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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Danone 2022 Half Year Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Mathilde Rodie, Head of Investor Relations. Please go ahead.

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

Thank you. Good morning, everyone. Mathilde Rodie speaking, Head of Investor Relations at Danone. Thank you for being with us this morning for Danone's H1 results release call. I'm here with our CEO, Antoine de Saint-Affrique; and our CFO, Juergen Esser, who will go through some prepared remarks before taking your questions in the second step.

And before we start, I draw your attention on 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 it over to Antoine.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

Thank you, Mathilde, and good morning, everyone. Welcome to our half year '22 conference call. I must say I'm delighted to be with you today for what is a first step in our Renew Danone journey. It has been only a few months since we held our capital market event. Only a few months, but as you can imagine, mighty busy months where Juergen, myself, the executive committee and all Danoners have been moving to the front foot.

We have focused our efforts on navigating what is an unprecedented environment, deploying consistently the agenda we shared with you in Evian: sustaining and making the most of our core portfolio, boosting our pockets of excellence, and importantly, working on fixing the platforms and areas where we are more challenged. Today's results are a first step in moving our strategy into action, or better said, into execution.

So let me dive into the results, starting with Page 4. As you will have seen from the press release this morning, we closed a strong first half of the year with like-for-like revenue up 7.4%, and a broad-based growth across geographies and categories. Importantly, volume and mix remained resilient this semester, up +1.3% versus last year. We clearly focused on execution and delivery, which allowed us to maintain good continuity of business and product availability amid global supply chain disruptions.

As you well know, the context in which we operate remains highly volatile with inflation having significantly accelerated since last year. As you would expect in such a context, our pricing came in strong this semester, up +6.1% compared to last year, with a contribution from all geographies and categories.

We also delivered a strong semester of efficiency and productivity, above 5%, leading our recurring operating margin to land in line with our expectations at 12.1%.

Despite the many external challenges, we also kept making progress on sustainability. The first half of the year has seen progress on our journey to become a certified B Corp with 70% of our sales now certified, up from 62% last year. This is a great achievement for which I'd like to thank all the teams that were involved.

Moving to the next page. As I mentioned earlier, we have a number of areas that worked well in the first half with continued strength of our core and with good momentum of our winners. Aptamil, our global baby formula brand, closed a strong first half of the year with broad-based growth and market share gains. Over the last few months, Aptamil has adopted a new positioning, evolving from a focus on ingredients to a focus on the needs of parents and their babies no matter their feeding choices or circumstances. Grounded in our expertise in biotics and in 50 years of advanced breast milk science, we've introduced a new product proposition like Aptamil Cesarbiotics and Aptamil Dairy & Plant Blend that recognize every feeding journey is unique, and our solutions are tailored to these varying needs. And we are working on further raising the bar with Aptamil. More news to come there.

Next, I would like to highlight the continued strong performance of our North America activities. Over the last couple of years, the U.S. and Canada teams have strengthened their business and accelerated significantly. They delivered on the renovation and the turnaround of Oikos and Activia in the yogurt category while growing the International Delight and Silk powerhouses in an environment that has been nothing but challenging from supply chain constraints to inflation. They have done so thanks to our clear portfolio choices, assertive revenue growth management and a constant attention to execution. And even if everything is not perfect yet, this shows in the numbers, +7.2% like-for-like revenue in H1 with positive volumes, mix and pricing.

Thirdly, our Water category is delivering another good semester of growth led by evian. As you see on the slide, the brand was recently leveraging the Wimbledon tennis tournament, a good illustration of how we want to bring value back in the brand. Performance has also been driven by many of our local brands, be it in Europe with Font Vella or Zywiec Zdrój or in emerging markets with Aqua and Bonafont.

And finally, let me say a word on baby formula shortages in the U.S. The teams have done an incredible work showing Danone at its very best. I'd like to thank all those that were involved as this was not a small undertaking. While nonmaterial from a business standpoint, this is a great illustration of Danone living up to its mission to bringing health through food.

On the organizational front, the implementation of Local First is progressing on track, which allows us to progressively reinvest savings in the business. I will let Juergen elaborate on that.

So as you can see, a lot we can be proud of and built on for the future. But let's be clear, there is still also a lot we can still improve on and some of which will take time to fix for good.

Page 6 is largely a repetition of what we discussed not so long ago in Evian. But it's an important one as it summarizes some of the key areas of improvement we have to focus on. We can and we must do a better job at managing some of our core assets, and that starts with more assertive category strategies and leadership, notably in our dairy and plant-based where we are not yet systematically exerting a role of category captain from our category development through core range innovation and breakthrough innovation.

It is also about better balancing our growth components. And here, revenue growth management is an important capability we are investing in. We can also do a better job at sharpening our mixes, making sure our core is regularly renovated, kept relevant to consumers and superior to competitors. Our innovation starts to be more focused, but we still can be more focused and do a better job at getting more from our hero innovation. There, we are only at the start of the journey.

