



DANONE

DANONE
REPORT ON THE
SHAREHOLDERS' MEETING
APRIL 28, 2016
MAISON DE LA MUTUALITE

A total of 998 shareholders physically attended the Danone Shareholders' Meeting, which was held at the Maison de la Mutualité on Thursday April 28, 2016. The number of shareholders present or voting by proxy was 6,206 and the quorum was established at 54.53%.

Four presentations were made to shareholders at the Meeting:

1. a report on the first year of Danone's new governance organization by Franck RIBOUD, Chairman of the Board of Directors,
2. a financial presentation on 2015 full-year results by Cécile CABANIS, Chief Financial Officer,
3. a presentation on the continuous efforts to innovate and revitalize the *Evian* brand by Véronique PENCHIENATI, Chief Executive Officer of Evian Volvic World, and
4. a presentation by Emmanuel FABER, Chief Executive Officer, on his vision for the potential of Danone's business lines and the main points of the Danone 2020 transformation plan.

1. Report on the first year of Danone's new governance organization by Franck RIBOUD, Chairman of the Board of Directors

Franck RIBOUD began by thanking Marie-Anne JOURDAIN, Director representing employees who decided to step down before the end of her term as Director, for her work on the Board of Directors and on behalf of Danone in general. He then introduced Clara GAYMARD, whose appointment is proposed to the Shareholders' Meeting as an independent Director. He then prefaced his remarks by noting that events in 2015 confirmed the relevance of the decisions taken by the Board of Directors with respect to corporate governance and management.

He emphasized that under the leadership of Emmanuel FABER, the new Chief Executive Officer, Danone's organic growth was among the highest recorded by any company in the mass retail segment and it also increased its profitability, as previously announced, thereby laying the groundwork for robust, profitable and sustainable growth.

Franck RIBOUD then noted that strong short-term results did not come at the expense of efforts to build for the future, and that all of Danone's employees had made remarkable contributions toward preparing the company for future challenges through the Danone 2020 project.

In that regard, he cited three specific examples of this long-term development work:

- the first involved **compliance**. Danone acted very quickly and professionally to effectively prevent and manage risky situations, most notably through the establishment of the Corporate Secretariat and, within that function, the creation of a central team dedicated entirely to compliance issues with an expanded staff focused on regulatory and food safety matters;
- the second consisted of **developing the synergies between the Group's various subsidiaries** in a single country or region (the "One Danone" project) by pooling various support functions such as accounting, payroll, information technologies and legal services in order to promote consistency, efficiency and reliability;

- the third pertained to the **efforts launched to address the company’s involvement in the major societal challenges that directly affect it.** In that regard, Franck RIBOUD reiterated his firm belief that food producers have a special responsibility, since they have a direct impact on an essential function for humanity, namely the ability of people to feed themselves and all that this activity entails. He noted in particular that a company such as Danone could not ignore aspirations for greater authenticity, more naturalness, better soil protection, greater animal well-being, a reduced environmental impact from packaging and less food waste. He pointed out that Danone’s employees were doing invaluable work to consider the implications for the brands, how they communicate or innovate and even how the products are manufactured. These efforts are all aimed at keeping the brands in step with changes in society. He also mentioned Danone’s new climate policy in that regard.

After announcing that the expanded duties of his chairmanship would cease in the course of his term being renewed today, Franck RIBOUD concluded by noting that *“the present is operated with a total commitment and concentration while the future is built with method, determination, energy and enthusiasm,”* and he underscored the collaboration between management and *“an enthusiastic and uniquely focused Board of Directors that acts as a guarantor of Danone’s long-term interests.”*

2. Financial presentation of 2015 full-year results and the 2016 outlook by Cécile CABANIS, Chief Financial Officer

After showing a film on Danone’s key results for 2015, Cécile CABANIS began her presentation by putting the past year in the context of Danone’s medium-term plan for 2020.

This agenda includes the rebalancing of Danone’s business model with an economic equation of profitable growth each year, which then accelerates to reach a medium-term target in 2020 based on the following key economic parameters:

- a strong growth, defined at more than 5% on a like-for-like basis and premised on maintaining the growth rates of the Waters, Early Life Nutrition and Medical Nutrition divisions while steadily increasing that of the Fresh Dairy Products division; and
- an annual increase in the trading operating margin, driven mainly by the structural turnaround in the margin of the Fresh Dairy Products division, with a goal of improving this margin by a combined total of more than 200 basis points at constant exchange rates between 2015 and 2020 relative to 2014.

