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PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to Danone Half Year 2021 Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your first speaker today, Mathilde Rodie, Head of IR and Financial Communications. Please go ahead. Thank you.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Good morning, everyone. Mathilde Rodie speaking, Head of Investor Relations at Danone. Thanks for being with us this morning for Danone's half year results. I'm here with Véronique Penchienati-Bosetta, Shane Grant and Juergen Esser, who will first go through some prepared remarks before taking your questions in a second step.

Before we start, I draw your attention to the disclaimer on Page 2 related to forward-looking statements and the definition of financial indicators that we'll refer to during the presentation.

And with that, let me hand over to Véronique, Shane and Juergen.

Véronique Penchienati-Bosetta - *Danone S.A. - Co-CEO & CEO of International*

Thank you, Mathilde, and good morning, everyone. Thanks for joining us today on this call. I hope you are all safe and healthy.

Together with Shane, I have the privilege to be the interim CEO for Danone since March and until our new CEO, Antoine de Saint-Affrique, join us mid-September. Today, we will present Danone H1 results, and we are proud of what was achieved by the Danone teams across the world during this particular period for the company. So first, let me start by thanking all the Danoners for their efforts, commitment and achievements in this context.

Let's review on Slide #4 the highlights of this first semester. We close a semester of progress and delivery for Danone with an H1 like-for-like growth at +1.6% versus a year ago. After a negative Q1 and in line with our delivery agenda per quarter we shared with you back in February, Q2 is back to strong growth at +6.6% like-for-like. Importantly, all our categories are growing in Q2.

Even if we benefited from an easier base of comps in some categories like Waters, this performance is also the result of effective execution and selective investment on our growth platforms, brands and channels. Indeed, we are delivering like-for-like growth on a 2-year basis, both on Q2 and on H1 at total company level, and we are gaining share on the brands and growth platforms where we have increased investments.

Margin held up well, considering the negative category mix and the accelerated inflation we experienced this semester. We close H1 at 13.1% margin, thanks to selective pricing, increased productivity and fixed cost discipline in a context where we strengthened investment and brand support, focusing on our strategic battles. Also, with regards to delivery, we made further progress on portfolio management with the disposal of Vega and of our 9.8% stake in Mengniu. We continue to progress on the other initiatives we announced, and we will come back to you in due time.

Let's look on Slide 5 at our performance by category. First, on the Essential Dairy and Plant-based portfolio. Growth in Q2 was strong at +4.8% on a like-for-like basis with a sequential acceleration from Q1 and with all geographies contributing to growth. Plant-based continued to be a bright spot, delivering its sixth consecutive quarter of double-digit growth, growing +12% in the quarter.

Dairy as well delivered another positive quarter in Q2, driven by strong performance and share gains on our priority platforms and brands: Probiotics with Actimel and Activia, Protein with Oikos and YoPro.

Specialized Nutrition went back to growth in Q2 at +2.8%. Adult Nutrition continued to grow high single digit in all geographies, China, Europe and Rest of the World, and represents today around 15% of Specialized Nutrition revenues.

On Infant Nutrition, after a negative Q1, we are back to growth in Q2 on softer comps and despite soft category dynamics. Indeed, lower birth rates started to weigh on category growth in China and Europe.

Finally, Waters grew +19.5% with all regions contributing to growth. Europe delivered steep double-digit growth with an acceleration of the recovery throughout the quarter, mainly driven by mobility recovery, increased brand support and strong market share gains. Mizone in China posted its third consecutive quarter of growth.

Finally, our businesses in emerging geographies, LatAm and Indonesia, also contributed to growth, yet remaining more impacted by COVID-related restrictions. By format, our growth on large formats remained very solid, and we are recovering fast on small formats, which grew steep double digit in the quarter even if we have not yet recovered our pre-COVID level.

Turning to Page 6. As I just highlighted, the growth of this quarter benefited from some favorable base effects, mainly on Waters. But this semester's performance is also due to efforts on execution and delivery and selective increased investments.

As Shane will detail in a minute, we have focused our efforts on 3 priorities: grow and strengthen our core business and roll out successful and accretive innovation at scale; be obsessed by execution and focus on strategic channels; and strengthen our investments while remaining choiceful and selective on our growth platforms, brands and channels.

Let me now hand it to Shane who will share with you some illustrations of these drivers.

Shane Grant - *Danone S.A. - Co-CEO & CEO of North America*

Thank you, Véronique, and good morning. I'm very pleased to be with you today.

Moving to Slide 7, as Véronique headlined, we are executing against 3 priority growth drivers. Before speaking to some specific examples, let me provide just some very brief context.

First, we have been focused on driving choiceful selections against our portfolio, both maximizing the relevance and growth of our core business, but also driving innovation at scale both locally and the accelerated lift and reapplication of successful platforms globally.

On EDP, we remain focused on the growth platforms of Protein, Probiotics and Plant-based, which have been the key drivers of the accelerated growth of the business globally and, indeed, in our largest markets.

Our Specialized Nutrition actions are centered on science-based renovation and innovation of the current portfolio, both Infant and Adult, but also opening new growth through nutrition journey extensions.

Our Waters brands continue to be focused on renovating the core, embedding sustainability and new relevance into the portfolio, but also innovating with products, packages and new business models for new consumers and new occasions.

On channel execution, our focus has been to maximize competitiveness and growth against the sustaining e-commerce shift, capturing what is a progressive but uneven away-from-home recovery and also focusing new emphasis on stepped-up revenue growth management capabilities in core channels. Finally, we are reinvesting in the brands with consumers and shoppers across media and in channels against key growth platforms.

On Slide 8, let me move now to some specific examples from H1. First, on our EDP business, a major emphasis here on core growth segments and competitiveness. In the U.S., Greek portfolio acceleration led our total Yogurt business back to solid growth and winning share in S1. Q2 performance was highlighted by the restage of Oikos, double-digit growth on Oikos Black, the launch of new Oikos PRO and core ranges and the continued scaling of the core Two Good brand.

