



# FORWARD LOOKING STATEMENTS

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**This presentation contains forward-looking statements that reflect Danone's current views and estimates. These statements are based on many factors and assumptions. Changes in such factors or assumptions could produce significantly different results.**



# **Analyst meeting**

## **Paris**

### **October 19, 2005**



## **Preliminary notes**

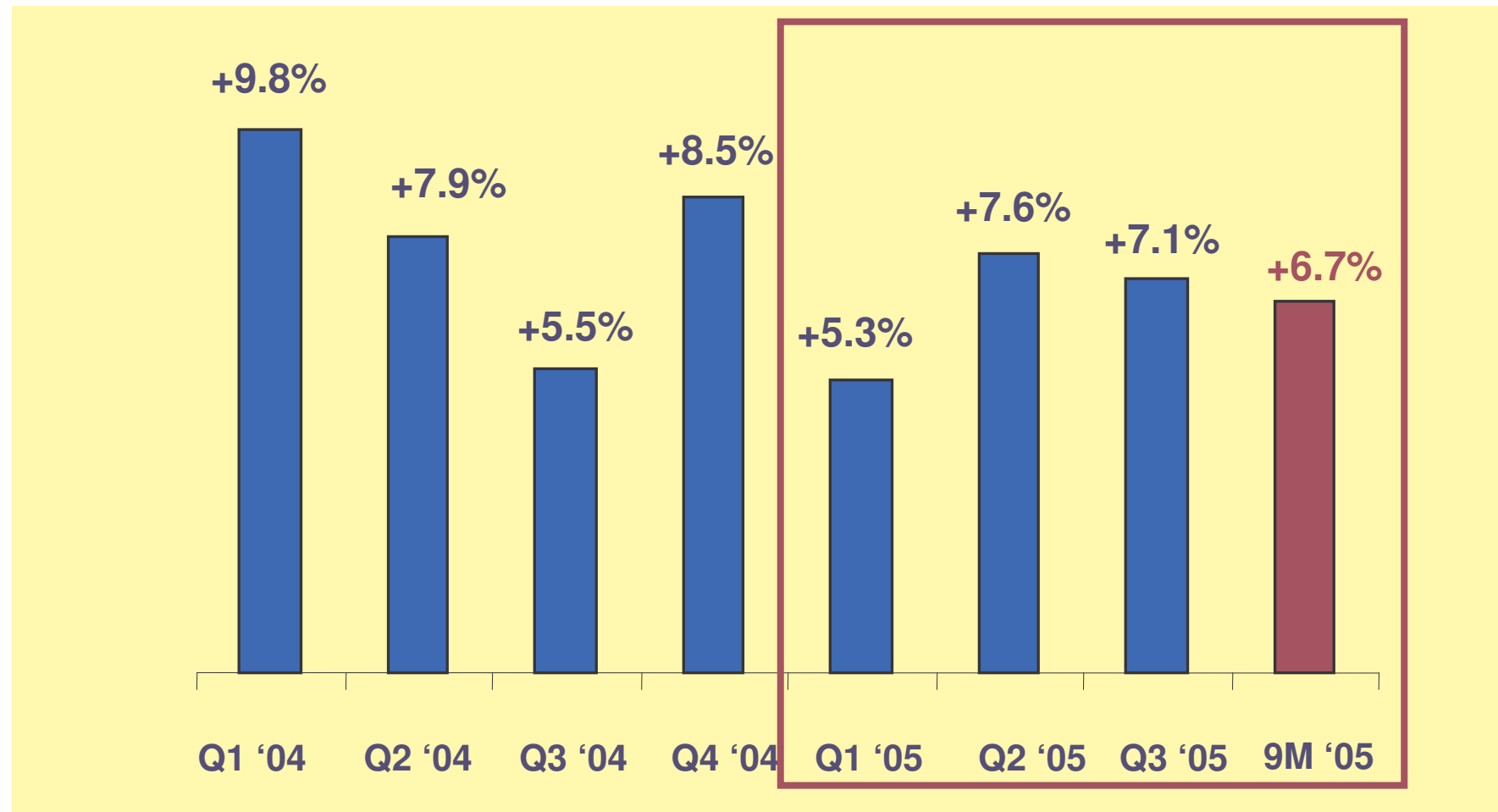
- **All figures are under IFRS**
- **2004 and 2005 figures from Net sales to Operating income exclude the Sauce business**
- **The net income of the Sauce business is reported on a separate line of the P&L, namely “Net income from discontinued operations“**



