



DANONE

**REPORT OF THE
SHAREHOLDERS' MEETING**

APRIL 25, 2019

MAISON DE LA MUTUALITE

A total of 917 shareholders attended the Danone Shareholders' Meeting (Extraordinary Shareholders' Meeting - ESM), which was held at Maison de la Mutualité on Thursday April 25, 2019. The number of shareholders in attendance, represented by proxy or voting by correspondence totaled 7,082 (ESM). The quorum was established with 59.80% (ESM).

Two presentations were made to shareholders during the meeting:

1. a financial presentation on 2018 results and the 2019 outlook by Cécile CABANIS, Chief Financial Officer, Strategy and Information Systems, Cycles and Procurement; and
2. a strategic presentation on challenges in the years ahead and Danone's new governance, by Emmanuel FABER, Chairman and Chief Executive Officer.

1. Financial presentation on 2018 results and the 2019 outlook

After showing a video on Danone's principal key figures and 2018 highlights, Cécile CABANIS began her presentation by noting the company's 2030 goals as well as the progress made in 2018 toward achieving them:

- **Business model:** Danone recorded +12.8% growth in underlying earnings per share at constant exchange rates and adjusted for the impact of the Yakult transaction and IAS 29, and made further progress toward its goal of B-Corp™ certification, with approximately 30% of sales now certified;
- **Brand model:** 20% of Danone's 2018 sales are generated by committed brands. Danone received an A rating, the highest for the CDP Climate Change program;
- **Trust model:** 50% of Danone's managers and senior managers are women, and more than 75% of Danone employees participated in the consultation process initiated last year for the 2030 goals.

Cécile CABANIS then discussed the results and key performance indicators for 2018:

- +2.9% growth in "New Danone" like-for-like sales for the year (+3.6% excluding the impact of the Morocco boycott);
- a 51-basis-point improvement in the like-for-like recurring operating margin (+58 basis points after adjusting for the impact of the boycott in Morocco);
- double-digit growth (+12.8%) of underlying earnings per share at constant exchange rates and adjusted for the impact of the Yakult transaction and IAS 29, in line with the annual target;
- free cash-flow totaling €2.2 billion, up 7.1% relative to the previous year.

Cécile CABANIS pointed out that Danone has made significant progress toward achieving its strategic priorities:

- **accelerated growth**, notably through targeted investments in high-potential strategic categories, an acceleration in the pace of innovation (which accounted for one-fourth of Danone's sales in 2018) as well as an improvement in the mix of distribution channels;

- **maximization of efficiencies**, with a record level of more than €900 million generated in 2018, including approximately €300 million through the Protein cost savings program as well as ongoing synergies related to the WhiteWave integration;
- **disciplined capital allocation**, which resulted in a net debt to EBITDA ratio of 2.9x at end-2018, thanks in particular to the approximately €700 million capital gain on Danone's partial disposal of its equity interest in Yakult.

Cécile CABANIS then commented on 2018 key performance figures:

- the -0.7% decline in reported sales relative to 2017 was partially attributable to an adverse currency impact reflecting the euro's gains against the Argentine peso and U.S. dollar;
- a non-recurring operating expense of €821 million largely due to the more than €600 million impairment charge recognized on the Centrale brand and Centrale Danone goodwill in the first half following the consumer boycott in Morocco;
- net non-recurring operating income was a positive €46 million despite the impairment related to the consumer boycott in Morocco thanks to the roughly €700 million capital gain on the partial disposal of the stake in Yakult.

Cécile CABANIS indicated that all reporting entities contributed to Danone's sales growth in 2018. She then provided a more detailed summary of each reporting entity's performance:

