



DANONE

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**REPORT ON THE
SHAREHOLDERS' MEETING
OF APRIL 29, 2014
at the
MAISON DE LA MUTUALITÉ**

A total of 1,073 shareholders attended Danone's Shareholders' Meeting, which was held in Paris, France, at the Maison de la Mutualité, on Tuesday April 29, 2014. A total of 5,922 shareholders were present or represented, with a 52.20% quorum.

Four presentations were made to shareholders at the meeting:

1. a financial presentation, by Pierre-André TERRISSE, Chief Financial Officer;
2. a presentation of Danone's basic principles of food safety and on the Group's business model and geographic presence, by Emmanuel FABER, Deputy General Manager;
3. a presentation on Danone and the consumer, by Bernard HOURS, Deputy General Manager; and
4. a closing speech, by Franck RIBOUD, Chairman and Chief Executive Officer.

1. Financial presentation on 2013 results and on first-quarter 2014 sales, by Pierre-André TERRISSE

Pierre-André TERRISSE began his presentation with the Group's key financial figures for 2013, which included sales growth of 2.1%.

After explaining that the year saw many events that resulted in mixed performance between the Group's four Divisions, he presented the annual sales figures for each one:

- Fresh Dairy Products saw gradual growth of organic sales over the year, as the ambitious goals for the U.S. and Russian markets were achieved and the situation in Europe began to improve;
- Water sales continued to grow very robustly, as in 2012;
- After getting off to a very strong start, Early Life Nutrition sales were severely affected by the Fonterra false alarm; and
- Medical Nutrition sales growth remained firm.

Pierre-André TERRISSE then reviewed the challenges that weighed on the Group's performance in 2013. In Europe, sales began the year down 5% across all Divisions on a like-for-like basis and then gradually stabilized. In addition to sluggish consumer spending in Europe, milk prices rose 10% overall (and 30% in certain countries, for instance Russia) while volatile exchange rates caused inflation to spike in a number of emerging countries. Lastly, the food safety false alarm from supplier Fonterra weighed heavily on the Group's results in the second half of 2013.

Pierre-André TERRISSE then discussed the Group's geographic trends and pointed out the need to stabilize sales and operating margin in Europe. In North America and in the CIS countries, where the Group posted 10% organic growth and a significantly higher operating profit, the development of key brands and improvements in operating efficiency must be pursued. This is also the case of emerging countries in the ALMA region, where the Group had to face two challenges: overcoming the negative impact of the Fonterra false alarm in certain countries and maintaining its rapid growth in others.

He then explained that given these geographic trends the Group had four priorities in 2014:

1. Building a competitive position in Europe against a new background of consumer spending. In 2013 the Group revived a number of products and adjusted its product portfolio to bring more value to consumers and further differentiate its products. Product lines will need to be further consolidated in 2014. Last year, the Group also undertook major initiatives to optimize its costs, including a €200M cost-cutting and simplification plan that will need to be continued in 2014. The stabilization of performance in Europe will enable the Group to take advantage of its momentum elsewhere in the world and build a strong base camp.
2. Continuing to increase market share in North America, where Danone now co-leads the Greek yogurt segment and is the leader in Fresh Dairy Products, as well as in Russia and the CIS countries, where the *Prostokvashino*, *Tëma*, *Activia*, and *Danissimo* brands have enjoyed rapid success and form a very solid product portfolio with fast-growing sales and margins. These two markets must continue to be strong growth drivers in 2014.
3. Rebuilding Early Life Nutrition business in Asia, where the Fonterra false alarm impacted the brands *Karicare* and *Dumex* in eight markets and resulted in negative sales growth for this Division. The priority during the second half of 2013 was to manage this crisis calmly and methodically. The priority since the beginning of this year has been to rebuild a strong product portfolio, particularly in China, the largest market affected.
4. Pursuing rapid growth in the emerging countries, where the Group's brands have been progressing robustly for several years. This was also the case in 2013, despite more volatile exchange rates. Pierre-André TERRISSE explained that 2014 is likely to be marked by even greater volatility, and by political instability in Argentina, Egypt and Ukraine, and that it will be necessary to find solutions and adapt to each market individually, so as to keep the Group development.

Pierre-André TERRISSE went on to say that the Group will continue in 2014 to make acquisitions in these emerging markets in order to adjust its scope. This will be the case in Africa, with FanMilk and Centrale Laitière, and in China by setting up a Danone-Mengniu partnership resulting in a winning leadership in the fresh dairy products sector. In addition to the emerging countries, the Group also strengthened its product lines in the U.S. market, which continues to offer considerable growth potential, by acquiring Happy Family and YoCrunch in the Early Life Nutrition and Fresh Dairy Products segments respectively and forming a strategic partnership with Starbucks.