# Q3 2005 SALES



## 2005 Like-for-like sales growth



2004 figures are under French Gaap and include Sauces 2005 figures are under IFRS and exlude Sauces



## 9 months sales figures: key take-ways

- ⊠ A performance to date in line with historical track-record:
  - ↳ +6.6% CAGR 99-04 – organic sales growth
- ⊠ Q3: no change in growth patterns vs H1
- ⊠ France continues to weigh on top line growth: -3% sales growth (9 months to date)
- ⊠ Good performance of Europe excl. France: over +7% (9 months), driven by Eastern Europe and Northern Europe (UK and Germany)
- ⊠ Very solid growth in Asia, North America (Fresh Dairy) and Latin America
- ⊠ New Frontiers countries: a powerful growth engine, with sales up in the high teens (9 months)



## From reported sales growth to like-for-like sales growth

	H1 2005	Q3 2005	9M 2005
Like-for-like Net Sales	+6.5%	+7.1%	+6.7%
Currency	-0.4%	+1.6%	+0.3%
Scope of conso.	-3.2%	-1.9%	-2.8%
Reported Net Sales	+2.9%	+6.8%	+4.2%



## Q3 2005: major impacts of exchange rates

	% total 9M sales	Q3 '04 vs Q3 '05 (average)	9M '04 vs 9M '05 (average)
Chinese Yuan	10%	+1%	-3%
US Dollar	7%	+0%	-3%
Mexican Peso	4%	+5%	+0%
Indonesian Rupee	2%	-8%	-10%
Polish Zloty	2%	+10%	+14%
Brazilian Real	1%	+23%	+15%

52% of total Group sales are denominated in Euro (9M 2005)





# Major changes in scope of consolidation\*

As of

Jacob's (UK)  
&  
Irish Biscuits (Ireland)