- the **Specialized Nutrition** reporting entity recorded sales growth of nearly +6% in 2018, with both the Early Life Nutrition and Medical Nutrition segments growing by more than 5%. The infant formula business in China recorded nearly +10% growth in 2018, despite a slowdown in the second half, and has averaged +25% growth over the past two years. This profitable growth was reflected in the recurring operating margin's 139-basis-point increase in 2108;
- 2018 was a key year for the turnaround of the **EDP International** reporting entity. Excluding Morocco, sales grew by more than +2%, driven in particular by the stabilization in the Europe region during the fourth quarter after several challenging years. *Activia*, the reporting entity's most important brand, recorded steady improvement over the year, with positive sales growth in the second half thanks to innovation and product line adjustments at the local level. *Alpro*, the European brand for plant-based products, recorded double-digit growth throughout the year, notably through its geographic expansion in France and Spain;
- the **EDP Noram** reporting entity recorded +1.5% sales growth, with gains made throughout the year. Of the activities formerly held by WhiteWave, 75% recorded more than 5% growth. Danone acquired record market share in the yogurt segment, taking advantage of its positioning in high-growth segments such as probiotic yogurts, children's yogurts and plant-based yogurts;
- the **Waters** reporting entity recorded robust +5.3% sales growth in 2018, spurred by volume and price gains and a favorable regional balance. The Waters reporting entity's recurring operating margin was adversely affected by strong raw materials price inflation, notably for PET. 2018 was also marked by steady progress toward Danone's goal of 100% circular economy packaging by 2025.

Cécile CABANIS then noted that the Board of Directors had decided to propose a dividend increase to €1.94 per share, paid in cash, representing a 4 cents increase relative to the dividend paid on 2017 results.

Cécile CABANIS provided a status update on Danone's aggregate results since 2014, which have risen steadily and continuously, thanks in particular to the strengthening of Danone's operating model.

Cécile CABANIS then commented on the first-half 2019 performance, which saw like-for-like sales growth of +0.8%, in line with the forecast. Cécile CABANIS indicated that Danone has continued to make progress toward achieving its strategic priorities:

- growth was penalized in the first quarter of 2019 through a combination of the unfavorable base effect and technical factors, but should pick up again as of the second quarter, driven by solid fundamentals;
- optimized productivity gains continued in the first quarter. For the second year of the Protein program in 2019, Danone expects to generate around €350 million in cost savings alongside the ongoing synergies from the WhiteWave integration and streamlining of the company organization;
- disciplined capital allocation remains in effect, as reflected in particular by the sale of the EarthBound Farm organic salads business in April 2019 and the streamlining of product lines, notably within the premium dairy segment in the United States.

Cécile CABANIS confirmed Danone's 2019 targets, namely sales growth of around +3% on a like-for-like basis and a recurring operating margin greater than 15%.

To conclude, Cécile CABANIS noted that 2019 would constitute a major step toward achieving Danone's 2020 commitments as well as all its 2030 goals, both financial and non-financial.

2. Strategic presentation: challenges in the years ahead and Danone's new governance

Emmanuel FABER began by noting the exceptional nature of this Shareholders' Meeting, which marks Danone's centennial. He noted that Danone had demonstrated its ability to adapt to the numerous historical events that occurred over the past century.

Emmanuel FABER then posed the question whether companies and brands are eternal. He rejected the idea that a company lives and dies by its net cash balance, preferring instead to focus on the women, men, ideas and creative tension that make up a company. He asserted that companies are not eternal and that many do not make it past the initial years, whereas others like Danone make it to 100.

Emmanuel FABER then mentioned the secret to Danone's longevity, noting that it was linked to the vision of its managers, who were pioneers in seeking out new horizons while keeping both feet on the ground, and thanked Franck RIBOUD for his attendance. He stressed the importance of agility, pragmatism, passion and the staff's extraordinary commitment. He insisted on the need to get off the beaten path and referenced in particular the meetings between Isaac CARASSO and the Institut Pasteur, between Franck RIBOUD and Zinedine ZIDANE and his own meetings with the founder of the World Social Forum, the aboriginal

communities of the Araku valley and Normandy farmers. He concluded that there is no secret to longevity, but instead a constant search consisting of favoring risk over the usual pattern and movement over the status quo. Nevertheless, he said, the company's 100-year history can also represent a risk, namely the weight of the past that prevents one from moving toward the future. But he preferred to see the situation as a huge opportunity, namely to have a well integrated company built through adversity.

