



DANONE

First Half Year Results 2010

July 27th, 2010

Danone continues to deliver strong volume and sales growth FY sales outlook increased to at least +6%; margin and FCF outlook reconfirmed

- Sales increased 6.9% in Q2 and 7.0% in H1 10^[1]
- Volume growth of 8.9% in Q2 and 9.8% in H1 10^[1]
- Trading operating margin, at 15.30%, in line with the margin of FY 09
- Underlying fully-diluted EPS increased 7.7% to € 1.38 in H1 10^[1,2]
- FCF from operations increased 34.9% to € 858 mln in H1 10
- FY sales outlook increased to at least +6%^[1], margin and FCF outlook reconfirmed^[3]

Chairman's comment

“Our results in the first half of this year confirm our strong start in 2010. We continue to invest in countries, products and brands with a strong potential: baby nutrition in Asia, dairy products in the US, in Brazil as well as in Russia where the Danone-Unimilk alliance provides us with significant long term growth opportunities. In the Waters and Medical Nutrition divisions we continue to identify new growth opportunities in emerging markets as well as new business models. We simultaneously continue to focus on productivity, which is critical in light of the volatile raw material prices. Lastly, our cash-flow generation keeps increasing steadily. Investments, productivity and cash flow are essential as they build the performance of today, but also the Danone of tomorrow, more global, more efficient, stronger, at the service of its mission and of value creation.

Our mid-year performance allows us to increase our outlook for 2010, targeting a sales growth of at least 6%, a stable operating margin and a free cash flow growth of at least 10%.”

Financial highlights first half year 2010

Key figures	H1 09	H1 10	Change
Sales (€ mln)	7,520	8,364	+7.0% ^[1]
Trading operating income (€ mln)	1,206	1,280	+2.0% ^[1]
Trading operating margin	16.03%	15.30%	-74 bps ^[1]
Underlying net income (€ mln)	722	848	+10.1% ^[1,2]
Underlying fully diluted EPS (€)	1.50	1.38	+7.7% ^[1,2]
Free cash flow from operations (€ mln)	636	858	+34.9%

^[1] like-for-like = at constant scope of consolidation and constant exchange rates

^[2] excl. impact of rights issue

^[3] please refer to page 5 for more details

Sales by business line and geographical area for the second quarter and first half year 2010

€ mln	Q2 09	Q2 10	Change L-f-L ^[1]	H1 09	H1 10	Change L-f-L ^[1]
BY BUSINESS LINE						
Fresh Dairy	2,141	2,436	+6.6%	4,262	4,755	+7.1%
Waters	735	828	+4.8%	1,349	1,448	+3.7%
Baby Nutrition	741	857	+8.7%	1,464	1,654	+8.6%
Medical Nutrition	229	265	+10.8%	445	507	+10.1%
BY GEOGRAPHICAL AREA						
Europe	2,327	2,420	+1.4%	4,517	4,695	+1.7%
Asia	479	635	+15.3%	950	1,162	+13.8%
Rest of World	1,040	1,331	+15.9%	2,053	2,507	+16.0%
Total	3,846	4,386	+6.9%	7,520	8,364	+7.0%

[1] : like-for-like = at constant scope of consolidation and exchange rates

Overview of sales performance – H1 2010

Consolidated reported sales increased by 11.2% to €8,364 mln in the first half year of 2010. Excluding the effects of changes in exchange rates (+4.7%) and in scope of consolidation (-0.5%), total sales increased by 7.0% on a like-for-like basis. This like-for-like sales growth was driven by a 9.8% rise in volume and a 2.8% decline in value. The aforementioned effects of changes in exchange rates were mainly driven by the Indonesian rupiah, the Brazilian real, the Mexican peso and the Russian ruble. The change in the scope of consolidation was mainly driven by the divestiture of Frucor, a beverage-based business based in Australia and New Zealand which was deconsolidated as of February 2009.

Overview of sales performance – Q2 2010

Consolidated reported sales increased by 14.0% to €4,386 mln. Excluding the effects of changes in exchange rates (+7.0%) and in scope of consolidation (+0.1%), total sales increased by 6.9% on a like-for-like basis. This like-for-like sales growth was driven by a 8.9% rise in volume and a 2.0% decline in value.

Fresh Dairy

Sales of the Fresh Dairy division increased by 6.6% in the second quarter of 2010, on a like-for-like basis. This performance was driven by a broad-based volume growth of 9.3%, to which all regions contributed with at least mid-single digit growth or more. As anticipated, the negative value effect of -2.7% was significantly lower than in the preceding quarter, as the anniversary of the Reset program is lapsed in several countries. Particular strong growth momentum was shown in the US, Brazil, Mexico, Argentina and Japan, while Spain remained affected by a particularly challenging environment.