September 2004  
August 2004

Biscuits Latin America  
(Brazil & Argentina) <sup>(1)</sup>

January 2005

Italaquae

January 2005

Al Safi <sup>(2)</sup>

July 2005

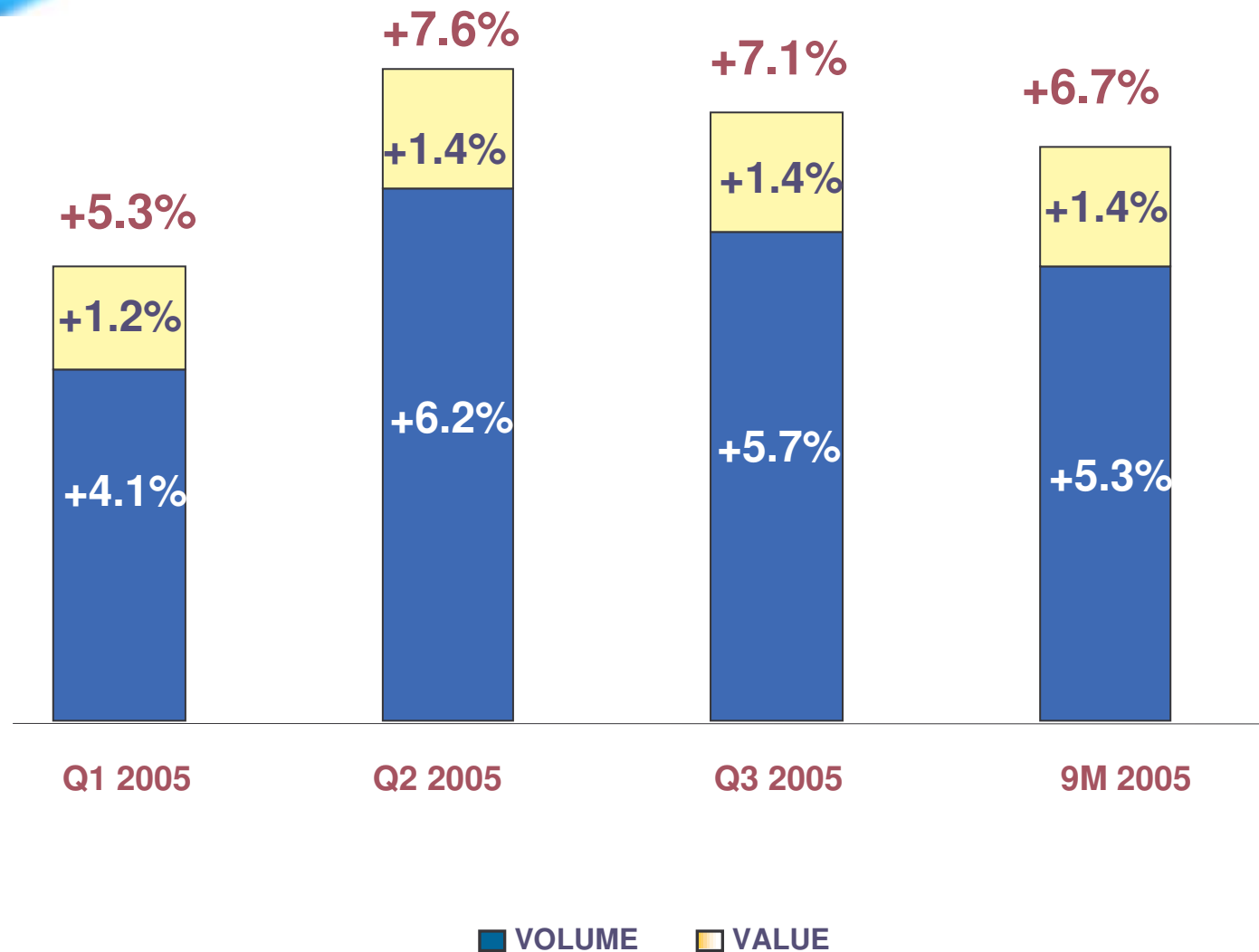
\* Fully integrated cies

(1) In associates as from January 2005

(2) previously in associates / est. FY 9  
sales: c. 160 m€



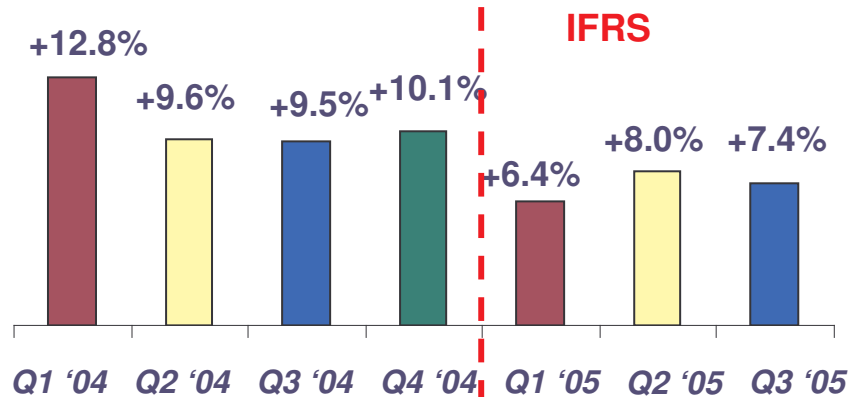
## Like-for-like sales growth strongly driven by volume