Cécile CABANIS then discussed the 2015 results and key performance indicators, noting first that 2015 was a pivotal year and a major step forward towards profitable growth and transformation despite a volatile global environment.

The 2015 performance was marked by the fact that all targets were achieved:

- an actual growth on a like-for-like basis of +4.4%, in line with the target set between +4% and +5%; and
- an improvement of the trading operating margin of +17 basis points on a like-for-like basis and +32 points on a reported basis.

Cécile CABANIS then discussed the regional trends in greater detail:

- in **Europe**, the rebound in growth was confirmed each quarter. This growth was driven by the resilient performance of the Waters division, progress in the Fresh Dairy Products division and the success of the Early Life Nutrition division's international brands sold in Europe for use in China;
- in the **North America/CIS area**, two distinct trends were observed:
 - substantial resilience of the platforms and continued positive growth in the CIS area despite a challenging consumer environment;
 - a reacceleration in growth in the United States, notably in the fourth quarter, reflecting the sound execution of the business plans; and
- in the **ALMA area**, growth was robust, reaching nearly 7%, and was based on solid growth drivers despite the adverse impact of the *Mizone* brand's transition to a lower growth profile in China during the second half.

Cécile CABANIS then discussed each division:

- in the **Fresh Dairy Products** division, sales grew by +0.6% on a like-for-like basis, in line with the forecast and made solid progress in all priority areas. The trading operating margin increased by +24 basis points on a like-for-like basis, reflecting portfolio optimization efforts, strict cost control and substantial investments in the brands in Europe and the United States, all in a favorable milk cost environment;
- in the **Waters** division, the entire portfolio and all of the regions contributed to the strong +7.1% growth rate, notwithstanding the transition of the *Mizone* brand in China toward a more modest growth profile, which also weighed on the division's trading operating margin. This margin contracted by -192 basis points on a like-for-like basis;
- in the **Early Life Nutrition** division, the +9.8% organic growth demonstrated its ability to generate strong and profitable growth, with well-balanced volume and nominal sales gains and favorable performances in all regions. The trading operating margin rose by +142 basis points, helped by a favorable milk price environment, strong growth and a positive mix effect linked to the reacceleration of sales of international brands sold in Europe and destined for the Chinese market;
- in the **Medical Nutrition** division, robust +7.5% growth was based on sound fundamentals and was driven by the success of the *Neocate* brand in the pediatric segment.

Cécile CABANIS then mentioned certain priorities in 2015 for each division, starting with the Fresh Dairy Products division in the United States, whose growth once again picked up throughout the year thanks to targeted investments, major progresses with distributors and stepped-up innovations.

She then turned her attention to the Fresh Dairy Products division in Europe, whose steady recovery is under way in a year when the goal was to once again securely generate profitable and sustained growth.

Cécile CABANIS then pointed out that the Waters division has sound fundamentals. The still water segment recorded strong growth of more than 8% in all regions, and the aquadrinks segment continued its steady growth, which reached approximately 15% excluding China. Cécile CABANIS specified that one of Danone's major projects in China consists of managing the transition of the *Mizone* brand, whose growth is expected to resume in the second half of 2016 to reach around 5%.

Cécile CABANIS concluded by stating that all Waters brands had recorded strong growth, driven in particular by a very sustained innovation agenda.

Turning to the Early Life Nutrition division, Cécile CABANIS explained that the 2015 performance was driven by the growth in the baby milks market and the strength of the brands and business plans currently being implemented in this business. These factors made it possible to win 2 percentage points of market share over two years and accelerate growth in new markets.

Cécile CABANIS specified that China remains a priority market with strong growth potential, and Danone is working in this market to build a profitable growth model.

Cécile CABANIS then discussed the Medical Nutrition business, explaining that this business enables Danone to shift from a traditional business model toward a richer dialogue with consumers, communities and various stakeholders.

Concluding this review of the different business activities, Cécile CABANIS brought up Africa. In 2015, Danone laid the foundation for solid medium- and long-term growth by working on all fundamental parameters such as supply chain and quality as well as the pursuit of further acquisitions, including the controlling stakes acquired in FanMilk and Halayeid.

Cécile CABANIS then reviewed the financial indicators. Cash flow increased by +9.2% to €1,529 million adjusted for non-recurring items. This increase was largely driven by solid revenue growth and an improved trading operating margin.