And last but not least, our retail is detail. You heard me talking about the importance of execution and about how we need to improve on that front. Although improving recently, our service levels are not still where I'd like them to be, the quality of our media asset is still uneven and we have still not leveraged them enough from one country to another, a source of both capital and resource inefficiency.

Finally, our shelf execution is still irregular. We are sharing best practices and we are investing in capabilities, so expect us to improve step by step on that front.

Let me conclude this introduction on Page 7 with a message around focus, discipline and consistency. Everything you will hear from us today and in the next few years, I'm afraid, will be in continuity of what we have shared in Evian. You can see on the slide a few extracts from my presentation back then. We are only at the very beginning of our Renew journey, and our 4 strategic pillars and 4 enablers give us clarity and focus on the task at hand. The name of the game for us is to leverage what works, to fix what needs to be fixed with a mix of urgency and thoroughness and build a culture and a track record of consistent delivery.

And with that, let me hand it to Juergen for the financial review. So Juergen, over to you.

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

Thank you, Antoine, and good morning to all of you. I hope you are all well. Let me suggest that we go immediately into the financial review starting on Page #9 to share with you the key drivers, which made up for the net sales like-for-like growth of +7.7% in the second quarter.

From a geographical perspective, Europe delivered another quarter of solid mid-single-digit growth consistent with what we posted already in the first quarter. North America, as well as the Rest of the World, both were accelerating versus the beginning of the year with strong performances across all categories with North America, more specifically, posting a stellar performance this second quarter with a well-balanced price, mix and volume contribution.

The growth momentum in China, North Asia & Oceania did as expected, normalized after the first quarter of this year with the China Early Life Nutrition baseline now sequentially becoming more comparable. However, our China zone remained in solid growth also this quarter despite Chinese city lockdowns affecting our Mizone business.

Looking at it from a category perspective, EDP delivered a strong quarter of price-led growth, thanks to both dairy and plant-based, while Specialized Nutrition continued its strong growth momentum with our Aptamil brand winning share in many markets.

Our Waters business delivered another quarter of strong performance and is now back above 2019 levels in many of our geographies.

Moving on to our classical sales bridge on Page #10. You can see that this solid like-for-like performance of +7.7% in Q2 was led, as expected, by price at +6.8%. This said, volume and mix contributed again positively, up +0.9% compared to last year, a solid contribution from product mix while volumes remained resilient in most markets, and the very similar dynamic as experienced in the first quarter of this year. On a reported basis, we benefited this quarter from a positive ForEx impact of +6%, mainly thanks to the appreciation of the U.S. dollar against the euro, but also of the British pound and of some other Asian and Latin American currencies.

We also recorded a slightly negative scope impact of -0.5%, mainly resulting from the combined effects of the integration of Follow Your Heart and the disposal of the Vega brand, both in the North American zone.

All in all, reported growth stood at +14.5% for the quarter, bringing our quarterly net sales to roughly EUR 7.1 billion up from EUR 6.2 billion in Q2 last year.

Let's now have a look at the performance of each zone in more detail, starting with Europe on Page #11. Europe maintained a solid mid-single-digit performance in the second quarter, and as a result, delivered for the first half +5.4% like-for-like growth with a positive contribution from volume and mix of +1.6% and price of +3.8%.

Recurring operating margin in Europe was down -199 bps on the period, reaching 13.1%. This decline reflects the impact of high COGS inflation, which could not be fully offset in this first semester despite a step-upped productivity as our pricing initiatives benefited our P&L only starting from the second quarter.

From a category perspective, growth in the second quarter was led by Specialized Nutrition and Waters. Specialized Nutrition delivered high single-digit like-for-like growth with a very good performance of our Aptamil brand and solid growth in our adult nutrition portfolio. Waters was also up high single digit, confirming its sequential recovery while market shares remained resilient, especially for the evian brand.

And finally, EDP delivered another soft quarter resulting in a low single-digit growth in this first semester. The picture is contrasted country by country with a good performance, especially at the dairy portfolio in the U.K. and Poland where we were able to better leverage our differentiated portfolio with brands like Actimel or Activia.

On the other side, the situation is more challenging in a number of other countries like Spain where we have, as you know, a more structural challenge and where our teams are working hard to design a new and more powerful portfolio strategy and consistent execution plan.

Moving on to Page #12 and North America. We delivered another strong quarter, driven by both countries, the U.S. and Canada, and are even accelerating compared to the first quarter resulting in a +7.2% growth in the first half of the year. In Q2 as in Q1, this performance was achieved with positive contribution from all aspects, price, mix as well as volumes. This strong growth was driven by continued momentum across categories and brands. In EDP, coffee creamers, yogurts, and plant-based posted high single-digit competitive growth. In particular, the Oikos PRO and Oikos Triple Zero ranges continued to deliver strong competitive growth, supported by the upgrade of our formulas, our packs and the marketing mix and a solid shelf execution.

Next to Oikos, Activia growth remained strong this quarter, building on the continued consumer interest in immunity benefit and building on core portfolio renovation, a successful A to Z campaign and strong execution.