Pierre-André TERRISSE pointed out that these growth deals were made possible by a solid balance sheet and strong cash flow of over €1.5Bn excluding exceptional items, despite the negative impact of the Fonterra false alarm. This has enabled the Group to fund almost €2Bn of acquisitions as well as the cost of its cost-cutting plan in Europe, while maintaining A- and A3 credit ratings with S&P and Moody's respectively.

Pierre-André TERRISSE explained that the Group's financial health allows it to recommend that the dividend remain stable at €1.45 per share, and to offer a stock dividend option.

He then presented the outlook for 2014. Sales for the first quarter are in line with forecasts and the Group has confirmed its targets for the year. He pointed out that due to base effects, performance will of course vary sharply between the first and the second half of 2014. Therefore organic sales and profit margin growth will fall below annual targets in the first semester but will accelerate substantially for the rest of the year, as robust, sustainable and profitable growth returns.

Pierre-André TERRISSE concluded by saying that the Group would remain focused over the coming months on the above priorities and its other objectives.

2. Presentation by Emmanuel FABER on Danone's fundamental principles of food safety and on the Group's business model and geographic presence

Emmanuel FABER began his presentation with the three fundamental principles the Group must observe to meet the challenges of the evolving global environment and the changing nature of its business lines.

The first principle is **food safety**, which depends on three key factors — anticipation, prevention and management. Emmanuel FABER then presented the Group's new Food Safety unit and Product Quality & Compliance departments and explained that Danone's Board of Directors is in the process of strengthening both. The mission of these two departments is to ensure the quality and compliance of the Group's products with a "zero-tolerance" approach.

Emmanuel FABER continued by saying that **securing key production resources** is also of fundamental importance in the food and beverages industry. With population growth and rapid economic growth in the emerging countries, new ways must be found to ensure reliable supplies of the essential raw materials that Danone needs, in terms of quality, quantity and price. He then presented the solutions the Group is developing to secure the procurement of these resources. He gave the example of *Evian* and its efforts to protect its *impluvium*, the source of its natural mineral water, which involved the creation of APIEME, a non-profit organization.

Emmanuel FABER also presented some of the Group's initiatives to adapt and optimize its milk procurement. For example, in Russia, Danone has partnered with the agricultural group Damate to build large dairy farms and has set up pilot cooperative farms in Egypt. In addition to optimizing and securing milk supplies and costs, these actions also support the dual economic and social mission that is an integral part of the Group's culture. He then mentioned some of the initiatives that give Danone its unique business model, such as the Danone Ecosystem Fund, the Livelihoods Fund and the danone.communities project.

Emmanuel FABER then explained that the Group's third and last fundamental principle was to build a solid **geographic foundation for growth**, since the rapidly increasing number of consumers in certain regions is also a powerful growth driver for a group like Danone. He said that among the Group's top-ten countries, Europe is increasingly losing ground to emerging markets. It is tomorrow's growth markets, beyond "fortress Europe", that will assure the Group's growth potential. Emmanuel FABER went on to say that this globalization of Danone's business is not without consequence and that it will be necessary to balance out risks and prioritize opportunities. For example, in 2013 the Group had to deal with a false food-safety alarm in New Zealand that severely affected eight markets in Asia.

Emmanuel FABER reminded that the Group is pursuing its international expansion in a difficult political and economic environment and that it is only by strengthening its performance in each of the three fundamental areas that the Group will build a solid foundation for its future growth and development.

He concluded by explaining that Africa is the Group's new frontier and then presented two recent major deals on that continent: the acquisition of Centrale Laitière (Morocco) and the joint acquisition, with the Abraaj Group, of the FanMilk Group, which is the Group's first significant attempt to develop business in Sub-Saharan Africa. Given its demand for food, and therefore for Danone's products, Africa will be a major growth driver over the next 10 to 15 years.

3. Presentation by Bernard HOURS: "Danone at the heart of the consumer"

Bernard HOURS began his presentation by reminding that Danone's success depends above all on consumers, who must be at the core of the Group's operations and decisions.

He pointed out that consumers are changing and have multiple demands that include well-being, pleasure, attractive design, tradition and modernity, and that they live in a world that is both real and digital. Consumer access to information has changed considerably as have their attitudes toward brands, to which they are now less attached.