Emmanuel FABER enumerated the challenges facing Danone for the next 100 years:

- the first challenge is the **fight against dehumanization of the economy**, i.e. an economy that does not make sense. He explained that society has evolved from an economy based on trust to a transactional economy. A living company, according to Emmanuel FABER, must move beyond mind-numbing processes and make the economy benefit women and men once again. His firm belief is that there is no market economy without social justice, which is the sole legitimate challenge underlying globalization. He noted that he was a strong advocate of France's so-called PACTE law, which makes corporate social responsibility an integral part of companies, because it is urgent need to reconcile the economy with society. Danone is following its own path in that direction, seeking an inclusive economy and growth in the coming century;
- Danone's second challenge is itself, as a **large corporation, with the strength of its processes and information systems**. He praised the innovations that social media represent and emphasized that they also pose a risk of thought homogenization, since they reduce and format speech. To be a living company also means implementing a digital economy that helps to protect diversity of thought and human autonomy;
- Danone's third challenge is **defending the diversity of food systems**, which are currently based on 10 plant species for three-fourths of all human food needs. That poses an immense systemic risk. The only way to ensure long-term security is to guarantee diversity of the food system by reintroducing biodiversity. The systems that currently prevent the use of traditional seeds in favor of commercial seeds, all in the name of public health, may ensure food security today but not tomorrow. Biodiversity is a fundamental need for agriculture going forward. In 30 years, when it will no longer be possible to use the current wheat seeds in the south of France due to climate change, it will be necessary to rely on the thousands of traditional or heirloom seeds in order to adapt to climate change. Regaining biodiversity and recreating a food system that integrates risk and can thereby achieve resiliency is therefore essential. Danone is ahead of the pack on these issues, since they are an integral part of the company vision. Emmanuel FABER cited several examples. In the United States, 50% of Danone's fresh dairy product sales no longer involve GMOs, thanks to the help of one of the world's four leading seed companies, to protect soil that is already degraded. Danone also donated one day's sales in France to finance projects contributing to the transition to a regenerative agriculture and the company's goal is to have 100% of its products in France come from regenerative agriculture by 2025. He believes that Danone's brands have five years in which to play an even more activist role in terms of diversity in agricultural and food systems and solutions.

Emmanuel FABER presented Danone's duty to act on behalf of food as a fundamental human right, recognized by the United Nations. In his view, food has become an issue for society, a

social justice and climate challenge. If companies do not evolve toward more sustainable food, then their missions will have been in vain. He noted that the task is difficult, since we live in a world that seeks to eliminate risk, and yet in his view risk is essential in order to accept disruptions.

Emmanuel FABER then pointed out that 10 years ago to the day, 98% of all shareholders approved the creation of the Danone Ecosystem Fund: €100 million that Danone took from its 2008 profits to invest in the small jobs ecosystem that resides within the large organizational ecosystem. Danone anticipated the urgent need to protect them so that everyone could continue to grow together. Now, 10 years later, Emmanuel FABER provided a status update. This funding made it possible to stabilize, strengthen or create more than 70,000 direct jobs in the world. Emmanuel FABER then noted that by working with this Ecosystem Fund, Danone learned a lot about itself, the power of its size, the considerable impact that some of its processes have on these small players. In that sense, the company has to fight against itself.

Emmanuel FABER stated that he has a high degree of confidence in the company's abilities, as Danone has often found the necessary antibodies within its own organism, namely its employees.

Emmanuel FABER announced that for these reasons Danone was changing its governance model and strategic decision-making processes, which will no longer be made solely by the Executive Committee or Board of Directors but instead involve all employees. Today, people want to reassert control over their destiny, they seek meaning and they want companies to be committed. Tapping into this energy, Danone announced the "One Person, One Voice, One Share" project one year ago.

Emmanuel FABER then detailed the following points:

- **One Danone share for all:** he noted that in May 2019, all employees will become Danone shareholders. This initiative represents a powerful symbol of everyone being part of the same team. It is linked to a global profit sharing mechanism based on the dividend that shareholders will approve so that each employee understands the dividend mechanism. A capital increase reserve to Danone's employees worldwide will be implemented and enable all employees to invest a portion of their savings. This component is essential but not sufficient, according to Emmanuel FABER;
- **One voice for all** therefore represents the second component. It involves a routine annual consultation of the 100,000 employees on the company's major goals. The nine 2030 goals are global goals that apply to the entire company but also consist of local priorities.
 - o This routine begins by having employees all come together at the local level on one day in the year in order to share information on Danone's situation. Through an online platform, Danone employees can also become informed of all the major challenges surrounding food.
 - o The informational phase is followed by a period for hearing the various viewpoints, discussion and consultation. Employees share their views on the priorities behind these goals. Last year, Danone therefore collected hundreds of thousands of comments and feedback during the consultation phase. In 2018, more than 75,000 employees provided feedback and 33,000 volunteered to participate in the analysis of the results.