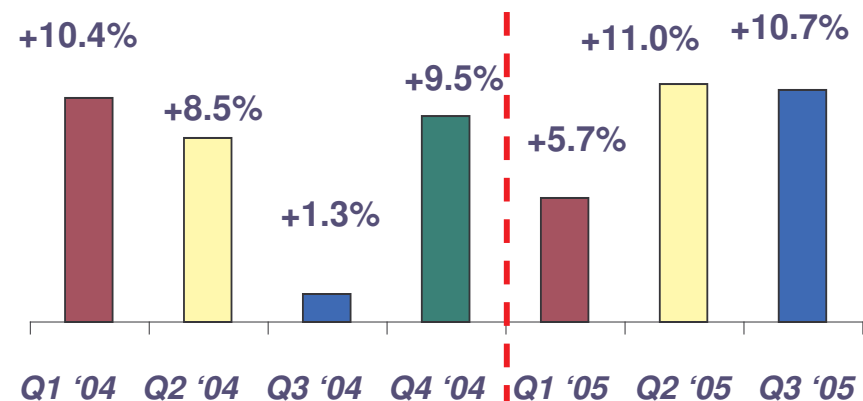


# Quarterly like-for-like sales growth by geographical area

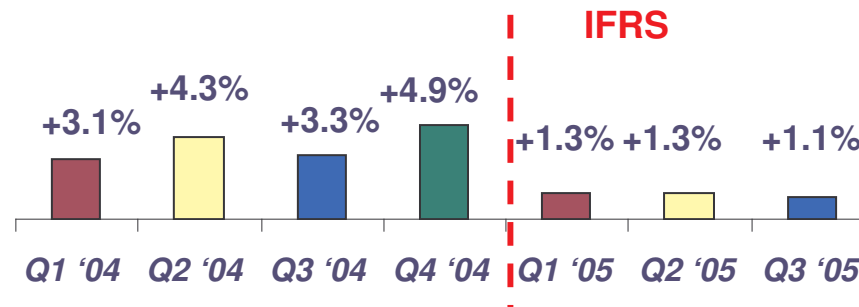
## Fresh Dairy Products



## Beverages

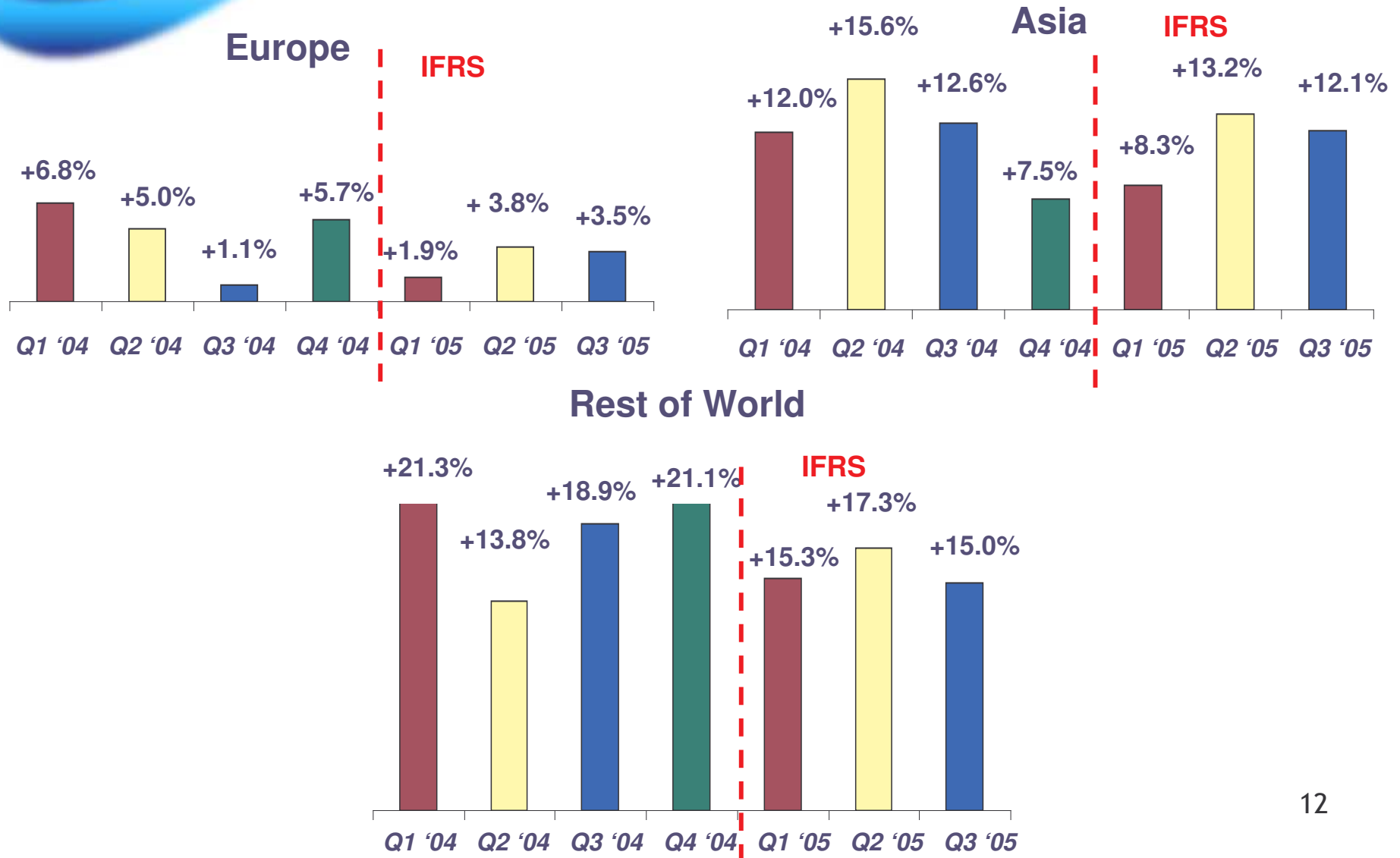


## Biscuits & Cereal Products





# Quarterly like-for-like sales growth by geographical area





## Fresh Dairy performance (Q3 05)

- ⊗ Top line excluding France continues to grow low double digit as in H1
- ⊗ Europe (excluding France) growing over +7% (Q3 and 9 M) driven by
  - Northern Europe (mainly UK: over +20% and Germany: c. +10%)
  - and Eastern and Central Europe: c. +15% in Q3 (Russia and Turkey as major growth drivers)
- ⊗ Very solid growth again in North America (low double digit) and Latin America (over +20%)
- ⊗ Blockbuster brands growing around +15% in Q3 driven by Activia (> +30%) and Actimel (> +15%)



# Product activity in Fresh Dairy: key launches



## Activia:

- Recent roll-outs: Poland, Turkey, Morocco and Argentina
- New formats: Activia tea drinkable in Portugal...



## Milkkuat:

- Launched in Sept '04 in Indonesia
- Dairy beverage with Vitacal to help children grow



## Actimel:

Recent roll-outs in Romania and Slovenia



## Danonino:

Danimals (USA) : VPI\* product at Walmart

## Taillefine renovation

« double zero » - no fat – no added sugar

- Launched in April 2005 in France
- Roll-out planned in Spain, Italy...

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\* Velocity Producing item



## Beverages performance (Q3 05)

- ⊗ **A very solid growth driven by**
  - **Asia +14%, with China +13% and Indonesia +20%,**
  - **and Latin America, especially Mexico c. +40%**
  
- ⊗ **Slowdown in Europe (excluding France) after a very strong H1, as a result of poor weather conditions in Northern Europe and product shortage - YTD like-for-like sales growth: +10%**
  