In the coffee space, our International Delight and SToK brands delivered another quarter of strong competitive growth.

And finally, in Specialized Nutrition, as Antoine was mentioning, our teams focused their efforts on actively addressing the baby formula shortages in the country. While nonmaterial to our company, this is a great illustration of our mission into action.

Recurring operating margin in North America registered - 235 bps decrease to reach 8.1% for the first semester as we phased some productivity initiatives to the second semester in the context of challenged supply chains. Recent results are indeed encouraging with service levels going up, yet there is still a lot to do to go back to pre-COVID levels.

Moving on to Page #13 to China, North Asia & Oceania zone. This zone closed the first semester with revenues up +8.3% on a like-for-like basis led by both volume and mix at +6.1% and price at +2.2%. Margin reached 32%, up 240 bps, driven by a strong net sales dynamic and the favorable product mix offsetting the inflation.

Let me enter into a few more details of the Q2 performance, starting with China. Infant Milk Formula posted mid- to high single-digit growth in a category, which is progressing along the lines, which we shared with you at our CME. Importantly, we have maintained competitiveness in the market with continued resilient market shares on both Domestic and International labels. Chinese label grew double digits while International

Labels saw continued growth in our indirect, or we can also say, uncontrolled channel, which is now representing less than 15% of the segment revenues.

The Aptamil brand registered another good quarter, and it's worth noting that it was ranked #1 brand as Danone was ranked #1 company of its sector during the 18th of June shopping festival last month, the second largest shopping festival in China after the 11:11.

Besides IMF, specialty pediatric solutions and adult nutrition continued their very good momentum and are contributing strongly to the positive product mix of the zone.

In Waters, Mizone declined in the mid-teens range. As you know, Mizone products are mainly for out-of-home consumption, and thus, the performance was unfortunately penalized by mobility restrictions and lockdowns across China with government applying zero COVID policy.

And final comment on the zone. Obviously, China is a lot in the spotlight, but let me also mention the very good performance of our business in Japan where EDP delivered double-digit growth led by our portfolio, including the Activia, Danone and the Oikos brands that are winning shares in this market.

Finally, moving on to the Rest of the World zone on Page #14. The Rest of the World zone registered sales growth of +9.7% on a like-for-like basis in the first half of this year. This growth was price-led while volumes and mix were negative. There's a few countries operating within a tough macroeconomic context, namely, Russia, Brazil and Turkey.

Recurring operating margin stood at +6.1%, broadly in line with last year notably driven by a positive category mix, thanks to good performance of our Specialized Nutrition and Waters portfolio in Southeast Asia.

Looking at the sequence, sales accelerated in the second quarter sequentially and reached +12.3% on a like-for-like basis.

Worth mentioning the very good performance of Indonesia, where sales increased by double digits, thanks to a strong dynamic of our Aqua brand, which has been able to leverage in a very competitive way the accelerated category momentum as mobility is returning. Also our Specialized Nutrition portfolio in Indonesia, as well as in the rest of Southeast Asia, delivered very strong sales performance.

In Latin America, sales increased also double digits led by all categories with notably a very good performance of the Bonafont, Danone and Danonino brand in Mexico.

And finally, the operating conditions continued to be extremely constrained in Russia and Ukraine, impacting notably our volumes, which were significantly negative in Q2. Our like-for-like sales remained resilient, thanks to a series of price increases, which we implemented over the last few months. At the same moment, we have been adapting our operations according to the announcement, which we made in the month of March, including the fact that we stopped all investments into the business.

Before diving into our margin bridge, let me come back on Slide #15 on the inflationary context. The inflation we experienced in H1 was in line with our expectation at mid-teens level with broad-based impact on all geographical zones and categories. Almost all of our cost components were under pressure with packaging, transportation and milk the most increasing.

In front of this inflationary challenge, we continued to deploy numerous actions to address it. First, by stepping up our productivity efforts, we managed to deliver a record level of more than 5% productivity on the first half of this year, and we believe that we can deliver even more in the second half. We also significantly stepped up our pricing actions, passing increases in all categories and regions, although with different levels and locally relevant strategies always in a competitive way.

Pricing increased in Q2 to reach +6.8% compared to +4.9% in Q1 resulting for the first semester into a pricing impact of +6.1%.

Let's now move on to the margin bridge on Page #16. We delivered in the first half a recurring operating margin of 12.1%, down -101 bps compared to last year. Looking at the building blocks, it was mostly impacted by the decrease of margin from operations, down -173 bps, reflecting the acceleration of input costs all along the semester. Despite the outstanding efforts, which our teams made on productivity, we registered a negative effect from COGS net from efficiencies of -610 bps. In front of this, our top line drivers, volume, mix and price, had a combined positive effect of as much as +440 bps that could not fully offset the pressure from net inflation in the first semester.

Focusing on the right part of the bridge, it reflects mainly the positive impact from Local First savings with overheads before reinvestments contributing to the profitability with +111 bps. As you can see, we are well on track with the implementation of the Local First program and do well stay within the announced cost envelope of EUR 1.4 billion.