Globally, we have seen continuous performance of the Probiotic platform with sustained Actimel growth, up mid-teens in Q2 and gaining share and from Activia, that has seen sequential acceleration and gained share in key markets across Europe and in North America. Double-digit Plant-based growth was sustained with core beverage renovations driving share gains for Alpro in Europe, including in oat, Plant-based adjacency acceleration in North America and stepped-up global expansion led by LatAm and Russia.

On Infant Nutrition, which remains challenged by birth rate globally, we remain focused on capturing competitive and valorized growth opportunities. In Europe, we did so with Aptamil Organic, which was launched in France and rolled out across Europe this semester. In Indonesia, we leveraged our SGM brand with the renovation of the Pro-gress Max range growing strong double digits in S1.

On Waters, we are advancing relevance and renovation of our core. On evian, we made further steps to differentiate through sustainability with messaging that supports landmark commitments made by evian on climate. This mandate extends into package strategy with the launch of the Nude and 6-liter innovations in 100% rPET and the rollout of evian (re)new.

Importantly, these innovations are also targeted to address the growing commercial opportunity for in-home water occasions. We also continue to position the portfolio against the expanding water opportunity with the launch of Mind+ in sparkling and flavored with Volvic launches under Kids and Functional segments.

Now let's move to H2 and Slide 9, focusing here specifically on the Plant-based opportunity. 3 areas of continued focus. First, core Plant-based beverage growth and competitiveness. Here, we will drive differentiation of our core. In the U.S., we are investing behind new Almond "Milk of the Land" brand and product differentiation, communication, innovation that blurs the taste and texture experience of almond versus oat with almond extra creamy. We're also executing a full restage of the oat range under the Silk master brand and with a superior product. We will grow the core with sustained focus on key occasions. For example, Alpro will continue to target the coffee occasion with the refreshed Barista range. And finally, we will step up growth in new geographies.

Second, beyond the core of today, Plant-based 2.0. The current landscape in beverage is based on an ingredient analog: almond, oat, soy. The opportunity we see is really to challenge that convention. We know that in key plant-based markets like the U.S., 60% of consumers are not in the category. We know the barrier is primarily product taste and product texture. We will launch against this opportunity new dairy-like technology:

under Silk, NextMilk, under So Delicious, Wondermilk and under Alpro, Not Milk. We know from consumer testing, we can match or better traditional dairy milk preference, recruiting new plant-based users, and we intend to launch these platforms with scale later in H2.

Third, we will further accelerate on 4 plant-based adjacent priorities: yogurt, ice cream, cheese and creamers, representing approximately 1/3 of our Plant-based revenues today. These segments are some of the fastest-growing. They have emerging scale and, in some segments, similar or larger addressable markets versus milk. With Silk, Alpro, So Delicious and now Follow Your Heart, we have the leadership positions for continued scale and acceleration here.

Next, to Slide 10, beyond the focus on categories, we've also placed significant emphasis on the quality of our channel and commercial execution. While at-home consumption remained resilient across all geographies with continued growth of our EDP and Waters businesses in retail, we are accelerating in e-commerce, which grew at approximately 20% of last year's high base. Sales on e-commerce grew by 40% in EDP, results that evidence just how sticky the shift to online has proven to be in this segment.

We grew market share globally in e-commerce in S1, winning in key markets and categories, especially in EDP where all geographies are gaining online competitiveness. In most platforms, our digital share is equal or higher than our offline share. We consider this an important advantage to drive sustained growth. We are seeing progressive recovery of away-from-home channels. We saw a 60% growth on European Waters small format in Q2 and a 65% growth in Away From Home in North America across all categories.

Third, we have and are stepping up our revenue growth management focus. In the current inflationary environment and going into 2022, this capability we know will be even more central to our business and our teams. We are diversifying package and price architectures: On Actimel in Europe, for example, we've created relevant brand entry and up-trade format supporting growth, household penetration and share. We're scaling price and mix growth opportunities: in Yogurt in the U.S., for example, accelerating large-format segments while optimizing price and portfolio bundling opportunities on singles. And finally, leveraging differentiation for price leadership: with Horizon Organic in the U.S., for example, actioning unique climate commitments to realize the brand's preference and pricing potential, improving profitability.

Turning to Slide 11. And as we said earlier, Q2 growth benefited from the focus on our strategic priorities. The combination of our portfolio strategies, a clear commitment to execution, but also disciplined reinvestments, translating into market share gains. In February, when we released our full year results, we committed to reinvesting to support our key brands and fuel growth. We have done this with a focus on the segments of most opportunity, with reinvestment in H1 and, more specifically, in Q2.

We saw that investment driving growth and competitiveness. For example, investments against the core EDP engines of Protein, Probiotics and Plant-based delivered 8% growth in H1 2021. But we also saw responsiveness in key segments in Adult Nutrition and on Waters. We see this impact specifically on market share momentum for many of our key brands in key markets like Oikos in the U.S.; Alpro in Europe; YoPro, Actimel, Activia in key global markets; and both evian and Volvic. We intend to drive continued targeted reinvestment for growth and competitiveness.

With that, let me hand now back to Véronique for the conclusion of our introduction.

Véronique Penchienati-Bosetta - *Danone S.A. - Co-CEO & CEO of International*

Thank you, Shane.

Moving on to Slide 12. As I already mentioned, we observed since the beginning of the year a broad-based acceleration of inflation, reaching levels we have not seen for many years. In H1, inflation reached almost 7%, mostly driven by milk and milk ingredients, but also packaging and logistics, and had an overall negative impact of approximately -420 bps on our margin this semester.

Against these exceptional headwinds, we managed to deliver record-high productivity during the period with a positive contribution to margin of approximately +320 bps. This was notably achieved through stepped-up productivity and new efficiency streams such as the SKU rationalization program (for instance, we already cut company SKU by 15% at the end of H1), or Design to Superior Value projects.