- ⊗ **Innovation remains a key driver of top line growth, although contribution was lower in Q3 vs H1, particularly in Asia**
  
- ⊗ **Aquadrinks and functional drinks account for an increasing part of sales**





# Product activity in Beverages: moving further from Water to Beverages

## Smako Lyk in Poland

- Launched in Q2'05
- Flavoured still water
- Accounts for 50% of total cy sales growth



## Smoothie in China

- Launched in H1'05 at Wahaha
- Milk Drink
- Great contributor to growth



## Taillefine FIZ in France

- Launched in Q2 05, targeting women 20-50 years old
- Has gained #1 position on Light Carbonated Fruit Beverage segment



## Volvic Thé

- Launched in Q2 05 as the first « Health and Naturality » - low sugar content
- 2nd brand behind Lipton

## Sensacion in Spain

- Launched in H1 '05
- Creating Flavoured water market in Spain







## Biscuits performance (Q3 05)

- ⊗ Top line growth driven by Asia, with Indonesia close to +30%, high single digit growth in India, China and Malaysia around +10%
- ⊗ Steady Sales in Europe with
  - a very good performance of Spain (c. +10%),
  - France flat despite a challenging environment and thanks to a sustained product activity (innovation/renovation)
  - Decreasing sales in Eastern Europe (-5%) - Russia penalized in Q3 by temporary slowdown in consumption but YTD sales growth still > +20% – Difficult trading conditions in Poland



# Product activity in Biscuits: a greater contribution to sales

## France

- LU France accounted for 60% of new products market wise (YTD 05)
- Top 4 Innovation 2005 = 40% of sales generated from innovation



*Paille d'Or Citron*

*Taillefine délices aux framboises*



*Fuji Mikado Caramel*



*Prince Crak'n Choc*

## Spain

- Launched in 2005
- Marie LU Choc: roll-out of "Lu petit Déj " low sugar from France
- Principe Estrellas: New product targeting children