As we shared during the CME, we have been starting in the Q2 our reinvestment journey, which translates for the first semester into a negative impact of -10 bps. We intend to reinvest the savings in 3 macro areas, as you may recall, product superiority, capabilities and A&P with different phasing for each of them. We started our investment journey over the last few months stepping up investments in capabilities to start filling some fundamental gaps while we are planning and preparing to accelerate reinvestments into A&P in the second half of this year.

On the next page, Page #17, I would like to give you some more insights about the reinvestments we made despite the challenging environment. Having the means to reinvest in the current context, thanks to Local First savings, is a clear competitive opportunity. We started this reinvestment journey as soon as the second quarter focusing first, as I just said, on stepping up capabilities to rapidly catch up on a number of areas where we have fallen behind over the last years like global marketing and sales, revenue growth management as well as overall IT and data. We did also reinvest into product superiority and differentiation. For example, in North America, we have been upgrading the formulation and packaging of our Activia, Oikos and Silk ranges for superiority.

And finally, we selectively started to reinject into A&P, for example, into a broad-based campaign for our Aptamil brand, our #1 brand in terms of net sales that delivered a very strong performance this semester. Overall, for A&P investments, we made sure over the last few months that our existing spend was more focused on winning assets and on the core to drive better returns, preparing, therefore, a more solid base ahead of accelerating our A&P spend as we travel through the next quarters starting with the second semester.

Moving now on to the EPS, which on Page #18. Recurring EPS reached EUR 1.63, up +7.2% versus last year. The improvement of our operational performance had a positive impact of +1.6% on EPS. EPS growth was also driven by a +6.3% effect, mainly arising from the momentary elevated contribution from associates and minorities, as well as from the impact of the share buyback which we executed in year 2021. This positive impact was slightly offset by scope and currency, as well as the other impact of, respectively, -0.1% and -0.7%.

Reported EPS decreased by 29.8% as last year's Local First one-off costs were almost completely offset by the capital gain from the disposal of our participation in Mengniu China. This year, 2022, an impairment related to the announced disposal of the remaining minority investment in Mengniu added to the second part of Local First one-off costs and explains the decrease of our reported EPS.

Let's now move on to the next page, Page #19, focusing on our cash generation. Free cash flow reached EUR 0.7 billion in H1 2022, slightly below the EUR 1 billion from last year's first semester. We enjoy sustained strong cash flow dynamics in the business, supporting by a disciplined CapEx management. In order to enhance our supply chain performance, we decided in some instances over the last few months to temporarily increase the level of our inventories of finished products and raw materials, but this should normalize as we go through the next couple of quarters. And lastly, our cash flow was impacted as anticipated by cash-outs linked to the implementation of the Local First program.

Looking forward, a stronger focus on cash as we discussed during the CME. It's more relevant than ever, especially in the moment where we can expect the cost of our debt to increase and this from the second semester onwards.

Let me now conclude this financial review with the outlook for the rest of the year on Page #20. As you certainly recall, we provided at our CME a midterm guidance as well as the guidance for year 2022 of like-for-like net sales growth between 3% and 5%. We are taking stocks of our good start into this year and therefore updating and upgrading our guidance for year 2022 to like-for-like net sales growth to be between 5% and 6%. This updated guidance for the year does reflect the good dynamics of the first 6 months, while moving forward, staying consistent with our midterm guidance of 3% to 5% in an environment, which remains highly volatile and uncertain. At the same moment, we are confirming our full year recurring operating margin above 12% for year 2022.

The accelerated sales dynamics of the first semester, the strong mix contribution from our Specialized Nutrition business, as well as the progress we are making on revenue growth management make us confident to face an input cost inflation for the full year, which we continue to expect to be around mid-teens. Those variables, combined with an accelerated reinvestment dynamic for the second semester, are the fundamental building blocks of this foundational year in which we are on track to deliver on our margin guidance.

That concludes the financial review of our presentation. And with that, let me hand it back to Antoine to conclude.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

Thank you, Juergen. And moving to Page #22. We obviously feel good about the results of the first semester. But I want to reiterate that we are only at the start of our new journey. We want to remain humble and realistic. There are still lots to do. Expect us, together with the executive committee and all the Danoners, to remain focused on the consistent execution and the delivery of our agenda. It starts by making our portfolio more competitive, adapting our ranges and mixes to the new environment and getting them even more ready than today for a potential recessionary environment.

We are accelerating the deployment of our revenue growth management across geographies, but we will also work systematically at strengthening the equity and the relevance of our brands. This is where the reinvestment plays an important role and why we are committed to it.

In parallel, we will continue to step up the quality of our execution across the value chain. It is about securing quality access to raw and pack materials as much as it is about efficiency in our factories and in our warehouses. But it is also about bringing more rigor and discipline in consumer-facing activities, be it in the development and utilization of our marketing assets or in the quality of our on-shelf execution.

