the next question from the call please.

Operator

Thank you. We'll take our next question now from Marco Gulpers from ING. Please go ahead.

Marco Gulpers - *ING - Analyst*

Yes, good morning all. I have two questions, if I may. The first is on China. Could you update us on the launch program in Dairy? What is your current stance? When do you expect to start launching your products in China?

And the second is related to paying down debt. Could you update us on what you believe would be achievable in terms of paying down debt in 2009 and maybe include also your guidance for CapEx plans in 2009 in that? Thank you.

Franck Riboud - *Groupe Danone - Chairman and CEO*

No, on the first question I will not tell you when we are going to launch our product in China because it's done. So we started the launch of Bio which is Activia in Shanghai, controlling 100% by us and it seems that we recovered the same success we had when we slowed down because we were negotiating to go out of the JV with the Chinese local partner. So I think that will be a comment let's say in the middle of the year. But the restart is a very good one but we are not surprised because the success was there.

So now China will benefit of all the organization, like the acceleration unit organization we have, to deploy all the strengths of Activia which is Bio in China during the next months and next years. So China will contribute to the success of Activia for the following years. That's the only comment I can do on China.

Pierre-Andre Terisse - *Groupe Danone - CFO*

Yes, on the debt, you've seen our cash flow for this year, which is close to EUR1.2b. We still expect to grow it significantly. Then the other elements which move the debt are the dividends. You've seen the level of payout. You've seen as well in press release that we have chosen, given the current volatility and price volatility in the stock price and the value which is needed to offer the versatility to our shareholders to opt for payment in cash or for payment in stock. And these are basically the two elements which are going to make the debt move, except for any acquisition or disposals, which I'm obviously not going to comment on.

On your specific point about the CapEx, as you've seen we've slowed down the level of the CapEx at 4.6%. And I think it's at this moment, the best reflection of what we are doing.

I'm sorry. Just to add because I forgot that, you've seen as well in recent press release that we have received the cash from the disposals from Frucor which is in excess of EUR600m. And there is another transaction pending which is Huiyuan for which Coke is still waiting for the approval from the Chinese authorities within the legal time frame.

Marco Gulpers - *ING - Analyst*

Thank you.

Operator

Thank you. We'll take our next question now from Michael Steib of Morgan Stanley. Please go ahead.

Michael Steib - *Morgan Stanley - Analyst*

Good morning. I've got two questions please.

The first one is, Emmanuel, when you presented to us in November, I think you made a pretty specific reference regarding input costs and you discouraged us from factoring in falling input costs into any expectation regarding margin improvement in 2009. Yet in the press release this morning, there was specific reference about improving input prices in key commodities benefiting the margins. Are you planning therefore to retain perhaps more of these sort of savings essentially relative to last year in 2009 than what you had previously anticipated or planned for?

And then my second question would be just on current trading. Could you give us an update on how Q1 is shaping up, if basically the volume trends that you described for Q4, have they largely continued in January? Thanks.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

On the input prices, no, I don't think there is a change in the scenario. The fact is that input prices have gone down even quicker in a number of countries in terms of skimmed milk powder. The same would apply for example for oil. Our scenario for oil price as we described it in November was significantly higher than what happens today. So the overall slowdown has created an indirect effect on the input price situation.

But at the same time as I said earlier this morning, we expect it to be both a need and an opportunity to reposition some of our pricings. Whether this is through promotions, or whether this is through repositioning of prices, we don't know yet. This is a combination obviously. But I don't think that you should expect a proportionally higher retention than what we had in mind in November. So I would still insist on the fact that this tailwind will allow us to drive the transformation, the continued transformation and accessibility of our blockbusters through 2009 and to create a long term sustainable positioning for our blockbusters going forward.

On the current trading, I think you will have to be a bit more patient as usual.

Michael Steib - *Morgan Stanley - Analyst*

Okay.

Franck Riboud - *Groupe Danone - Chairman and CEO*

We'll take questions from the floor.

Unidentified Audience Member

(inaudible - microphone inaccessible). The first will be on China, a follow-up about the launch of Bio Activia. You mentioned 100% control. Does it mean that you have bought some local facilities to produce it or have you created it from zero?