As an illustration, it's worth mentioning the job done on the Oikos restaging in the U.S., that allowed Danone North America to reinvest in the superiority of the Oikos recipe, adding more fruits and texture, while saving on other non-differentiating items.

We also offset part of the inflation through pricing, particularly in some of our emerging markets in Latin America and Russia. We gradually passed more price during the semester, leveraging the power of our brands and protecting our competitive positions, with all categories contributing. Our total company net pricing had a positive effect of approximately +110 bps on margin this semester.

All in all, and while our mitigation plans allowed to offset the inflation we have been facing, our recurring operating margin reached 13.1% in H1. The decrease versus last year mainly results from negative category mix, notably in Q1, while we managed to strengthen our investments on our brands with discipline during the semester.

Last but not least, on Page 13, the first half of 2021 was marked by further progress in the Local First reorganization that is going according to plan. As you know, Local First is the organizational framework needed to reconnect Danone with profitable growth. At country level, becoming one entity across categories will increase our ability to impact and win locally: keeping our category expertise but also capturing growth opportunities across categories; benefiting in each country from synergies and scale on distribution, route to market, logistics, e-commerce and data and digital acceleration; and taking decisions closest to our consumer and customers. This new organizational backbone will also unlock resources to reinvest in margin and in growth.

The implementation is notably complete in North America where it went live on April 1 under the name of Transform to Win. In Europe, we crossed a major milestone as we are finalizing the social consultation. Our objective is to pivot countries and zone as of October. So overall, we are well on track and can confirm the EUR 700 million gross saving target for 2023. Importantly, we managed to achieve this milestone while maintaining the teams' primary focus on business delivery and execution.

Let me now turn to Page 14 to close this introduction. We enter the second half of the year more determined and more focused than ever. We have 4 priorities. First, and I just mentioned it, Local First. We will be implementing the project in most countries in the second half of the year, which is a key step for us. And everything is in place to ensure smooth implementation and business continuity.

Second, our people. In a moment where the company is transforming and entering into a new cycle, managing the energy and engagement of our people is our utmost priority.

Third, excellence in execution. Behind this lies the quality of our delivery all across the value chain, from product development and renovation to manufacturing and operation, all the way down to the store. And it's only with the top quality of execution that we can maintain our share momentum and a high level of efficiency and productivity.

This brings me to our fourth priority, which is about brand support and reinvestment. In the second half of the year, we plan to keep the momentum and incrementally support our key battles.

All the Executive Committee is clear that it's with the combination of these 4 levers that we will deliver on our objective for the year: back to profitable growth in H2 and margin broadly in line with last year on full year.

Let me now turn to Juergen for the financial section of our prepared remarks.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you, Véronique. Thank you, Shane. And good morning to all of you. I hope you are all safe and well.

Let me start the financial review with our net sales bridge on Slide 16. After 4 consecutive quarters of decline driven by COVID-related headwinds, we are delighted to confirm our return to net sales growth in the second quarter of this year. Like-for-like revenues grew by +6.6%, driven by a +1.8% positive contribution from volume and +4.7% from value. As mentioned by Véronique, the pricing dimension of value was positive in the quarter, which is a good testimony of the effectiveness of our selective pricing. Important also that mix was up in the quarter. I will come back to that later.

Outside of the like-for-like, scope had a +0.7% positive effect, resulting from the integration of Harmless Harvest as of January 1 as well as from the integration of Follow Your Heart, 2 very exciting, fast-growing, plant-based businesses in the U.S. that will allow us to further accelerate in that space.

Finally, currency and others, that had a negative impact of -3.6%, mostly driven by a -4.0% headwind from currency effects, reflecting the depreciation of the U.S. dollar and of several emerging currencies against the euro. All in all, reported growth stood at +3.6% for the quarter, bringing our quarterly net sales to roughly EUR 6.2 billion, up from EUR 6 billion last year.

Let's go a bit deeper into the performance by division, and I will start on next page, Page 17, with Specialized Nutrition. Specialized Nutrition closed the first semester with revenues down -2.6% on a like-for-like basis. The overall volume decline in the first semester was partially offset by selective pricing, but most importantly, by a positive product mix due to continued outperformance of our pediatric specialties and premium ranges.

Margin reached 22.9%, declining as expected this semester by -351 bps. This decline resulted from the strongly negative country mix, especially in the first quarter, but also from the lower volumes combined with inflationary pressure, which was partially offset by before-mentioned price and product mix effects. Important to underline that after a strongly negative first quarter, this division went back to growth in Q2 at +2.8% on a like-for-like basis.

Going a little bit into the segments. The Adult Nutrition portfolio delivered high single-digit growth with all geographies contributing positively. Both oral and tube feeding platforms continued to grow.

On Infant Nutrition, this business delivered low single-digit growth on softer basis of comparison with contrasted growth patterns: on one side, Europe, which grew high single digits, driven by pediatric specialties and benefiting here indeed from a very favorable base of comparison from last Q2; while on the other side, in China, the performance was again polarized.

First, domestic labels posted slightly positive growth in this quarter despite a very high base of comparison. Important to note that these channels closed the semester with positive growth, up around mid-single digit. Then e-commerce platforms for international labels grew very fast this quarter, capturing an important part of the demand informal channels cannot address in that particular moment.

Finally, indirect cross-border channels, which include the Daigous, Friends&Family and the Hong Kong platform, continued to be under pressure, still heavily impacted by travel bans. This quarter, again, they declined in the -45% to -60% range, they delivered since Q3 last year.

Overall, important to note that market shares of Aptamil, our star brand, remained resilient in both domestic and international channels. We notably posted an excellent performance during the Chinese 18th of June Shopping Festival with Aptamil ranking as the #1 brand in the IMF category.