Finally and importantly, as Juergen alluded to, we will keep strengthening the fundamentals of our business, making it future-ready. We already started reinvesting in IT and data but expect us to further upgrade Danone's capabilities, in particular, in operations and R&I.

Let me conclude with once again a message of focus and consistency: focus on the task at hand and consistency in delivering on our strategic agenda. We closed a strong first half of the year, but expect to -- you can expect us to remain fully mobilized and focused. We are only at the beginning of our Renew journey, and there is still much we can do to bring Danone where we want it to be and deliver both on our purpose and on our business ambition.

And with that, let me hand it over back to Mathilde for the start of the Q&A question (sic) [session].

QUESTIONS AND ANSWERS

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

Thank you. So the first question today is from Jon Cox, Kepler. Jon?

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

It looks so far, so good. Antoine, a couple of questions for you. Just in terms of the guidance for the year, 5% to 6%, that clearly points to a slowdown in the second half of the year, assuming that the pricing is going to remain elevated, which given you've only just started to push through the prices in Q2, that should be the case. Are you assuming volumes will be negative and -- volume mix will be negative in the second half of the year for that guidance?

Second question, just in terms of pricing, you're starting to see in the market, in some of the supermarkets anyway, big differences between branded and nonbranded, so private label, discounters, et cetera. What are you seeing there in terms of market dynamics? Do you see any concerns you're losing market share at all given all of the -- that -- the second step, shall we say, of this whole economic cycle we're in, where maybe people do start to really aggressively down trade into different areas?

And then just the last question on the cash flow, free cash flow. It looked like a miss compared to consensus. You talked about higher inventories. Do you think that will unwind by the end of this year? And so as a result, the consensus, EUR 1.7 billion free cash flow, can last? Or do you think it's going to take probably a couple more semesters for that inventory rise to unwind?

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

We'll do a duet with that on -- with Juergen. Let me start with pricing because pricing then, as a consequence on the rest, we see -- actually, we see very different dynamics on different markets. I mean if you take markets like Russia or Brazil, we see obviously a huge volume elasticity to pricing. You see places like the U.S. or France, you see limited to no elasticity. You see more of it in Spain and Italy. So actually, it is a pretty patchy situation.

In the same way, depending on whether your brand is highly differentiated, Actimel, Oikos, Aptamil, or less differentiated, you see very different reaction to our pricing and very different elasticity.

So it is, to be honest, a bit of an unknown quantity given the broad spectrum of reaction. We prepare for the worst. So we are extraordinarily disciplined in revenue growth management. We look at our portfolio and we prepare our portfolio in actually a very systematic way to a tougher environment looking at -- I mean, the strength of the categories, the strength of the brand, the strength of the portfolio, the sensitivity of some consumers and doing it region by region to make sure that we have a portfolio ready in case things are getting tougher.

So a bit of unknown, so far, so good, varied reactions depending on the regions. And us focusing essentially on making sure that our portfolio is in the right shape to face an environment in case it becomes worse. And the guidance is reflecting the combination of both the good start of the year, but also the uncertainty moving forward. So it's the best of our knowledge.

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

And on the cash, Jon, I think the underlying cash generation is very strong for our business also in the first half of this year. As we discussed in Q1, we have been phasing some of the Local First-related cash-outs from Q4 last year into Q1 this year. So we had to digest this cash-out.

On top of that, yes, we have consciously taken the decision to increase some of our inventories on the raw materials and finished products, and that's paying out. That's paying out because we see that we are doing better in terms of supply chain. We're doing better in service levels, especially in North America. And I believe that moving forward that we are going to recover this increased inventory level sequentially.

You were talking about how I feel about the consensus, which is out on cash, and I can tell you that I feel good about it.

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

The next question is from Bruno Monteyne from Bernstein.

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

The reinvestment level of 10 basis points that you're showing in the bridge, now the 10 basis points it seems remarkably small. Is it where you wanted it to be in the first half, Antoine? Or is it simply the rate of [COGS increase that stops] you from going any faster than that?

And the second one is, if you look at the U.S. with the problems that the Abbott product withdrawal has had and you're able to supply some more, do you see -- in your discussions with politicians in the U.S., do you see any chance that the WIC system changes, which would allow you to take a stronger position in the U.S. in Infant Nutrition?

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

So Bruno, on the investment level, you need to deaverage actually. Don't forget that we've stopped absolutely all investments in places like Russia or Ukraine. We restarted actually investing in absolute money more in all the geographies where we are. We're even going to further accelerate moving forward.

So it's not a matter of COGS, it's actually focusing on where we have the right assets, focusing on where we have the right service, defocusing in the places where actually it doesn't make sense, we are committed not to invest. So it's more the reflection of our choices than anything else, but we are committed to investments, as I said, and you will see more of it coming forward. So no ambiguity there.

On the U.S., the only thing I can say is we have been moving forward extremely fast. We have been working extremely closely with the U.S. authorities to help in a crisis that is both a human crisis and a political crisis. Will it create goodwill for us? Well, I hope so because we did a jolly good job. How does this -- or how will this goodwill translate? Well, I have absolutely no clue at this stage. But we do the right thing and we try to do it consistently.