To put consumers once again at the core of its business, Danone has carefully studied their expectations, which may be summarized in four words:

- **Healthful:** Consumers expect Danone's products to be naturally, consistently and assertively healthful. Their healthful qualities may be expressed in various ways, in terms of their naturalness, recipe, function or market segmentation, and through multiple channels, such as education, nutritional information, service and online information. For example:
 - **Healthful Naturalness:** *Blédina* has introduced a new line of single-ingredient recipes, such as carrot purée that contains just carrots and their cooking water, and thus increased its market share by six percentage points in one year.
 - **Healthful Education:** In the U.S., as a participant in the Partnership for a Healthier America program, Danone has made a commitment to increase the proportion of healthful nutrients in its products, to reduce the amount of sugar, saturated fats and salt, and to invest in nutritional education and research, which contributes to the growth of the yogurt market in the United States.
 - **Healthful Service:** In the Chinese Early Life Nutrition market, Danone set up a consumer service via telephone and Internet social networks, where specialist nutritionists assist young mothers for 1,000 days after the first day of pregnancy.
 - **Healthful Information:** The new Danone NutriJournal website provides a wealth of educational, interactive and fun content.

- **Tasty:** Danone has embraced the challenge of constantly working to improve the taste of its products from various perspectives, which include intrinsically (for signature products), locally, for snacking, and with novel and unique flavors. The Group's R&D department is working on all of these aspects. For example:
 - **Tastier:** Danone must constantly improve its recipes. For example, although Velouté yogurt is a relatively old product, when its recipe was recently improved the repurchase rate rose five percentage points.

- **Tasty locally (“tropicalization”):** products must be adapted to local consumer tastes. For example, guava flavor accounts for 28% of *Bonafont con jugo* sales in Mexico.
 - **Tasty at the right time:** Bernard HOURS mentioned the promising launch in France of *Danio*, a novel product designed to be eaten between meals. Its texture and protein-rich content are more effective in satisfying hunger than a dessert. It is already sold in several European countries and will be launched in ten more by 2015.
- **Beautiful:** Design and visual appeal are increasingly important to consumers. To respond to this trend Danone is working on its packaging, product lines, sales outlets, and total product experience. For example:
- **Packaging:** Bernard HOURS pointed out how *Badoit* sales rose after packaging was redesigned.
 - **Product experience:** *Evian* will be introducing a new 20cl format bottle with a novel “drop” design, which will be distributed by mobile sales teams this summer. The objective is to achieve the same quality of experience, whether the consumer discovers the “drop” product directly, or through an advertisement, smartphone or Vélib self-service bicycle.
- **Strength:** Consumers expect Danone to use its size and expertise to achieve excellence and offer them better value for their money, which requires an understanding of market imperatives and simplification of product lines and operations. Achieving this level of competitiveness involves not only tight control of Danone’s costs but also those of its stake-holders and supply chains. Bernard HOURS pointed out the need to simplify not only products but also organizational structures, to ensure that consumers do not suffer the consequences of their complexity. He explained that Danone must use its size and influence in the market to achieve this, while taking into account the diversity and specific characteristics of its markets.

Bernard HOURS said that today’s consumers are looking for products that stimulate them, that trigger emotions and make them smile. Danone must adapt to these new consumers while allowing them more freedom, most notably via digital media. Bernard HOURS then presented three advertisements to illustrate this point.

He concluded his presentation by reminding that Danone must first of all increase its sales to improve its profit margin. Lastly, he pointed out that despite the difficulties encountered over the past 12 months (the problem with Fonterra, the rising price of milk and the drop in many emerging country currencies), Danone has solid fundamentals and its growth in 2013 exceeded the average growth rate of consumer products companies.

4. Closing speech by Franck RIBOUD

After the Deputy General Managers gave their presentations, Franck RIBOUD began by discussing the setbacks that compromised the promising growth of the first half of the year, and in particular the increase in the price of milk, the volatility of emerging country currencies and the Fonterra recall in the summer.

He reminded that Danone posted strong organic growth despite these headwinds. This was achieved by leveraging the Group's business model, powerful brands and competitive business lines, and above all thanks to the commitment and competitiveness of the Group's employees. All of these factors augur well for the Group's future success. He then gave various examples of the Group's achievements during the year, such as the growth of the French Dairy Products Division in Russia and the United States, the increasing popularity of *aquadrinks*, the rapid growth of the Early Life Nutrition Division outside of Asia, and the resilience of the Medical Nutrition Division. He then mentioned the positive impact of the Group's strategic acquisitions in Africa, Turkey and the United States in 2013, and of the work undertaken to simplify and rationalize operations in Europe.