Finally, our platforms in the Rest of the World delivered another solid quarter of growth.

Looking at the category and without any surprise, we can observe that lower birth rates start to weigh on the category growth in Europe as well as in China. In this context and with the very soft base of comparison in mind, we expect the second half of the year to balance the negative performance of the first semester. This will be driven by China where we will continue to expand the Adult Nutrition portfolio, but where we do also expect positive growth contribution from our IMF business.

Let's now turn to Slide 18 and our Essential Dairy and Plant-based division. Our EDP business closed the semester with revenues up +3.2% on a like-for-like basis. Recurring operating margin was broadly stable at 9.1%. The division delivered strong productivity in the semester, allowing it to manage the accelerating milk inflation while keeping investment focus on our priority platforms, which once again drove growth for the division.

Zooming into the second quarter, EDP sequentially accelerated from Q1, growing revenues at +4.8% on a like-for-like basis. The Essential Dairy part of the EDP portfolio delivered another quarter of growth in Q2 in the low- to mid-single-digit range, while we are happy to report that our Plant-based portfolio posted its sixth consecutive quarter of double-digit growth, growing at +12% this quarter.

Looking at geographies, Europe and Noram delivered another quarter of solid growth, around +4%, both of them delivering their respective second successive record sales quarter. In Europe, 3 elements worth mentioning: Alpro that registered another quarter of steep double-digit growth with global market share gains notably in oat-based beverages; second, Probiotics that registered solid growth, benefiting from the growing health and immunity trend; and third, the Protein segment that became the third largest contributor to growth within EDP in Europe with a continued stellar performance of the YoPro brand.

Switching to North America, I would like to highlight the performance of our Dairy range and here especially the return back to growth of U.S. Yogurt business, thanks to a strong performance in the Greek and Probiotics segments. In Plant-based, the Yogurt and Creamers segments sustained their strong growth and market share momentum with continued strong performance of the Silk and So Delicious brands.

After the sustained and accelerated growth of last year, our Beverages segment was penalized this quarter by some short-term supply challenges. We remain confident on this segment's competitiveness and growth perspectives, having notably in mind the initiatives planned for the remainder of the year.

The Rest of the World delivered strong growth amid easier basis of comparison in Latin America and Africa, while CIS performance remains soft in a challenging macroeconomic and sanitary environment. Looking at the rest of the year, we expect EDP to maintain its growth momentum, driven by Europe and North America, while other markets shall progressively recover.

Let's now conclude our category review with the Waters division on Slide 19. Waters closed the semester with revenues up +4.5% on a like-for-like basis, driven by the progressive recovery in volumes as well as positive country and product mix. Those top line dynamics supported the expansion of the recurring operating margin to 8.5%, up +219 bps versus last year. The team did a great job in driving strong levels of productivity while benefiting from an effective cost hedging for a larger part of its plastic packaging sourcing for year 2021, allowing us to reinvest in Q2 ahead of the season.

The net sales recovery started in the second quarter with revenues growing 19.5% on a like-for-like basis, with all regions contributing to growth. Overall, the division benefited from a very soft basis of comparison across geographies. That means revenues of the Waters division are well recovering but, at the same moment, are also still significantly behind 2019 levels.

Zooming into the different geos, Europe delivered steep double-digit growth on the back of recovering mobility with strong contributions from Germany and the U.K. where away-from-home channels reopened first. Worth noting, our market share performance with our key European markets, like France, U.K., Germany and Poland gaining market shares versus last year.

In China, Mizone closed its third constitutive quarter of positive growth. The brand delivered low double-digit growth in Q2 and continued to gain market share as it enters now the peak consumption season. And finally, Indonesia and Latin America delivered steep double-digit growth in the quarter on a lower base of last year. Unfortunately, mobility started to decrease here again recently as both platforms remain heavily exposed to COVID infections with low vaccination rates. Looking at the rest of the year and based on what we know today, we expect continued growth in the second semester for Waters, yet performance will be contrasted by geography.

Let's now move on to the margin bridge on Slide 20. H1 recurring operating margin stood at 13.1%, down -86 bps versus last year. This margin decline mostly resulted from the decrease of margin from operations that is down -61 bps. Several elements impacted our margin from operations this semester.

First and as expected, the strongly negative category and country mix. You will remember that our first quarter this year was still heavily impacted by COVID-related headwinds with declining net sales at -3.3% in total and -7.7% in Specialized Nutrition, our most profitable category. As a consequence, total volume and mix had a combined negative effect of approximately -70 bps on this semester's margin.

Second element, important to mention, is the accelerated inflation resulting into an almost -420 bps headwind on our margin. In this context, our mitigation plans delivered a combined effect of +430 bps, mostly driven by productivity and pricing, while the partial reversal of COVID-related costs also contributed. You also see a negative impact of

-16 bps coming from the investments box. Despite the high inflationary environment, we strengthened the investments into our strategic brand battles, such as into Plant-based, Probiotics and Protein as well as into our Waters division since mobility started to recover in Q2.

And finally, one word about the items outside of the like-for-like. Scope and currency had a combined effect of -4 bps this semester. In particular, scope had a negative effect of -16 bps, reflecting the integration of Harmless Harvest and Follow Your Heart as well as the acquisition of our IMF manufacturing facility in China last year.

Let's now move on to the next slide, Slide 21, with the EPS bridge. Recurring EPS reached EUR 1.53, down -9.3% from last year, driven by the combined effects of 3 factors. First, the pressure on our operational performance that had a -4.2% negative impact. Second and in line with what we observed since midyear of 2020, currencies continued to have a negative impact on our earnings in S1 by -3.7%. And third and lastly, scope had a negative effect of -3.1%, mostly resulting from the exit of Yakult and Mengniu from the perimeter.