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

The next question is from Pascal Boll, Stifel.

Pascal Boll - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Yes. I have a question regarding the mix effect. Can you give us some more color on volume mix? What was the mix effect for EDP, Specialized Nutrition and Waters in Q2? And what do you expect how the mix will continue in H2.

Further, can you give us some more light on market share developments also for the different brands? Also when we look at plant-based in the U.S. because your examples usually are evian, but what is with the other brands and...

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

Pascal, I'll take the market share -- sorry, go on.

Pascal Boll - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

No. Sure, go ahead please.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

I'll take the market share and Juergen will take the mix. Altogether, if you look at agglomerate we are making progress on market share. So direction of travel is not bad. Still, we have a number of things we need to improve. So market share actually of plant-based is doing pretty good in the U.S. We are doing very well in Waters. We are doing extremely well in Specialized Nutrition.

The picture is patchier in other categories. It depends on countries. And there are still a number of things that we need to improve.

So altogether, the direction of travel is good, but not every -- and all together as an agglomerate we are winning share, but we need to keep improving in a number of places, which is why I said the we focus on solving unsolved issues for a long time. We'll do it thoroughly, try to do it diligently but do it for the long term. So all in all, on average, moving in the right direction, but then with the spread of very good news and the plant-based in the U.S. is actually looking good and things we need to improve, and we will work at improving step by step.

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

And on the mix question, Pascal, what you have seen in Q1 is consistent with what we have seen in Q2, a strong mix contribution and strong mix contribution in each of the 3 categories. In Specialized Nutrition, because of what Antoine explained before, which is that Aptamil is contributing and growing very fast and especially our innovations, which we have been putting in the market over the last 12 to 24 months, this is definitely helping us to drive product mix in the Specialized Nutrition segment as well as the fact that our Special Pediatrics portfolio is outpacing the total Special Nutrition category.

Waters, very clearly small format outpacing large format. And we were discussing about the fact that our emerging markets are coming back, Indonesia, Mexico with mobility coming back. We have been discussing earlier the fact that we are also growing well in Europe, and here, we really talked a lot about small format, which is really helping us on the mix side.

And in EDP. The brands we have been mentioning earlier, which is Activia, especially in U.S., in the U.K. and a few other European countries, Actimel across all the geographies, our coffee creamers, our coffee -- ready-to-drink coffee, SToK, our Oikos ranges in U.S. and in Japan, all of those are more premium ranges. And all of those are outpacing the EDP category, so that also has been helping us in Q1 and in Q2.

And so when you look at that, I think it bodes well for the perspective of the quarters to come.

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

Jeremy Fialko, HSBC.

Jeremy David Fialko - *HSBC, Research Division - Head of Consumer Staples Research of Europe*

Jeremy Fialko, HSBC, here. A couple of questions from me. First one, can you talk a bit more about pricing? Can you talk about kind of how much more pricing you think that you need to implement in order to offset the cost inflation and also what the most recent price increases you implemented have been?

And then second question, could you go into a bit more detail on the EDP volumes? So they were down 3% in the quarter. Can you talk a little bit about kind of where that volume weakness was concentrated and maybe a little bit of an outlook on that for the second half?

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

Yes. So we'll do a duet. We can start with pricing and probably do a duet on the volumes. On the pricing, as you've seen, we've taken pricing, I think the number is +6.1% in a way that is broad based. The way we look at pricing is much more than pure pricing. You look at, obviously, the increase in your list price. You look obviously at the way you manage your promotion. You look obviously at the way you cascade your trade terms and the balance of your trade terms. And you look at our pricing not as a single thing that you apply across your portfolio, but you apply to it the filter of the relevance of your product, the competitive strengths of your product, the channel in which it plays.

So it's really, in some ways, artisanal and science. It's a very, very precise market by market. We have been taking prices extremely fast in the market where you can take market fast and in waves. So you take -- I mean you look at North America, I think we have over 7 waves of increases in different bits and pieces with a rhythm of price increase. That is allowed by the way the trade is working.

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In our emerging markets, you can go very, very fast. You do that through the traditional trade.

In Europe or in some countries, we are in the second in a number of countries we are already in the third wave of price increase. And we will keep driving our prices where we think it is important to protect our business, but we will do it also in a way that is protecting our competitiveness because you don't want to price yourself out of the market.

Obviously, taking pricing is never a simple discussion. So we have, in some cases, some pretty robust discussion. But we hold our ground when we think we have to hold our ground. So, so far, so good. Right mix of driving the pricing in a very sophisticated way and in a way that also makes sure that we don't price ourselves out of the market. Juergen, do you want to talk about...

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

Yes. On the EDP volume dynamics, as you said, there have been volume mix down -3%. Reality is that this is mainly due to the Rest of the World zone. And within the Rest of the World zone, to a large extent, linked to the performance in Russia where volumes are double digit down.