And continuing on China, on Baby Food, you benefited in Q4 from the disaster in milk powder. Are you expecting some impacts of the collapse of your local competitors to last in the coming quarters? So this extra growth of a couple of percentage points you added to the category in Q4, is it something that could continue for the next two or three quarters? Thank you.

Franck Riboud - *Groupe Danone - Chairman and CEO*

On the first question, yes, we have two small now milk factories, very small in China. So we control what we are doing 100%. And I say it's very fresh because we restart three weeks ago. But we already have, just to give you an example in the Shanghai area, 65% distribution in the area of Shanghai which is very fast because the memory of the product is already there. So it's not like you stopped during ten years and you come back. It's -- the overlapping was very well organized between the way we produced before and the way we produce now.

The good news for us is that we control. It means we are building our sales force. We can really do exactly -- as the question of -- the previous question about re-rollout. So we start to roll out. That was more difficult for us in the past because we have to deal with the Chinese partner. We don't have to deal with. We do as we know, which is exactly the same way done everywhere.

Means that will I think accelerate in terms of results. China is always the same story. It depends if you consider China as a wall or if you consider China something you have to go step by step. And I think we learn a lot the last 15 years about this. So we go step by step but very solid.

The second question about the competition, now China is China. So you know the most difficult thing in that kind of crisis situation is to take the right assumption because if you are dreaming about the wrong assumption you will drive your company in the wrong direction. So the best way for me to answer to your question is very directly, say no.

The right assumption is not to feel that we will have a collapse of our Chinese competition. No, they will come back, because we are -- first because we are in China, second because they have to save their business. Third because it's never good for everybody in the category that somebody has a safety issue in the category. So they will come back.

On the top of that if we grow plus 20%, plus 20%, plus 20%, or more than 22% of the total net sales of the Company, I'm not sure that Emmanuel will say points or whatever below last year. So it's a global construction, global way of building the result. I think that the trend that Pierre-Andre said about the normal trend will be around 10%, I think is a better assumption than to think that the Chinese competition will disappear.

On top of that you don't have any Chinese competitor in China. The only thing I think we have to take benefit of this situation and perhaps accelerate the number of people, the number of reps to reinforce our presence in terms of territory in China. That's I think the best thing to do by the time being.

Just on the market share on Dairy, because Emmanuel mentioned that we gain, just to give you the amplitude. At the world level, in the country where we are, obviously because where we are not, we are not, we gained something close to 2 points market share on a one year basis, 1.6% at the world level.

Pierre-Andre Terisse - *Groupe Danone - CFO*

On Baby Food.

Franck Riboud - *Groupe Danone - Chairman and CEO*

Baby Food, where we are. And the number two is losing something like 0.4%. So the gap is quite -- 2 points, which is huge in that kind of market.

Unidentified Company Representative

Next question.

Pierre Tegner - *Oddo Securities - Analyst*

Good morning, Pierre Tegner, Oddo Securities. I have two questions if I may. First of all are you facing some issues with some retailers specifically in emerging markets concerning the working capital? And how do you manage this issue?

And secondly, concerning Russia in November you explained that Russia was with Mexico and North America one of the three major countries where you probably will have to face some consumption disturbance. Could you make some update concerning these countries in terms of categories?

Pierre-Andre Terisse - *Groupe Danone - CFO*

Yes, I take the first. On the retailers, we obviously see around us retailers having more difficulties than they used in the past. We mentioned one specific case in Mexico earlier in the year. We have obviously immediately reinforced the way we manage our sales and the control of the cash with the delivery. So we are -- we have very tight procedure in place and so far we've not seen any other specific issue than the one we mentioned about Mexico. But we believe we have to keep managing these very tightly because retail is indeed and indeed in some countries and locations have problems.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

On the three geographies you mentioned, I think in Russia the teams had been preparing an incredible plan operationally to counteract the effects of the slowdown during the Q3. That was applied in the Q4, frankly quite successfully. So rather than on the high side of our expectations from a category standpoint, both for Dairy and for Baby Food.