*Marie Lu Choc -25%*



*Principe Estrellas*

## Russia

- Tornado Brand extension



*Tornado rolls w/ billberry filling 200g*



## Update on France

- ⊠ Household consumption remains very soft, with trade-offs against food categories
- ⊠ 9-month sales: down -3%
- ⊠ Very limited market share erosion in Fresh Dairy and Beverages, gain in Biscuits and Baby Food
- ⊠ Innovation remains critical to top line growth expansion



# Dairy France: "Uniqueness" campaign on air in September

✕ 8,500 billboards

✕ TV - 5 commercials

✕ Brochure "Seul Danone"

❑ Danoé (1,700,000 units)

❑ In stores (300,000 units)

✕ Internet site

❑ All information on the campaign :

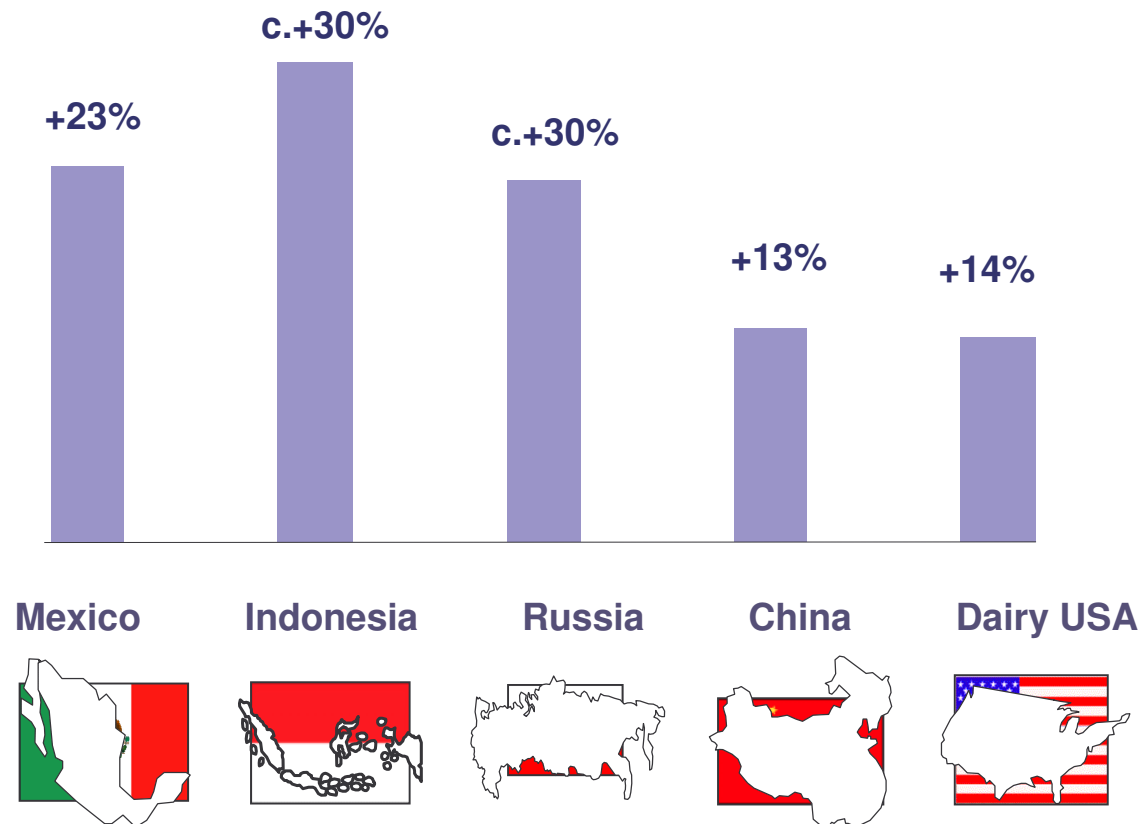
[www.seuldanone.com](http://www.seuldanone.com)





# New Frontiers: a powerful growth engine

- ✕ 5 countries representing over 25% of total sales
- ✕ Growing on average in the high teens (9M: +17%)





# New Frontiers: a powerful growth engine

✕ accounting for 40% of our Capex FY 05 (e), or 100% of the increase vs FY 04 (in M€)