She concluded her remarks on 2015 full-year results by pointing out that the Board of Directors is proposing that the Shareholders' Meeting raise the dividend by +6.7% relative to the dividend paid out on 2014 earnings by setting it at €1.60 per share payable in cash.

Cécile CABANIS briefly discussed the 2016 outlook and first-quarter results. She announced that 2016 would be yet another key year in the process of achieving the business plan's objectives in 2020 by emphasizing steadiness over speed in an environment that remains complex in certain countries such as Russia and Brazil.

Cécile CABANIS confirmed the targets set for 2016, with between 3% and 5% sales growth on a like-for-like basis as well as solid gains in the trading operating margin, also on a like-for-like basis.

Cécile CABANIS concluded by noting that first quarter 2016 sales, which were released on April 19, 2016, were fully in line with the targets, as sales rose by +3.5% on a like-for-like basis.

3. Presentation of the continuous innovation and revitalization efforts involving the Evian brand by Véronique PENCHIENATI, Chief Executive Officer of Evian Volvic World

Véronique PENCHIENATI began her remarks with a presentation of the *Evian* brand, emphasizing its ability to reinvent itself as well as its values based on social responsibility and commitment. She then pointed out that the *Evian* brand dominates the global premium water market since it is sold in 140 countries and generates 60% of its sales outside of France.

Véronique PENCHIENATI then clearly outlined Evian's goal, namely to solidify this dominant position and accelerate the brand's international deployment in a responsible manner, notably in the United States. To that end, Véronique PENCHIENATI highlighted the two ways in which Evian could achieve this goal:

- first, by innovating and disrupting its own marketing communications so as to preserve the link between the brand and consumers while promoting the *Evian* brand's spirit, which is focused on youth. She added that the new "Evian Baby Bay" campaign was just launched online on April 20, 2016 and has already garnered more than 30 million views; and
- then, through innovations in products and services in order to create utility value for consumers as well as economic value for customers and the business. She cited examples of several innovations, such as the new line of Prestige bottles, the continuous development of the small format Goutte bottle and the launch of a new line of fruit-flavored waters.

Véronique PENCHIENATI then noted that all of these product launches are being carried out in a consistent manner with Evian's fundamental principles: naturalness and respect for the environment. A prime innovative example is the Terragr'Eau project, the largest methanization site in Europe dedicated to watershed protection that will begin operating next fall. Lastly, she noted that Evian has ambitious goals, namely zero net carbon emissions by 2020, which will require continuous innovation and creativity.

Véronique PENCHIENATI concluded her remarks by pointing out that Evian reinvents its business daily in order to offer innovations that facilitate consumers' lives and develop healthy and natural hydration in an inspirational, unique and responsible manner.

4. Presentation by Emmanuel FABER, Chief Executive Officer, on his vision for the potential in Danone's business lines and the main points of the Danone 2020 transformation plan

Emmanuel FABER began his remarks by presenting Danone's three strengths: **a mission, business lines and an ambition**. He pointed out that these strengths are, both in themselves and in combination, factors supporting Danone's uniqueness, competitive advantage, durability and sustainability.

He continued by discussing Danone's mission of providing health through food to the greatest number of people, which is now more than ever perfectly suited to the evolutionary and revolutionary changes driving the food sector, in an environment marked by powerful demographic trends (population growth in emerging countries and regions, growing middle classes, and the urbanization and ageing of the population) and growing health challenges (obesity and malnutrition, infant health issues and growing incidence of chronic diseases).

Emmanuel FABER offered a status report on each of Danone's four business lines and their respective contributions toward Danone's mission and economic equation of strong, profitable and sustainable growth:

- **regarding the Fresh Dairy Products division**, Danone's traditional business segment: this division has recorded rising sales volume for the past 10 years, and the recovery of such brands as *Actimel*, *Activia* and *Danoninio* in Europe has played a key role. Danone is always looking to innovate, as illustrated by the *Eat like a champ* campaign in the United Kingdom, which consists of using young role models to set an example for youth dietary practices.
- **regarding the Waters division**: this sector has recorded rising sales (from €455 billion in 2005 to €896 billion planned for 2020), with two product segments of paramount importance for Danone (bottled water and beverages made from flavored water or waters mixed with juice or tea). In that regard, Danone, the global leader in innovation, makes still waters, natural waters and carbonated waters even more appealing and creates additional consumption possibilities, thereby satisfying its mission of offering healthier hydration solutions.
- **regarding the Early Life Nutrition division**: this sector's potential is commensurate with current demographic challenges. The Danone product line is perfectly aligned with the World Health Organization's guidelines for the first thousand days (from the start of pregnancy to infant's second age), making Danone one of the leading global companies able to satisfy all of these needs.
- **regarding the Medical Nutrition division**: this expertise-based business line has great potential, as illustrated by *Souvenaid*, which when taken daily helps to maintain short-term memory as well as the ability to perform daily activities. Clinically, it helps to slow the cerebral contraction linked to Alzheimer's disease.