Important to note the positive contribution from "Financing" at +1.7%, reflecting the continued decrease of our net debt, something I will come back to later in a few minutes. Our reported EPS stood at EUR 1.63, up 5.1% from last year, with positive contribution from non-recurring items. And I here suggest we move to the next slide, Slide 22, to detail those impacts.

Non-recurring items have been mostly impacted by 2 major operations: a minus EUR 700 million charge that is mostly reflecting the first parts of the investments we have made into our Local First project; and on the other side, a very positive flow resulting from the disposal of our stake in Mengniu. As you remember, the gross proceeds of this operation reached around EUR 1.6 billion based on the book value of around EUR 850 million. The Mengniu operation allows us to end this first half of the year with a positive non-recurring net income of some EUR 70 million and, therefore, to bring our reported EPS to positive territory at EUR 1.63, up 5.1% versus last year.

Let's now move on to the next page, Page 23, focusing on our capital allocation. Free cash flow reached EUR 1 billion in H1 2021, up almost EUR 100 million from prior year, implying a cash conversion rate of 8.5%, up 90 bps versus H1 2020. Working capital remained well negative at -2.9% and is improving 50 bps versus prior year.

Our net debt stood at EUR 11.1 billion, down around EUR 800 million from end of 2020, in line with our commitment to sustainably deleverage our balance sheet. Worth noting the successful EUR 1 billion bond issue we launched in May this year with a 4.5-year maturity and a 0% coupon that will enable us to further enhance our funding flexibility, extend the maturity of our debt and optimize its cost.

And finally, we confirm the launch of a share buyback program as a result of the disposal of our stake in Mengniu. We expect to buy back up to

EUR 800 million worth of shares during the second half of year 2021. We are confident that with this decision, which is consistent with our disciplined capital allocation, we are offering an attractive shareholder return while maintaining the necessary flexibility for our new CEO arriving in September.

Moving now to Page 24, a quick review of our most recent ESG achievements. This first half of the year demonstrated once again that our integrated approach to ESG is relevant and that it creates value for all stakeholders. Starting with what we sell: Danone has been recognized by the Access to Nutrition Index as the company with the healthiest portfolio in the food and beverage space.

Second, we have also made progress on our climate actions. Our Brazilian site, Poços de Caldas, now benefits from a triple certification in carbon neutrality, water circularity and waste management. And finally, with our ecosystem, as we did also join the third Livelihoods Carbon Fund.

Last but not least, we are very proud that S&P is announcing today that Danone has been granted a leading ESG score, putting us among the most prepared companies to take advantage of long-term trends in the food and beverage industry.

Let's finish our financial review by turning to Page 25 with the outlook. As Véronique and Shane mentioned, our priorities remain clear: quality and excellence of execution, people engagement, brand support and investment as well as seamless Local First reorganization. We will remain laser-focused on achieving them.

From a macro perspective, the second half of this year will be shaped by 2 elements. The first one will be the evolution of the pandemic and what appears to be a nonlinear reopening across geographies. The second driver is the inflation that is expected to further accelerate in the second semester versus the first semester. Inflation, as Véronique mentioned, reached almost -7% in H1, and we expect it to further accelerate in the second half of the year by another 1 to 2 extra percentage points.

These elements do not change the way we look at the second half of the year. We expect to return to profitable growth in H2, driven by the overall positive momentum of our categories, positive geographical mix and a more balanced category mix. In this high inflationary context, we will further step up productivity levels and selectively use pricing. In any case, we do not want to use inflation as an excuse to cut strategic investments, so you will continue to see us investing behind our strategic battles. So all in all, we expect the full year margin broadly in line with that of year 2020.

That concludes my prepared remarks, and I'll now hand it over to Mathilde to launch the Q&A session.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you very much. So now we're ready to open the Q&A. (Operator Instructions)

QUESTIONS AND ANSWERS

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay. So first question coming from Warren Ackerman from Barclays.

Warren Lester Ackerman - *Barclays Bank PLC, Research Division - Head of European Consumer Equity Research*

Good morning Shane, Véronique, Juergen, it's Warren here at Barclays. So my question is around the Plant-based growth, it's one for Shane actually. So 12% growth in the quarter. Shane, can you break that out between Europe and the U.S.? And maybe can you be a bit more specific on your plans to address your underweight position in oats? That's obviously been a big question since the Oatly IPO. And then why Greek yogurt, which has been problematic for quite a long time, is suddenly back into growth? It's obviously quite encouraging. Just be interested to get your sort of take on the Plant-based growth.

If I can just sneak in a follow-up, this is for Juergen, just on the financials. Can you just say something around the A&P spend, Juergen? Where has that gone in the first half? And how much should we expect in the second half? The same thing on cost savings, how much cost savings in the first half? And what should we expect in the second half? You're saying stepping up, but can you be specific in terms of euros millions of -- on that?

Shane Grant - *Danone S.A. - Co-CEO & CEO of North America*

Warren, let me take the first 2 of those 3 questions. Look, firstly, maybe to comment on our Plant-based business. Clearly, that's a business which is very much a focus for us, a key driver of the growth of the business. I'm sure you'll recall, in 2020, it had accelerated growth around 15%, slightly higher than that in North America, but very good global performance. You saw in the results +12% in Q2 and a +12% in S1.

I point you to really 3 big drivers of that. One, in the beverage space, specifically Alpro in Europe winning share and also winning share in oats. So sustained, very good performance of the business in Beverage in Europe. Secondly, a step-up in what we refer to as Plant-based adjacencies in North America. So globally, around 1/3 of the business is slightly more than that in North America. So by that, I'm referring to our Yogurt, Creamers, Frozen business, very good performance of that component of the business. And then thirdly, strong performance and acceleration in some of the geographic expansion markets, specifically LatAm and Russia.