- ❑ Dairy in Russia: increasing industrial capacity threefold in 2 years
- ❑ Wahaha in China: building 4 new hot-fill lines
- ❑ Dairy Mexico: building 2 new lines in Hiraupato factory (drink / yogurt)
- ❑ Dairy US: new lines for Multiplicity project at Dannon (launch of new format =X4 cups) / doubling industrial capacity at Stonyfield

✕ strengthening their market position over the period

- ❑ Dairy in Russia: market share up +3 pt, to 24.8% market share (value - YTD)
- ❑ Beverage Mexico: up +4 pt to 36% market share in bottled water market (Plain + Flavoured- value- YTD)
- ❑ Dairy USA: market share maintained at 36.4% market share (value -YTD)



## H1 05: trading operating margin progression

- ⊗ Reported Ebit margin up +21 bp to 13.3%
- ⊗ Changes in the scope of consolidation contributed positively up to +48 bp
- ⊗ Marginal impact of currency translation
- ⊗ Like-for-like margin down -25 bp
  - a severe hit from Input costs, mainly plastics: -75 bp (net) on Group margin / -200 bp (net) on Beverages and Asia margins
  - Country mix contributed negatively, partly due to France





## H2 05: impacts on trading operating margin

- ⊗ **Change in scope of consolidation to contribute positively again**
  - ↳ Full-year impact : c. +40 bp (est.)
- ⊗ **Input cost to impact less negatively in H2**
  - ↳ Full-year net impact expected to be at least as high as 2004
- ⊗ **Country mix to remain a drag, and France to remain under pressure**
- ⊗ **Contribution from innovation in Asia lower than expected**
- ⊗ **Themis: neutral in H2 as in H1**





## 2005 Landing

**Sales like-for-like**

**+6% to +7%**

**Trading operating  
margin**

**at least +20 bp**

**Underlying EPS\***

**at least +10%**

\* From continuing activities



# Financial position

€ Million

	<b><u>2004</u> June 30</b>	<b><u>2004</u> Dec. 31</b>	<b><u>2005</u> June 30</b>
<b>Net debt</b>	<b>5,203</b>	<b>4,538</b>	<b>4,830</b>
<i>Of which Put options granted to minority interests</i>	<i>2,018</i>	<i>2,440</i>	<i>2,334</i>
<b>Equity incl. minorities</b>	<b>4,772</b>	<b>4,506</b>	<b>4,273</b>



## Financial position

- ⊗ **Cash proceeds from divestments**
  - **HP Foods: c. 680 M€ (completed in August)**
  - **Mahou: c. 600 M€ (to be completed in December)**
  
- ⊗ **Share buyback YTD: c. 580 M€ ( or 7.1 million shares) net of stock option exercise \***
  
- ⊗ **An increased financial flexibility**
  
- ⊗ **Reinvestment of cash in the business remains top priority**

\* Treasury stock as of 09/30/05: 7.5% of outstanding capital (= 264.6 million shares)



## **Groupe Danone strengthens its positions in North Africa-Middle East region**

- ✕ **Biscuits Tunisia: increase of stake in Sotubi from 20% to 49%**
- ✕ **Entry into Biscuits market in Algeria:**
  - Through a partnership agreement with Sotubi
  - Creation of a JV, 51% held by Danone, and fully managed by Danone
  - A plant to be built in 2006
- ✕ **Entry into Fresh Dairy market in Egypt:**
  - By acquiring Olait, a local player
  - A plant in Cairo / capacity: c. 25 KT
  - Products to be sold under the Danone brand
- ✕ **Al Safi fully consolidated as of July 2005**



## **North Africa-Middle East: a region of opportunity – a region of potential**

- ✧ **Around 300 million of potential consumers**
- ✧ **Population is growing fast (+1.7% per year)...**
- ✧ **... and is very young (1/3 < 15 years old)**
- ✧ **Per Capita Consumption in our categories is still low**
  - ❑ **Fresh Dairy : 4.5 kg/capita vs 22 kg in Western Europe**
  - ❑ **Biscuits : 2 kg/capita vs 7 kg in Western Europe**



# North Africa-Middle East: strong market positions



Total sales in the Region: c. 1.1 billion € in 2005 with # 1 market position

\* (Bottled only )