Having said that when you look at the market shares, it clearly shows that this was not a category situation but really the competitive situation and how Danone has, Danone teams have reacted. So overall we believe that the macroeconomic scenario we have depicted for Russia is in place in Russia. How competitors will react to that is yet to be seen, but I can confirm that the consumption trends and patterns particularly at the back end of Q4 are the ones that we were predicting, a big slowdown.

Mexico, no change from what we said earlier. We see a significant slowdown in Mexican consumption patterns, on the back of the relationship, economic relationship and financial relationship with the US quite likely, but no change from our previous case. And as far as the US is concerned, I think the most recent consumption patterns show that indeed there is significant slowdown in the US.

Joseline Gaudino - *Societe Generale - Analyst*

Continuing -- Joseline Gaudino, Societe Generale. Continuing on Russia, what is today the book value of your stake in Wimm-Bill-Dann? And due to the environment of the Russian market what is your plan with your stake? Could you have a chance to do something?

In terms of China, what -- also for an update on the situation on Wahaha and especially with the court of Stockholm? And when do you expect something and what are you expecting?

And in terms of your price positioning, normally it's at the beginning of the year, when you renegotiate some with the retailers. So is everything set? And I mean the price position in Q1 to do, to achieve, is it already done or will it be from time to time, depending on the situation, on different countries, different brands? So have you already a global and a good view of what you want to do in the price positioning -- repositioning the Company.

Franck Riboud - *Groupe Danone - Chairman and CEO*

I will answer to the third one very quickly. If I took France, as you know we have to finish the negotiation by mid-February, something like this. So it's not done.

Now globally speaking more and more with all the customers, we are working with business plans. So it means we fix targets and after that we discus together what kind of tools we have to put in place to achieve the targets. So it's not only a question of pricing. It could be pricing on an ongoing basis.

It could be also what we call the storm story. It means for example when a customer wants to make a good big event on health because of whatever, we try to put all health products in promotion at the same time, our advertising at the same time, our reps on the field in the same time, which is something nobody talks about.

But also in terms of competitive advantage, when you look at what happened in a crisis situation with some of our number two, number three competitors, one of the first thing they decide is to reduce the sales force. In a country like France we are increasing the salesforce, because you know that we make a test. That was I think in the [Sancerre] region, to see how with what kind of return we have with more bigger pressure coming from the field, which is something we are going to expand also in France.

So, no, the negotiations are not done, but honestly, the same story as all the year, every year, nothing new. Perhaps because of the crisis, an obligation of everybody to go very fast to start the year, at the beginning of the year. And again, you know I don't think somebody will quit products like Activia, Actimel, Danacol in this crisis situation because they are still delivering far better than the other. That is the Danone answer.

Pierre-Andre Terisse - *Groupe Danone - CFO*

On Wimm-Bill-Dann, we have essentially made an impairment based on the additional stock price. And therefore we put the value back down to the stock price at the end of the year.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

I don't have a specific answer on your question about the overall situation of Russia and what we could do with Wimm-Bill-Dann. It's -- this company is a listed company. We've been a shareholder for a long time and we obviously pay attention to keeping a dialogue with this company for the long term as well.

For Wahaha, dialog would probably not be the right word and long term I don't know. But the situation is that there has been the court of Stockholm audiences in January, where both parties have a fair chance to expose their claims and defences. We expect the court to render the judgment somewhere at the back end of first half and I don't think that there will be significant developments on that front other than tactical, before that judgment comes.

Unidentified Company Representative

We'll take a question from the call, please.

Operator

Thank you. We'll take our question now from Chris Wickham of MainFirst. Please go ahead, sir.

Chris Wickham - *MainFirst - Analyst*

Yes, sorry, just one. Is the -- when you're looking at China going by Dairy, some people are just speculating on the actual melamine effect. Is there anything that you could give a rough indication of quantity in your mind?

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

Can you specify the question sorry?

Chris Wickham - *MainFirst - Analyst*

Is there a number that you'd have in mind by how much China benefited in the fourth quarter from what you're calling the market share effect but people will obviously think about as melamine.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

I think we have a preconceived response to this, no?