With respect to your question on oat, I mean, certainly, core beverage competitiveness is certainly central to the strategy. We headlined a little bit on this in the presentation, but specifically on oat, we have just commenced the full restage of that business with really a few components. One, the conversion of the business from Oat Yeah to Silk. Second, a full product reformulation with what we know from consumers as the best-tasting performing product in the market, some range architecture adjustment and then dedicated marketing and communications plus customer plans. So we feel very confident in the oat plans going forward. It's certainly a key segment for us globally and in North America.

With respect to your second question on yogurts and as you noted, Warren, we're certainly very pleased with the progress of the yogurt performance in North America. It remains the biggest part of the business in North America. And so in terms of the acceleration of our North America business, it was certainly a place for us to start and focus on.

I would say our actions in Greek specifically have really centered around, first and foremost, the restage of the Oikos brand. So good acceleration in core Oikos Black, the launch of Oikos PRO and, really, just in the last few weeks, a brand-new core range. That, together with continued focus on Two Good, has really seen that segment for yogurt really accelerate. And we're now winning share in Greek and winning share in yogurt overall. There's been a number of other components of the yogurt strategy in North America, but that's a specific reference to Greek, and we're obviously very, very pleased with the progress.

I think with respect to your A&P question, I'll hand it over to Juergen.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Warren, on the A&P part, what we said at the end of Q2 is that we are going to start reinvesting behind our brands, and this is indeed what we did. And this is what you saw in the EBIT bridge where you saw -16 bps coming from investments, and here we talk mostly about A&P. What we did is that we really focused our A&P reinvestment behind our strategic battles, and Shane was talking about most of them Plant-based, Protein, Probiotics. But let's also be clear that we started to reinvest into Waters, especially in Europe and in China behind Mizone in the second quarter.

Moving forward, you will see that we will continue on this reinvestment journey, especially on what I said for EDP. And in Waters, we will stay agile or depending on what we will see on mobility, but we are very clear that Mizone, we want to now capture the opportunity of the season and same for Europe. And for other emerging markets in Waters, we will need to see how COVID situation is going to evolve.

When it comes to cost savings, you are right, I mean, first, inflation was heavy in the first semester, and Véronique said it, almost 7%. In front of that, we put a productivity which reached almost 5%, which was a record high, and this was thanks to the organization we launched end of last year, which was this cross-category "D2D - design to delivery" organization.

Moving forward, what we say is that we see inflation picking up by 1 to 2 percentage points in the second semester versus the first semester. But on the same moment, we have also very solid plans in place to also step up productivity in the second semester versus the first semester. On top of that, and this is important, we also see, and expect the first savings from Local First kicking in, in the second semester. And we will continue to benefit from lower cost of COVID-related costs.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

So next question coming from Bruno Monteyne from Bernstein.

Bruno Monteyne - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

My first question is about how you have all the productivity savings offsetting the cost inflation, which is remarkably strong. Now at the beginning of the year, you wouldn't have known about the size of cost inflation coming through. So given your ability to offset it, are you really arguing that your margin would have been at least 300 basis points better if it hadn't been for this kind of cost inflation? So I'm just trying to see if you have all that cost savings, what did it say about the initial margin?

And the second of all is you're referring to price increases that you've been able to put through to offset some of that inflation. Could you comment on whether those price increases are in line with the rest of your markets? So does it keep your relative price position the same? And do you worry if at some point it might make private label more attractive in the second half and put some competitive pressure?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Bruno, on your first point, you are right to say that the inflation we experienced in the first semester was higher than what we expected at the beginning of the year. You're absolutely right on that. At the same moment, we need also to say that the productivity we achieved to deliver on S1 was also higher than what we expected at the beginning of the year because we made much faster progress on a number of programs, which include what Véronique was saying: we were able to reduce our SKUs by around 15% at the end of H1.

And you remember that we were talking about -20% by the end of the full year. So we, in fact, we made much faster progress, and that's helped to a very large extent to offset each other and which is the reason why we were able to sustain our level of reinvestment as we were planning it when we were talking 3 months ago and delivered the margin, which makes us confident to deliver also the full year margin as we have been guiding to.

When we talk about pricing initiatives, look, we have been very selective in our pricing initiatives. And when you look at the way inflation is hitting us, it's not the same in all the geographies. So we are more exposed to inflation in markets like Russia, Brazil, Mexico, where we have also more frequent, I would say, ability to increase prices, and this is what we did in line with the market. In North America and Europe, the pressure from inflation is not at all the same. And so here, we have been extremely careful with the pricing initiatives, let's say, promo management in order to make sure that we protect our competitiveness and take benefit of the reinvestment.

Véronique Penchienati-Bosetta - *Danone S.A. - Co-CEO & CEO of International*

Maybe to add on that because we have a rather solid process to monitor price increase. As Juergen was saying, it's not only about price increase, but it's as well as about promo management, revenue growth management. And we have a full process in place to monitor competitor price positioning, identify by channel, by SKU, by brand where we can pass price and reduce promo, implement a price increase or create as well more valued additional SKU, implement it and, of course, track the impact on the volume and the competitiveness. So that's really the way we are doing it. That's why we call it selective pricing opportunities.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Bruno. Next question from Celine Pannuti from JPMorgan.

Celine A.H. Pannuti - *JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst*

So my question would be around Specialized Nutrition and specifically China. So thank you for giving some of the moving parts there. So as we look into the second half, how should we look at the Daigou channel or the families and friends altogether? I mean are we going to still see this channel declining? Or do you think that there is a bit of a base line?

And then following on that, could you talk about what is, you feel, the outlook for the overall regulatory environment in China regarding the category? Are you sensing that there could be some changes?

And then finally, again on this, the margin has been lowered in this category. Do you feel that now your margin in China is at a healthy level? Or do you feel that there is more investment that needs to be made in order to maintain what has been a rather good market share performance in Mainland?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Yes. Celine, maybe I'll start with the margin, and then I will let Véronique talk through the other moving parts. You saw that we closed the first semester in terms of margin just below 23%. And I think it's important that we put that a little bit into perspective. When you get back to last year, you have seen last year, we had a first semester with a very strong margin profile, above 26%, mainly due to the fact that China was really over-performing. And then we entered into a second semester last year where we had a much lower margin in the division because of China's issues with the cross-border constraints.