It is against this background that efforts in 2014 will focus on assessing and adjusting strategies to set and achieve demanding annual targets. The priority will be to anticipate and control operational risks and also the risks of the current complex competitive, financial and regulatory environment, which is likely to last until 2015.

Franck RIBOUD stressed the importance of maintaining a constructive attitude based on a long-term vision and a thorough understanding of key issues and objectives, to find new solutions to innovate, create value, communicate and adapt organizational structures. He emphasized that Danone will be able to count on its traditional strengths of flexibility, agility and adaptability.

Franck RIBOUD went on to explain that given the current environment Danone must pursue its efforts to strengthen food safety and legal and regulatory compliance. He announced that the Group will be investing in specific areas to secure and defend its values and become even stronger in the future.

He then discussed Danone's priorities for 2014, which will be to pursue recovery in Europe, support growth in Russia and the United States, maintain sales in the ALMA region and rebuild the Early Life Nutrition Division in China.

Franck RIBOUD insisted on the importance of controlling costs, of strengthening industrial responsibility, and of designing and making superior products that set Danone apart from its competitors, simplify organizational structures and speed up decision-making.

Beyond business success in 2014, Franck RIBOUD stressed that Danone must remain a human adventure, driven by a long-term vision, that continues to renew itself and strengthen its presence in its various markets. It was in this spirit that the chief operating officers of the Group's subsidiaries met in April, in Evian France (which has historic significance for Danone) to build a vision for the Group over the next six years, until 2020. The specific guidelines for this vision are to be determined by the end of 2014. Some key issues will be Danone's contribution to feeding the world in the near future, control of the value chain and recruiting human resources.

This pooling of minds must go beyond short-term strategic concerns and objectives, to give new impetus to the dream of conquest of Danone's founders and leaders.

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After a question and answer session with the audience (the full webcast is available on the Group's website), the Chairman asked shareholders to vote on the 21 resolutions on the agenda.

All of the following resolutions presented by the Board of Directors were approved:

Resolutions within the authority of the Ordinary Shareholders' Meeting:

1. Approval of the statutory financial statements for the fiscal year ended December 31, 2013;
2. Approval of the consolidated financial statements for the fiscal year ended December 31, 2013;
3. Allocation of earnings for the fiscal year ended December 31, 2013 and setting of the dividend at €1.45 per share;
4. Option for the payment of the dividend in shares;
5. Renewal of the term of office of Mr. Bruno BONNELL as Director;
6. Renewal of the term of office of Mr. Bernard HOURS as Director;
7. Renewal of the term of office of Mrs. Isabelle SEILLIER as Director;
8. Renewal of the term of office of Mr. Jean-Michel SEVERINO as Director;
9. Appointment of Mrs. Gaëlle OLIVIER as Director;
10. Appointment of Mr. Lionel ZINSOU-DERLIN as Director;
11. Approval of the agreements referred to in Articles L. 225-38 *et seq.* of the French commercial code;

12. Approval of the agreements referred to in Articles L. 225-38 *et seq.* of the French commercial code entered into by the Company with the J.P. Morgan group;
13. Approval of the statutory director contract entered into between Mr. Bernard HOURS and Danone Trading B.V. and the corresponding adjustments to the agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French commercial code regarding Mr. Bernard HOURS in the event of the termination of his term of office as executive director and officer;
14. Approval of the renewal of the agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French commercial code regarding Mr. Bernard HOURS and entered into by the Company and Danone Trading B.V.;
15. Opinion on the elements of the compensation due or awarded to Mr. Franck RIBOUD, Chairman and Chief Executive Officer, for the fiscal year ended December 31, 2013;
16. Opinion on the elements of the compensation due or awarded to Mr. Emmanuel FABER, Deputy General Manager, for the fiscal year ended December 31, 2013;
17. Opinion on the elements of the compensation due or awarded to Mr. Bernard HOURS, Deputy General Manager for the fiscal year ended December 31, 2013;
18. Authorization granted to the Board of Directors to purchase, retain or transfer the Company's shares;

Resolutions within the authority of the Extraordinary Shareholders' Meeting:

19. Authorization granted to the Board of Directors to allocate existing or newly issued shares of the Company, without preferential subscription rights of the shareholders;
20. Amendments to the Company's by-laws regarding the appointment of Directors representing employees to the Board of Directors;
21. Powers to carry out formalities.

All of the presentations by management to the Shareholders' Meeting as well as the voting results and a webcast of the entire Shareholders' Meeting are available on the Danone website at the following address: <http://finance.danone.com>.

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