- These results are then used at the local and Executive Committee levels in order to jointly set the priorities for the strategic plan. This process is now firmly rooted at Danone and allows the company to turn its vision into reality.
- Next comes a discussion with the Board of Directors, which adjusts its own working agenda in order to take this dialogue into account and receive the feedback from Danone’s staff, which is at the heart of the company’s governance.
- Finally, this process enables everyone to have the opportunity to review the roadmap of the subsidiaries on various issues.

Emmanuel FABER noted that at the level of the Board of Directors, this routine led to the merger of the Strategy Committee and the Social Responsibility Committee, chaired respectively by Benoît POTIER and Virginia A. STALLINGS, into a single committee called the “Purpose & Engagement Committee.” This Committee’s tasks are to monitor the deployment of policies, engagements and initiatives implemented by Danone within the framework of its 2030 goals, and to have a dialogue with employees on the “One Planet, One Health” vision and progress made toward medium and long-term objectives. This Committee’s membership includes a majority of independent directors and one director representing employees in order to ensure unconstrained discussions. 26 volunteers with different positions, backgrounds and nationalities will participate to the Committee’s meeting in July 2019, in order to begin this dialogue.

Emmanuel FABER concluded his remarks by observing that when Isaac CARASSO founded Danone in Barcelona 100 years ago, he was all alone and had the brilliant idea of surrounding himself with teams that helped grow his idea and company project. Today, one century later, Danone is counting on its 100,000 employees to accomplish this project, starting now.

Emmanuel FABER ended his presentation and thanked those in attendance.

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Following a question and answer session of around 50 minutes with shareholders in attendance, the Chairman and Chief Executive Officer submitted the 21 resolutions on the agenda for a shareholder vote.

All resolutions presented by the Board of Directors were approved, namely:

Resolutions within the authority of the Ordinary Shareholders’ Meeting:

1. Approval of the statutory financial statements for the fiscal year ended December 31, 2018;
2. Approval of the consolidated financial statements for the fiscal year ended December 31, 2018;
3. Allocation of earnings for the fiscal year ended December 31, 2018 and setting of the dividend at €1.94 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. Renewal of the term of office of Mrs. Clara GAYMARD as Director;
7. Approval of agreements entered into with the J.P. Morgan group referred to in Articles L. 225-38 and seq. of the French commercial code;
8. Approval of the components of compensation paid or awarded for the fiscal year ended December 31, 2018 to Mr. Emmanuel FABER, Chairman and Chief Executive Officer;
9. Approval of the compensation policy for the corporate officers;
10. Authorization granted to the Board of Directors to purchase, retain or transfer Company's shares.

Resolutions within the authority of the Extraordinary Shareholders' Meeting:

11. Delegation of authority to the Board of Directors to issue, with preferential subscription right of the shareholders, ordinary shares and securities;
12. Delegation of authority to the Board of Directors to issue, without preferential subscription right of the shareholders but with the obligation to grant a priority right, ordinary shares and securities;
13. Delegation of authority to the Board of Directors to increase the number of securities to be issued in the event of a capital increase without preferential subscription right of the shareholders;
14. Delegation of authority to the Board of Directors to issue ordinary shares and securities, without preferential subscription right of the shareholders, in the event of a public exchange offer initiated by the Company;
15. Delegation of powers to the Board of Directors to issue ordinary shares and securities, without preferential subscription right of the shareholders, in consideration for contributions in kind granted to the Company and comprised of equity securities or securities giving access to share capital;
16. Delegation of authority to the Board of Directors to increase the Company's share capital through incorporation of reserves, profits, premiums or any other amounts that may be capitalized;
17. Delegation of authority to the Board of Directors to increase the share capital in favor of employees who are members of a company's savings plan and/or to carry out reserved sales of securities, without preferential subscription right of the shareholders;

18. Delegation of authority to the Board of Directors to increase the share capital in favor of employees of foreign companies of Danone's group, in the context of employee shareholding plans, without preferential subscription right of the shareholders;
19. Authorization granted to the Board of Directors to allocate existing or newly issued shares of the Company, without preferential subscription right of the shareholders;
20. Authorization granted to the Board of Directors to reduce the share capital by canceling shares;
21. Powers to carry out the formalities.

All of the managers' presentation to the Shareholders' Meeting, voting results and the video of the Shareholders' Meeting are available on Danone's website at the following address:
<https://www.danone.com/investor-relations/shareholders/shareholders-meeting.html>

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