Waters

The Waters division posted solid sales growth of 4.8% like-for-like, thereby continuing the underlying improvement observed since mid-2009. Volume growth of 7.8% was offset by a value effect (mainly country mix) of -3.0%. While volume growth continued to be mainly driven by the emerging markets (54% of the sales of the division), Western Europe delivered positive volume growth with relatively strong performances in France and Germany. The environment remained very challenging in Japan and Spain, thus having a continued negative effect on value (mainly country mix) growth.

Baby Nutrition

The Baby Nutrition division continued to deliver high-single digit growth (+8.7%) on a like-for-like basis, with all regions contributing and volume growth (+8.4%) remaining the main growth driver. The division gained market shares in most markets, notably in the UK, Argentina, Brazil, France and Turkey. The Milks category continued to deliver double-digit growth while the weaning food category remained stable, thereby negatively impacting the growth pace in southern Europe. China, Indonesia, the UK and Poland remained the top contributors to growth, while the performance in Russia continued to improve.

Medical Nutrition

Medical Nutrition continued to perform well with a sales growth of 10.8%, on a like-for-like basis, which continued to be entirely driven by volume growth (+10.5%). All regions contributed to the growth, with particularly strong performance in Eastern Europe and Latin America. Growth was supported by all product categories with paediatrics and the gastro intestinal allergy product range still outgrowing the divisional average.

Trading operating margin at 15.30% in H1 10, stable versus FY 2009, decreasing by 74 bps versus H1 09 on a like-for-like basis

	H1 09	H1 10	Change <i>like for like [1]</i>
BY BUSINESS LINE			
Fresh Dairy	15.07%	13.94%	- 94 bps
Waters	14.01%	13.70%	- 75 bps
Baby Nutrition	19.11%	19.19%	- 27 bps
Medical Nutrition	21.24%	19.90%	- 86 bps
BY GEOGRAPHICAL AREA			
Europe	16.74%	16.26%	- 44 bps
Asia	18.83%	19.54%	+ 12 bps
Rest of World	13.18%	11.55%	- 155 bps
Total	16.03%	15.30%	- 74 bps

[1] like-for-like = at constant scope of consolidation and constant exchange rates

Danone's trading operating margin was stable at 15.30% compared to the average margin in 2009. Compared to the first half of 2009, the margin decreased by 74 bps, on a like-for-like basis. This decrease mainly reflects the negative price effect of the Reset program, the effect of rising raw material prices and a difficult comparable basis. The impact of higher raw material prices in H1 10 has been largely offset by various cost savings initiatives which are expected to generate up to € 500 mln in 2010. The decrease of the EBIT margin of the Medical Nutrition division reflects investments behind organic growth opportunities.

A&P as a % of sales decreased 59 bps to 12.0% on a like-for-like basis, compared to the first half of 2009. This decrease reflects a relatively high comparable of 12.6% in H1 09 - compared to a historical annual run rate of around 12% - as well as the results of a worldwide media pitch which have lowered the average price of Danone's GRPs.

Underlying like-for-like fully diluted EPS increased by +7.7%^[1,2] to € 1.38 in H1 10

€ mln	H1 09	H1 10
Trading operating income	1,206	1,280
Other operating items	205	(17)
Operating income	1,411	1,263
Cost of net debt	(170)	(64)
Other financial items	(35)	(54)
Income tax	(228)	(275)
Net result of consolidated companies	978	870
Net result of affiliated companies	30	51
Net result of discontinued activities	-	-
Net result	1,008	921
Attr to minority interests	76	83
Attr to the parent	932	838
-/- net result from disc. activities	-	-
-/- non-current net result from cont. operations	(210)	10
Underlying net result from cont. activities	722	848
Underlying fully diluted EPS (€)	1.50	1.38

Cost of net debt decreased substantially compared to the first half of 2009, driven by the capital increase, the strong free cash flow generation as well as the proceeds from the disposal of selected non-core activities.

The underlying tax rate in the first half of 2010 was 24.0% compared to 22.5% in the first half of 2009 and broadly in line with the tax rate expected for full year 2010.

Underlying net result increased by 10.1% on a like-for-like basis to € 848 mln and underlying fully diluted earnings per share grew by 7.7%, on a like-for-like basis and excluding the effect of the capital increase, to € 1.38 in the first half of 2010.