Pierre-Andre Terisse - *Groupe Danone - CFO*

We've said overall that the base effect and the effects coming from the increase of our market share will represent approximately 9 to 10 points out of the 20% growth which you have seen on Q4.

Chris Wickham - *MainFirst - Analyst*

Okay. Thank you very much.

Unidentified Company Representative

One more from the call please.

Operator

Thank you. We'll take our next question now from Mario Montagnani of Cheuvreux. Please go ahead.

Mario Montagnani - *Cheuvreux - Analyst*

Yes, good morning all. Mario Montagnani, Cheuvreux. Just a follow up question on the commodity impact for 2009. Can you just recap how we should basically project the phasing of this lower pressure coming from lower input costs in 2009?

And the second follow up question is on pricing. I didn't get very well what you said in terms of pricing that you expect in the Dairy division for 2009. Thank you so much.

Pierre-Andre Terisse - *Groupe Danone - CFO*

Again on commodity what we basically said is that, yes, there are some tailwinds. You just have to, you just need to have a look at the evolution of the price of oil and the evolution of the price of milk at least in some markets to see that there would be tailwind. We've said as well that we did not want to comment specifically on that and obviously neither on the phasing. Considering that we see that as part of the global recession, we'll have to manage geography by geography, market by market, together with volume and pricing.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

Just on pricing, let me summarize what I meant. We see opportunities to reposition our products. We discussed the example of Actimel in Poland briefly. That could lead to significant volume growth opportunities after a few months. We will use the input price decline which is overall on the rather high end of what we expected in the scenario that we discussed with you in November -- it is still in the scenario so it's not out of the scenario but it's rather on the high end overall -- to put our prices through promotions or directly in price positioning at a level where we believe that creates sustainable growth for our blockbusters.

As a result of this I think that you should not expect any significant price effect coming, positive effect I mean. And we could also have actually negative from quarter to quarter because we are not going to manage this transition on a quarterly basis obviously on the Dairy side. So essentially growth this year for Dairy, will be on the back of the mix, that's for sure. We're very clear on this and tactically and where depending we see the growth happening and how fast volumes.

Mario Montagnani - *Cheuvreux - Analyst*

Thank you.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

Sorry, by the way, let me just add one thing, which is another reminder of what we discussed in November, talking about phasing. I'm sure you still have in mind that last year at the same period we were growing 11% on a like-for-like basis for the first quarter of 2008. This is a tough comp for this first quarter of the year. So when we discussed in November we said that we would have very, very limited growth. It could be zero to something. We don't think that it is going to be an impediment to the guidance that we've given.

Mario Montagnani - *Cheuvreux - Analyst*

Fair enough. Thank you.

Unidentified Company Representative

We'll take the last question from the call please.

Operator

Thank you. We'll take our next question now from [Sirus Azkamin] of Credit Suisse. Please go ahead.

Sirus Azkamin - *Credit Suisse - Analyst*

Hi, quick question on FX. Minus 6% to 7% sounds quite high at current rates. Could you just tell us what -- is there a difference between the impact on the top line and on the EPS basically? And could you give us a sense of that if possible?

Pierre-Andre Terisse - *Groupe Danone - CFO*

No, there's no major difference between the impact on top line and the impact on the net income. It sounds a lot. At the same time if you have a look at the evolution of currencies between our Investor Seminar and now, a lot of them have lost 10%, 20%, 30%.

That's the case even in industrialized countries. I'm thinking of Great Britain for instance where we now have business in all four divisions. That's the case in South America, with the Brazilian currency which has already started depreciating. But as, going further, that's the case of the two pesos in South America, that's the case of the ruble in Russia, that's the case of the Indonesian rupiah. So that's basically reflecting what I said.

Sirus Azkamin - *Credit Suisse - Analyst*

Thank you.

Unidentified Company Representative

If there are no further questions, we would like you all -- like to thank you all for your presence here and for your questions.

Franck Riboud - *Groupe Danone - Chairman and CEO*

Thank you.

Pierre-Andre Terisse - *Groupe Danone - CFO*

Thank you.

Emmanuel Faber - *Groupe Danone - Deputy General Manager*

Thank you.