We see also volumes under pressure and this is in consistency with the Q1, I would say, in a few other more emerging markets like Brazil or Turkey. While in the more mature markets, North America and Europe, volumes have been in most areas and in most countries really resilient. Obviously, in Europe in a few countries like in Spain, a bit more under pressure. But overall, it's really due to what we are seeing in emerging markets.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

This being said, and Juergen said it in his remarks, there are countries where we still need to do a groundwork to upgrade our business, and we discussed about Spain. We are -- certainly, we can do or we can do much better. There are parts of the portfolio in France, parts of the portfolio they are doing very well, but there are parts of the portfolio that we still need to improve. And it's going to be a journey, it's not going to be resolved overnight because you need to look at the quality of the mix, the quality of the positioning. And we will do that properly.

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

The next question from John Ennis, Goldman Sachs.

John Mark Ennis - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

My first question is on the Specialized Nutrition division. I guess the volume mix of 9% was much stronger than a lot of people expected. Can you maybe help allocate a bit more of that by country or region? And was there anything notable that we should be aware of from a phasing perspective?

And then related to that, do you need to take more pricing in this segment or do you expect volume mix to really be the main growth driver for the remainder of the year?

And then my second question is, again, coming back to EDP. Can you give us the breakdown between plant-based volume mix growth and traditional dairy volume mix growth? And I guess I'm particularly interested to hear how your Plant-based volumes have been developing in the U.S. given some of the supply chain challenges you've called out in the past.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

So we'll do again a duet on both questions. On the Specialized Nutrition, the key message is it's a broad-based growth. So we are -- I mean, we are doing extremely well in China. But we're also doing very, very well in all other geographies and that's, I think, an important message because it is a pretty balanced growth. Juergen, on...

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

No, on Specialized Nutrition, to the point of Antoine, it's really not only about China where you have seen that we have a very solid performance and now on a much more comparable base. But also in Europe where we have seen in many countries signs of stabilization, even the category returning to soft growth. In that environment, you have seen that Aptamil is really posting a very good performance, including winning shares in many of its markets. And here, the additional A&P we have been putting behind the campaign since the beginning of the year is really paying back.

And so -- and at the same moment, I think that's also important. We are boosting the Special Pediatric solutions across also all the categories. So there's absolutely no phasing effect. We are very carefully managing stocks. And that's true for China as well as outside of China because this is the way to manage price, and this is the way to manage margins.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

We're choosing our performance. On EDP and specifically on plant-based, I'll give you a qualitative answer because, as you know, we don't go to that level of detail not because we don't want, but because also lots of our competitors are [not] publishing there. And I don't want to open the -- everything, I mean, to the rest of the market.

In North America, you've seen we delivered a good growth. So things are going in the right direction. But we are not at the end of the journey. I mean we have a great campaign with Milk of the Land on almonds. We are in the process of resetting other parts of the ranges. The adjacent segments are continuing to grow very nicely.

So all in all, I mean there is a good momentum, partly helped by the way, by a competitor that was challenged so we need to also acknowledge that. But the direction of travel is good. More to do with the restage of oats that is coming.

Europe, the picture is more patchy by brand, by segment, by country, are doing very well in parts of Southern Europe, more challenged in some of the historical countries. The market is normalizing post COVID, which is one thing.

I think the second thing, which is probably less apparent to you is we are also working at our portfolio and we are rationalizing a number of things that are looking good from a top line standpoint, but not really making any sense from a value-creation standpoint.

So there, we are working at both ends. On the one hand, making -- I mean, our business more competitive in keeping -- driving the market. But on the other, also are cleaning the house and rationalizing our portfolio so that we keep creating value in that category.

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

The next question, 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 first one is on China, Specialized Nutrition. Has there been any impact from lockdown that you benefited from? And then I think one of your main competitors is having -- is cleaning up inventories and been talking -- warning from -- about a weak market. So can you talk about whether you've done quite well? Are you gaining share? Are you happy with your inventories and overall with your stocks there. And whether -- what do we expect to see from the changes to regulation if you are ready for that, I think, starting next year?

My second question is on COGS inflation. You reiterated mid-teens. We've seen some of the price point for aluminium, even some of the milk prices rolling over. Can you talk about whether that could be a help at some point in the second half, or is it more of a 2023 numbers?

And then lastly, coming back, I think, to Jon Cox's question, he asked you about the volume. You were quite -- you were cautioning about volume mix potentially being negative for the year. H1 is ahead. Can you update us on what you expect for the year now?

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

Good. I'll take the first one, Juergen will take the COGS and one of the 2 will take the volume mix. On China, listen, on lockdown, we didn't benefit from lockdown. The only way we really benefited from lockdown is more from an image standpoint because we're in a place like Shanghai was totally locked down. So people were delivered foods by their government at the bottom of their housing. We managed to get into the basket and the team was incredibly creative to find ways to make sure that Aptamil was reaching the people even during the time of lockdown, which got us quite a nice publicity on the social networks in China. So not material from a volume standpoint, but are keeping building the image of us being a contributor to the health of China and to the people in China.