Now this year, we will have a very, I would say, opposite evolution. So, you saw that we had a tough Q1. And overall S1 in Specialized Nutrition, which was down, and China particularly down. However, we were able to deliver a margin close to 23% by continuing to invest behind our strategic battle which is, in China, the Aptamil brand. And Aptamil brand shows an impressive resilience in the market.

And now we will be entering into a second semester where the division will be overall in growth and China will be growing faster than the division. And so indeed we can be confident that we will see margin progression in the second semester versus the first semester.

Véronique Penchienati-Bosetta - *Danone S.A. - Co-CEO & CEO of International*

And maybe to comment on the dynamics by channel in the China market on Infant Nutrition. So as Juergen was saying, definitely, first, we have a sustained growth in domestic channel, which is very important in S1, where our Aptamil brands continue to gain market share through strong performance in mom-and-baby stores and e-commerce. And as well, as Juergen mentioned it, again, in the last June 18 shopping festival where Aptamil was ranked #1 brand in the IMF category, so that's the big part of the business.

Now on the continuous decrease in indirect China, with the Daigous, friends and family. They continue to be severely impacted by travel bans and border closure with Europe, Hong Kong and New Zealand. Honestly, it's very difficult to know when it will be back to normal. Yet importantly, this channel, you may remember, that used to account for a big part of our business back in 2016, today, it's less than 30% of the business. And in parallel, we push as well to accelerate the development of all the cross-border e-commerce, which represents today more than 20% as well of our revenue and where we were growing fast in Q2. So that's just to expand the dynamic per channel.

Maybe to comment on the regulation. So the regulation clearly is evolving and will continue to do so. And it's positive because, first, from a product regulation point of view, we believe that at the end, it will be the players that have the ability to deliver science-based offerings that will continue and will have a sustainable business in China. And as well, there has been several communications as well about authority taking action to support birth rates, which can be positive as well for the category because we know that right now, the birth rates weigh on the dynamics of the market in China.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

The next question coming from Jon Cox from Kepler.

Jon Cox - *Kepler Cheuvreux, Research Division - Head of Swiss Equities and Head of European Consumer Equities*

Congratulations on a very reassuring set of figures there. I've got -- well, I'm going to pretend it's one question, but I'll do what my colleagues are doing and bung in a few others. But one more of a broader strategic one, just on this concept you're talking about beyond milk which you're going to launch in the second half in the U.S., I wonder if you can give us a bit more detail on that. You said taste profiles are better than traditional milk. What is the scale of the launch? And I guess you would launch, if it's okay, then into Europe and elsewhere. Maybe you can talk about that or what you can commercially given, I guess, it's somewhat sensitive.

And then the second part of the question of the one question is really on the costs, other operating costs. We saw EUR 700 million in the first half of the year. What should we expect for the full year? Because I seem to remember, all in, it was like EUR 1.1 billion or so, the program. It seems quite a lot already in H1. Can you just confirm what the cost will be from the Local First?

And also, you mentioned, you said the EUR 700 million savings, all on track. I just wonder if you can just confirm the other EUR 300 million because I think the program in total is about EUR 1 billion originally. So anything detail you can provide there would be much appreciated.

Shane Grant - *Danone S.A. - Co-CEO & CEO of North America*

Jon, this is Shane. Let me maybe take the first question on Plant-based. Maybe to step a bit sort of broader back and then I'll speak specifically about the opportunity on the dairy-like. I think, certainly, as we headlined in the presentation, our competitiveness in core Plant-based beverage is really important to the growth of the business. Maybe if I use the U.S. as an example, and then I'll talk specifically about dairy-like maybe Pan-Europe and North America.

I mean I think our beverage acceleration strategy has really got multiple components. One is maximizing the relevance of our big master brand. And I would say, Silk obviously in the U.S., making sure that's modern and relevant. And we're really driving actions to scale that up. You've seen probably already some of the new "Milk of the Land" campaign work. You should expect further work in terms of packaging and overall modernization of the brand to come in 2022.

The second is obviously Almond, which is obviously the biggest segment of Plant-based beverage, the entry point for consumers, and really the drive there is differentiation. So we continue to stay very assertive on providing points of differentiation in that segment. And you should expect more on that to come certainly in the U.S. later this year and into '22.

We've spoken about the third pillar, which is about competitiveness in oat. The fourth component is really soy, which we've had, I think, very successful repositioning of that segment into very much a nutrition space, both from the messaging and an innovation perspective.

And then lastly, maybe to comment, Jon, on the dairy-like. Look, the fundamental strategic underpinning of that is while we might consider plant-based beverage to be very developed, there's still 60% of users that are not in the category. And so as the leader of the category, that's really an opportunity we see to really step up the growth of the segment overall and then our opportunity to really lead it.

So we are going to attack that certainly in North America, and you see a 2-brand strategy to do that, specifically Wondermilk and the natural channel under So Delicious and into a more mainstream audience, our NextMilk with Silk. So it will be a channel-specific play. But the underlying product technology is really a plant-based entry point versus just an ingredient-specific entry point.

And that allows us to access that big 60% of the user base that are not in plant-based today. But also, because it is taste-first it allows us, we think, to make inroads, for example, in segments like oat, which we know is the underlying consumer motivation for the consumption of that segment. We do intend to launch it at scale certainly in North America. It will happen very much at the end of the year, and we think it'll have a big impact going into 2022. So that hopefully gives you a little bit of context on how we're thinking about that platform.

Maybe I'll hand to Juergen for...