Market share in Dairy      Market share in Biscuit      Market share in Water      In value 30



## North Africa-Middle East: our strategy

- ✧ **Develop products to suit local needs**
  - ❑ Assiri (Morocco), Mamzouj (Tunisia)
- ✧ **Ensure product affordability**
  - ❑ Optimal price points / downsizing
- ✧ **Adapt Danone success model to the local context**
  - ❑ Petit Danone, Danette, Danao, Dan'up, Activia, Tiger
- ✧ **Increase product availability**
  - ❑ Increase numeric distribution
  - ❑ Free placement of fridges
- ✧ **Strong partners**
- ✧ **Transfer Danone know-how & best practices**



## Conclusion

- ✧ **Danone business model delivering best-in-class performance despite challenging environment:**
  - ❑ consumption softness in home market,
  - ❑ surge in input costs
  
- ✧ **A very focused platform in terms of categories and geographies**
  - ❑ a worldwide leadership in our 3 categories
  - ❑ built on the sum of local #1 positions (more than 70% of sales achieved with local #1 positions)
  - ❑ New Frontiers countries: a powerful engine for profitable top line growth
  - ❑ potential for further growth based on 3 major levers: **Affordability, Proximity and Awareness**





## Conclusion

- ✧ A genuine and undisputed Health & Nutrition positioning
  - ❑ part of the Group's DNA,
  - ❑ backed by leading-edge R&D expertise and outstanding product achievements (e.g. Probiotics),
  - ❑ and deeply associated with our flagship brand name.
- ✧ Our ambition is to bring Health through Food and Beverage to the largest amount of people around the world
- ✧ A distinctive Corporate culture as a core asset to take up this challenge



# BACK-UP



## Sales by business & geographical area

€ Millions

Q3 2004

Q3 2005

Like-for-like growth

Fresh Dairy Products	1,642	1,838	+7.4%
Beverages	888	966	+10.7%
Biscuits & Cereal Products	668	612	+1.1%
Europe	2,076	2,088	+3.5%
Asia	553	626	+12.1%
Rest of World	569	702	+15.0%

<b>GROUP</b>	<b>3,198</b>	<b>3,416</b>	<b>+7.1%</b>
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## 2005 Q3 like-for-like sales growth at the top end of our FY target

*Like-for-like*

H1 2005

Q3 2005

9M 2005

Fresh Dairy Products

+7.2%

+7.4%

+7.3%

Beverages

+8.6%

+10.7%

+9.3%

Biscuits & Cereal Products

+1.3%

+1.1%

+1.2%

Europe

+2.9%

+3.5%

+3.1%

Asia

+10.8%

+12.1%

+11.3%

Rest of World

+16.4%

+15.0%

+15.9%

**GROUP**

**+6.5%**

**+7.1%**

**+6.7%**



## 2005 Q3 like-for-like Sales growth Breakdown volume/value

*Like-for-like*

	Volume	Value	Total
Fresh Dairy Products	+6.2%	+1.2%	<b>+7.4%</b>
Beverages	+7.7%	+3.0%	<b>+10.7%</b>
Biscuits & Cereal Products	+1.8%	-0.7%	<b>+1.1%</b>
Europe	+2.8%	+0.7%	<b>+3.5%</b>
Asia	+9.8%	+2.3%	<b>+12.1%</b>
Rest of World	+12.3%	+2.7%	<b>+15.0%</b>
<b>GROUP</b>	<b>+5.7%</b>	<b>+1.4%</b>	<b>+7.1%</b>



## 2005 9M like-for-like Sales growth Breakdown volume/value

*Like-for-like*

	Volume	Value	Total
Fresh Dairy Products	+6.0%	+1.3%	<b>+7.3%</b>
Beverages	+6.9%	+2.4%	<b>+9.3%</b>
Biscuits & Cereal Products	+1.3%	-0.1%	<b>+1.2%</b>
Europe	+2.0%	+1.1%	<b>+3.1%</b>
Asia	+9.8%	+1.5%	<b>+11.3%</b>
Rest of World	+13.7%	+2.2%	<b>+15.9%</b>
<b>GROUP</b>	<b>+5.3%</b>	<b>+1.4%</b>	<b>+6.7%</b>