Cash flow and debt position

Free cash flow from operations increased 34.9% to € 858 mln, or 10.3% of sales, in the first half of 2010, compared to € 636 mln, or 8.5% of sales, in the same period last year. Capital expenditure was € 275 mln, or 3.3% of sales which is below the anticipated capex level of between 4 and 5% of sales for FY 2010 due to timing.

Debt position

The cash payment of the full year dividend resulted in an increase of the net financial debt (excluding the put options granted to minority interests of € 3,180 mln at 30 June 2010) of € 57 mln to € 3,551 mln in the first half of 2010.

¹ like-for-like = at constant scope of consolidation and constant exchange rates

² excl. impact of rights issue

Outlook 2010

Danone assumes that the financial, economic and social crises will continue to weigh on consumption trends in Europe, while emerging markets are expected to keep developing well overall.

In this context, Danone will continue to focus on, and invest in, growth opportunities in key categories and geographies, on the strength of its competitive positions and on the development of its brands. Productivity gains as well as the growth of free cash flow will continue to be key priorities.

For full year 2010, Danone targets the following:

- A like-for-like sales growth of at least 6%;
- A stable trading operating (EBIT) margin versus 2009 on a like-for-like basis;
- An increase of the free cash flow from operations of at least 10% versus 2009 on a reported basis.

Other information

On June 11th 2010, Danone announced it had entered into an agreement to acquire Medical Nutrition USA, Inc. for an amount of approximately USD 62 mln in cash.

The benefit of this transaction relies in the strong complementarities both in terms of product ranges and channels of distribution. Medical Nutrition Inc. has developed a solid access to the very promising long term care channel while Nutricia's products in the US are mainly aimed at infants and distributed in pharmacies.

On June 18th 2010, Danone announced the signature of an agreement to merge Danone's Fresh Dairy Product businesses in the CIS area with those of Russian company Unimilk. The new entity will become the leader for dairy products in the CIS area as a whole, and particularly in Russia. Danone-Unimilk will draw strength from the tie-up between two fast-growing businesses offering strong complementarity in terms of geographies, products ranges and distribution networks, giving the new entity the benefit of significant sales and cost synergies.

Danone will control 57.5% interest in the new entity, while the current shareholders of Unimilk will hold 42.5%. The transaction will be carried out principally through a contribution of assets, supplemented with a cash purchase of shares by Danone. Danone's net financial debt will increase by €1.3 billion principally as the result of the value of the put options which will be granted to the current shareholders of Unimilk. These options will allow them to dispose part or all of their shares in the new entity, Danone being able to hold 100% of these shares in 2022. The transaction is subject to customary regulatory approvals in the countries concerned. Closing is currently expected to take place towards the end of 2010.

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FORWARD-LOOKING STATEMENTS

This press release contains certain forward-looking statements concerning DANONE. Although DANONE believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. For a detailed description of these risks and uncertainties, please refer to the section "Risk Factors" in DANONE's Annual Report (which is available on www.danone.com).

APPENDIX – Sales Overview

€ mln	First Quarter		Second Quarter		First Half Year	
	2009	2010	2009	2010	2009	2010

BY BUSINESS LINE

Fresh Dairy	2,121	2,319	2,141	2,436	4,262	4,755
Waters	614	620	735	828	1,349	1,448
Baby Nutrition	723	797	741	857	1,464	1,654
Medical Nutrition	216	242	229	265	445	507

BY GEOGRAPHICAL AREA

Europe	2,190	2,275	2,327	2,420	4,517	4,695
Asia	471	527	479	635	950	1,162
Rest of World	1,013	1,176	1,040	1,331	2,053	2,507
Group	3,674	3,978	3,846	4,386	7,520	8,364

First Quarter 2010		Second Quarter 2010		First Half 2010	
<i>Reported Change</i>	<i>Like-for-like Change</i>	<i>Reported Change</i>	<i>Like-for-like Change</i>	<i>Reported Change</i>	<i>Like-for-like Change</i>

BY BUSINESS LINE

Fresh Dairy	9.4%	7.6%	13.8%	6.6%	11.6%	7.1%
Waters	1.0%	2.3%	12.5%	4.8%	7.3%	3.7%
Baby Nutrition	10.2%	8.5%	15.7%	8.7%	13.0%	8.6%
Medical Nutrition	11.8%	9.3%	16.0%	10.8%	13.9%	10.1%

BY GEOGRAPHICAL AREA

Europe	3.9%	2.1%	4.0%	1.4%	3.9%	1.7%
Asia	11.8%	12.2%	32.5%	15.3%	22.2%	13.8%
Rest of World	16.1%	16.1%	27.9%	15.9%	22.1%	16.0%
Group	8.3%	7.0%	14.0%	6.9%	11.2%	7.0%