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Jon, just a few comments on the non-recurring one-off cost. You're right, we posted EUR 700 million of charge in the first semester. 80% of that is linked to Local First. The rest is linked to the transformation of our operations. When we announced Local First, we said that this program will have a total cost of EUR 1.4 billion, and we are confirming this. We believe that the phasing will look like that we will post around EUR 1 billion into this year, 2021, and the remainder of

EUR 400 million in 2022. So you will see EUR 1 billion linked to Local First this year, and you will probably see some costs related to continued transformation of our operations footprint.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay, thank you. The next question is coming from Guillaume Delmas from UBS.

Guillaume Gerard Vincent Delmas - *UBS Investment Bank, Research Division - Analyst*

So my one question is on Infant Nutrition. When you talked this morning about lower birth rates starting to affect category growth in Europe and China, I mean what do you mean by starting? Did you mean it's just the beginning and we could see some deterioration from here from a category growth standpoint as Stage 2 and the Stage 3 segments are soon going to be affected by this lower birth rate?

And secondly, in the context of lower volume category growth, would you expect this weakness to prompt a heightened level of competition? I mean, often, lower volume growth comes hand in hand with an increased level of promotional activities.

Véronique Penchienati-Bosetta - *Danone S.A. - Co-CEO & CEO of International*

Okay. So I will take the question. What is important is that overall on this market, the birth rate, as you know, has an impact on what we call the baby pool, which is the overall number of babies and then the impact on the different stages, Stage 1, Stage 3, Stage 4. If I take, for instance the example of the Chinese market, for instance, year-to-date, despite the fact that the overall newborn were down last year, for instance, the market year-to-date in China is still positive in value. It's positive with different dynamics and with different drivers.

First, the baby pool, that is down versus a year ago, very clearly as a consequence of the birth rate, yet the per capita consumption is increasing, which is a combination of both penetration but as well journey extension, we are talking about the Stage 4 and all that, that continue to drive the growth of the Chinese market. And the last thing, which is about price and valorization on science-based innovation that the moms are looking for. So year-to-date, the market is positive.

The way we see it for the rest of the year is, most probably a slowdown of the growth of the market as we have seen, by the way, over the past 2 months because the market as well was slowing down, still positive but slowing down. But still an increase in per capita consumption, and we believe that the valorization will continue on the Chinese market.

That's -- I would say that overall, the dynamics of the market in Europe as well, we see the category on Infant Nutrition down overall as a consequence of the birth rate. What is important as well to understand is that even on a declining category, you have pockets of growth; you have segments that specifically answer babies' nutritional needs like pediatric specialties, like allergy, that are growing, even sometimes double digit, specific offers as well like organic data growing. And that's why all the innovation and renovation that was presented in the presentation is really tackled to capture this growth in the market.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Guillaume. And our next question is coming from David Hayes from Societe Generale.

David Hayes - *Societe Generale Cross Asset Research - Equity Analyst*

I'm going to be a good boy in the class and just do the one question as well. So just on the -- I'm going to get to the semantics question, if I can, on the margin guidance. I guess using this term broadly around last year, I guess the term broadly could be anything from, let's say, 13% to 15%. So can you kind of give us a bit of a definition as to what you mean by that?

And I guess sort of tying back to some of the answers earlier, clearly, with input costs going up, pricing uncertain, we've seen some of your peers, as you know, cut their guidance. I mean is it fair to say that within that range that you were talking about back in April, there is a little bit less optimism and that you might be towards the lower end of a range of 13% to 15%? If that was the broad definition.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

David, and I see you have a very broad definition of broad...

David Hayes - *Societe Generale Cross Asset Research - Equity Analyst*

I was going to get towards the 16%, but...

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

I would not reach it that far. Look, to be more serious, we are very clear that we confirm the margin guidance as we said it at the beginning of the year. And because of all the uncertainties we see and the volatility of the markets, especially from a COVID standpoint, we are refraining from being more specific than what we have said half year ago.

However, in the end, when you look at the moving parts, and this is true for our net sales dynamics, this is true for the inflation and the productivity we are delivering, we do not look in a different way today at the full year than we have been looking at it 6 months ago. And so when I say today, our full year margin broadly in line with that of 2020 has exactly the same meaning then 6 months ago. So we are traveling within a context which has a lot of uncertainties, but I think the team does a great job in navigating that with a high level of precision.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

So I think we're going to take the last question from Martin Deboo from Jefferies.

Martin John Deboo - *Jefferies LLC, Research Division - Equity Analyst*

Just a quick one on the flow of margins in H2, which I know has come up a lot, because I want to be crystal clear. Are you giving any firm guidance on what you expect your commodity inflation to be for the full year?

And secondly, I just wanted to reclarify what you said to Celine on China. I think you said you expected China infant margins to be higher in H2 than H1. But what are you saying with Specialized Nutrition margins generally? Do you expect them to be higher in H2 than H1? Or similar or lower? That's it.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Martin, look, what we are saying on inflation, almost 7% H1, we see 1 to 2 percentage points more in H2. I think we will end up in this corridor because we have now relatively good visibility on many aspects, including on milk. Transport is probably an element which will continue to be very volatile and especially in U.S., where we have seen especially in the second quarter quite a steep increase in demand. But I think we have a relatively good visibility on that point.

When it comes to Specialized Nutrition, yes, I was talking about the total division. And yes, we are indeed expecting the H2 margin to be higher than the H1 margin for the reasons I mentioned, the first one because we will be back to growth with the division in the second semester and China will be over-contributing to the growth.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay. So I think this is ending our call for today. So thank you, everyone, for attending. And we remain available, the IR team, obviously, if you have any further questions during the day.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Perfect. Thank you very much, guys. Have a good day.

Véronique Penchienati-Bosetta - *Danone S.A. - Co-CEO & CEO of International*

Thank you very much. Thank you.

Shane Grant - *Danone S.A. - Co-CEO & CEO of North America*

Thank you.

Operator

Thank you, speakers. That does conclude our conference for today. Thank you for participating. You may all disconnect. Speakers, please stand by.