On your question of one of our competitors and inventories, you'll recall that when we described what we believe to be the strength of our business in China, we talked obviously about the strength of the brand, we talked obviously about the strength of the science. We talked obviously of the fact that we are a digital-native company with extremely advanced tools speaking to the Chinese. We talked about being a Chinese-embedded brand.

But one thing we talked about as well is the discipline by which we manage inventories. It links back to our ability through our data mining intelligence, artificial intelligence to be very good at predicting the market. But it goes also with an iron discipline in the way we manage the different channels or the price structures and all the rest of it.

And the result of that is what you see in the performance, which is a good competitive platform that is based on a very healthy base. So actually, our ability to manage channels, inventories and pricing is one of our competitive advantages.

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

When it comes to COGS and inflation, it's true that we closed the H1 exactly in line with what we thought, exactly at mid-teens level and with the drivers, packaging, milk and transportation. And it's true that we are monitoring very closely the situation, which is extremely volatile. You're right that some of global commodities and also the transportation in the U.S. is showing recently some signs of stabilization.

While on the other side -- this on one side is still very volatile and we see that some other indexes like on energy gas or cost of labor are continuing to rise. So net-net uncertainty remains still very high. It's very complex to make a precise forecast. And so therefore, we are maintaining our best estimate for the full year to be a cost inflation around mid-teens.

And this is the way we are animating our business. In front of that, we will stay very focused and agile. Focused because we will step up further productivity in the H2 versus the H1 and H1 has already been record.

Focused as we continue to drive the product mix very hard as we were describing earlier on this call. And at the same moment, agile in the way we manage pricing and promotions, doing further a rounds of pricing if and when the inflation should continue to rise and to promote back in the moment, you will see inflation plateauing, but everything with the intention, I would say, to protect a healthy financial equation as much as leveraging strong competitiveness. And this is also linked to the way we have been articulating our full year guidance in terms of top line because obviously the way volumes are going to behave in the year to go will be a direct consequence of the way pricing will be executed, which will be a direct consequence of the way inflation is going.

So there's a lot of uncertainty over the next couple of quarters and semesters. And this is why we have articulated the guidance, taking stocks of the first good 6 months of the year and staying very consistent in the way we are looking into the midterm.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

Celine, that's why we prefer midterm guidance, not either quarterly or half year guidance. And as you know, this is where we are heading to.

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

We have one last question, it's going to be David Hayes from Societe Generale.

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

Can you hear me?

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

Yes.

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

Yes. Sorry. Just quickly following up on Celine's question on China inventory levels. Clearly, you're saying you're more on top of the inventory, you feel comfortable with inventory. But do you see any risk going into the second half that, that leading competitor is going to have to discount quite aggressively to try and rebase its inventory levels? Is that something that we should be thinking about or do you not think it affects you?

And then the 2 questions are just one on portfolio management, it's gone pretty quiet on that. Is that still ongoing review? Is anything specifically that you're looking at in terms of what needs to change in the portfolio?

And then I guess, kind of related, you talked about rationalization of brands and sales lines. Is that something that's been ongoing in the first half? Or has that had some volume negative effect that starts to fall away through the year? Or is it very marginal still and doesn't really make any impact on the numbers?

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

So I mean, in China, we are -- I mean, we don't see something sombre coming when it comes to competitors managing inventories and the rest of it. I mean we keep focusing on the relevance of our brands, driving our mixes, doing things in a disciplined way. Normal course of competition. So I don't see people starting to hurt us that way.

Portfolio, we haven't been so quiet actually. I mean we have announced what we were doing with our Danone Waters in Argentina. We announced the next stage in Mengniu. So it kept us actually quite busy. And obviously, we are busy on continuing the thorough work we said we would do. So not only we are working, but we have been delivering actually in May and June, and we will keep. So there, the things are moving in a disciplined way and we announce things when we have to announcing.

Juergen, do you want to take rationalization?

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

Yes. rationalization, I mean we already announced a couple of quarters ago that we were cutting the tail and we have been quite disciplined in organizing that. I would say the supply chain changes we had over the last quarter have reminded us on the importance in doing that.

And then we talked today about the fact that service levels in the U.S. are largely bouncing back. It's also thanks to the fact that we have been really refocusing on what we call our hero SKUs. So in that sense, we are continuing on that road, which also helps us to be extremely disciplined in the way we are managing innovations and the rotations in our SKU portfolio.

We are doing that all with a mindset, obviously, to maintain or increase our share of shelf. And this is the way our teams are animating that project and so far, so good.

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

So with that, we conclude the Q&A.

Antoine de Saint-Affrique - *Danone S.A. - Director & CEO*

So once again, thanks for joining us a bit earlier. I know a number of you have to rush to the next one. So good luck with the rest of the day. I'm looking forward -- we are looking forward to seeing you all in the coming days and weeks. And if not, enjoy rest and summer break.

As we said, we are happy with a strong start of the year, but we remain focused and disciplined. It's only a first step and there is still lots we need to do, and we will focus on that moving forward.

And on that, good day, everyone.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please stand by.