Emmanuel FABER then focused his remarks on the Danone of tomorrow, citing Africa as a continent of the future. There, Danone is growing through partnerships and acquisitions while also laying down deep roots in order to take advantage of the growth potential (approximately 5%). The idea is to work from the bottom up by developing the supply chain, adapting local products and coming up with special distribution models.

Emmanuel FABER concluded by discussing Danone's last unique strength, its goals for 2020 and beyond:

- Danone needs to **expand its view of dietary practices** by highlighting local specificities and participating in the cultural biodiversity of food;

- **Danone is committed to preserving natural resources** and will have zero net carbon emissions starting in 2020. To that end, Danone is reducing its carbon emissions and implementing positive carbon initiatives (as is the case for Evian or the various Danone funds). In that regard, Emmanuel FABER praised the work of Danone's U.S. team, which on April 27 announced that in support of biodiversity in U.S. farming communities, three of the biggest U.S. brands (*Danone*, *Oikos* and *Danimals*) will no longer use genetically modified organisms in 2018;
- **Danone is committed to working better together and contributing to social progress.** By way of example, Emmanuel FABER cited the 10th bargaining agreement on sustainable employment signed with the international union of food workers along with the partnership signed with B. Corp in December 2015; and
- **Danone is doing business differently** through an ever-growing commitment to social innovation. Emmanuel FABER highlighted the various platforms (**Danone Ecosystem**, **Danone Communities** and **Livelihoods**), whose existing strategic role will only continue to grow in the years ahead and contribute toward building Danone's future.

Finally, Emmanuel FABER thanked shareholders for their trust and said he was proud to be working on their behalf and with them in order to invent the company of tomorrow.

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After a question and answer session with the audience that lasted for less than an hour, the Chairman submitted the 18 resolutions on the agenda to shareholders for a vote.

All resolutions presented by the Board of Directors were approved. They were as follows:

Resolutions within the authority of the Ordinary Shareholders' Meeting:

1. Approval of the statutory financial statements for the fiscal year ended December 31, 2015;
2. Approval of the consolidated financial statements for the fiscal year ended December 31, 2015;
3. Allocation of earnings for the fiscal year ended December 31, 2015 and setting of the dividend at €1.60 per share;
4. Renewal of the term of office of Mr. Franck RIBOUD as Director;
5. Renewal of the term of office of Mr. Emmanuel FABER as Director;
6. Appointment of Mrs. Clara GAYMARD as Director;
7. Renewal of the term of office of PricewaterhouseCoopers Audit as Statutory Auditor;
8. Appointment of Ernst & Young Audit as Statutory Auditor;
9. Appointment of Mr. Jean-Christophe GEORGHIOU as Substitute Statutory Auditor;
10. Renewal of the term of office of Auditex as Substitute Statutory Auditor;

11. Approval of an agreement referred to in Articles L.225-38 et seq. of the French commercial code entered into with the mutual investment fund (SICAV) danone.communities;
12. Approval of the undertakings referred to in Article L.225-42-1 of the French commercial code regarding Mr. Emmanuel FABER's severance package in certain cases of termination of his office;
13. Approval of the undertakings referred to in Articles L.225-22-1 and L.225-42-1 of the French commercial code regarding Mr. Emmanuel FABER's retirement commitments;
14. Advisory opinion on the components of compensation due or awarded for the fiscal year ended December 31, 2015, to Mr. Franck RIBOUD, Chairman of the Board of Directors;
15. Advisory opinion on the components of compensation due or awarded for the fiscal year ended December 31, 2015, to Mr. Emmanuel FABER, Chief Executive Officer;
16. Authorization granted to the Board of Directors to purchase, retain or transfer the Company' shares;

Resolutions within the authority of the Extraordinary Shareholders' Meeting:

17. Authorization granted to the Board of Directors to allocate existing or newly issued shares of the Company, without preferential subscription right of the shareholders;
18. Powers to carry out formalities.

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

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