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BN.PA - Full Year 2014 Danone SA Earnings Call

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OVERVIEW:

Co. reported 2014 sales of EUR21b and EPS of EUR2.62.

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CORPORATE PARTICIPANTS

Franck Riboud *Danone SA - Chairman*

Pierre-Andre Terisse *Danone SA - CFO*

Emmanuel Faber *Danone SA - CEO*

Cecile Cabanis *Danone SA - CFO Designate*

CONFERENCE CALL PARTICIPANTS

Cedric Besnard *Barclays - Analyst*

Pierre Tegner *Natixis - Analyst*

Warren Ackerman *Societe Generale - Analyst*

Cathal Kenny *Davy - Analyst*

Jeremy Fialko *Redburn - Analyst*

Adam Spielman *Citi - Analyst*

Alain Oberhuber *MainFirst - Analyst*

PRESENTATION

Franck Riboud *- Danone SA - Chairman*

So, don't worry, I'm not coming back. But if you look at the 2014 year I think that it was important that we, let's say, expose all the changes we have within this Company because, as you know, I'm becoming a non-executive Chairman. We have a CEO, call him like this, we have Pierre-Andre because it's the last time he will present to you the results because he will fly very soon to Africa. Actually he's already in Africa and we have the new CFO, Cecile, who will take care of the finances as of January 1.

So I will make a very short introduction, as usual. I will not comment this chart because I'm sure you know everything about that. We are an FMCG company so because you already have the result of our peers I'm sure they have already commented the context and the world in which we are living. It's what we call productivity. We don't have to repeat what Nestle and Unilever and the others just explained to you. But it's a true story. It's a real difficult world and it's not everywhere the same difficulties.

The question for me is, is it going to be solved for the next year or not. No, I don't think so. That's the assumption we are taking in the Group that it will continue to be difficult, perhaps not the same difficulties, perhaps not in the same place, but we will have difficulties in the environment. And I remember in 2008 with Emmanuel -- I think some of you were there -- when everybody was saying, oh Europe, it's not an issue because we have the emerging countries and Emmanuel and myself commented and said no, no, you will see also some difficulties in the emerging countries. So it's not because we are afraid. It's just because we are realistic and we think the context will continue to be difficult.

Having said that, the way I am looking to the results of the Company is first of all we fix or we deliver what we planned to do. We said we are going to recover the situation in Europe. It's not done but we are really on the right track. We're talking about US and Russia which were very important at this time because, as you know, we lost one engine growth in China in the baby food, so that was very important.

On the other side, I think we continue to think about the future because we continue to build. It's what we call planting seeds for the future which is very important for us. We are a big company but we are not a so big company so when we start -- that's the reason Pierre-Andre has a lot of pressure because when we said we start to build Africa, because of the size of the Company, Africa will impact very quickly the Company. So every small spot you can see, even if it looks very small for you like Starbucks which is going to start in the mid of this year with the product that we announced, that will impact our business in the US.

So obviously on the back left -- back right, sorry, Asia, I can't say we deliver exactly what we plan because we recover -- you will see the figures -- we recover but I think we recover even better than the initial plan. And you will see the distortion in the channel distribution and you will see how we recover the situation in China in baby food means we now have again this incredible strong profitable growth engine in China which is something positive obviously for the future.

Having said that, but I'm sure you have already read the press release we just launched this morning, I think we have to be very satisfied about the results because it's not a question of figures for me, it's a question of we said we are going to do this, this and this, and we went through and at the end we delivered what we expect, not making -- putting the Group in danger for the future.

So in this 2014 year there was something even more -- not difficult but a real big change. It's not every year that a Company of the size of Danone, a Company with the DNA of Danone, changes the governance. It seems -- because I read everything in the newspapers and it's one day you have Franck Riboud and the day after you have Emmanuel Faber and you are Chairman and Executive so you are the boss, you have to do this, you are no more allowed to do that. I have to tell you I'm not like this; I'm not like this. For me, the things we did all the year round is a real reflection. It's really something very important, not for today but for the future.

Just imagine that this guy is now the CEO of Danone after 40 years of Antoine Riboud and 20 years of Franck Riboud. It's not a small story. So don't try to put me in a box, say you are there, do this, nothing else. I will not. I am very proud and I'm convinced I have to try not to give the job; I have to transfer the job. It's like an heritage in French; you say heritage in English. I really didn't improve my English. So for me it's very important that I help Emmanuel, not helping him to do the business, he knows the Company perfectly, he knows everything, he is much more clever than me. He is totally different, which is good news, but I have to help because my name in this Company is like a brand. That's the only thing you have to understand.

So within the Company I have to be there just to help him to, as we said in French, "faire son trou", to impose himself to the Company. On top of that, I'm still totally looking to the product because I love the product, I love this Company and let's say it's one year, two years', three years' time to transfer. And when I'm looking at how it works in some other big companies, on one side I'm very proud of the result, on the other side I am even more proud the way we transfer the general management to somebody else.

It's -- and just imagine we start to discuss about this new governance in July and it was done in October. I don't know if you have another example smooth like this and successful, because it works. I just read an article, I don't know in which French newspaper this morning, about the different duos, and I can tell you it works and that will work with Emmanuel because we know how to work together. And it's the most important thing for the future of this Company.

Having said that, there is something we really changed. We put one Board, one Chairman, one CEO. You have to know that on top of that, but that will be explained one day within the 2020 strategy, we call it One Danone. So if we say One Danone we even apply this to this governance.

I never talk to you about the Board. I think that's the first time I express myself about the Board. I can tell you that without this Board and the quality of this Board and the Board members I'm sure we will not deliver so fast the transformation of the Company. As I said July, October.

I have some news about the Board because Richard Goblet d'Alviella, who is a very important shareholder, so Sofina for us, decided not to stay as a Board member. He will stay around the Company because he's a shareholder but he will quit and we are very pleased to announce to you that we are going to propose to the General Assembly Serpil. We know very well Serpil because she was working for Danone many years ago. She's Turkish, as you can see, I think it's written somewhere, and she has now a very long job description in Vodafone covering a very big part of their business and we are very pleased she accepted to come on the Board of Danone.

I think that's it. Pierre-Andre, your last presentation.

Pierre-Andre Terisse - *Danone SA - CFO*

Okay, I'll try to drive you through the financials for 2014. Franck already told you the most important fact, which is the achievement of the objectives. I'll come back on that. You have here the key figures for the year. Sales at EUR21b with a 4.7% like-for-like progression. The operating margin, our objective was to be minus 20, plus 20; we ended up at minus 12 bps on a like-for-like basis with a margin which stands very close to 12.6% as expected. The EPS lands at EUR2.62 which represents a 5.6% decline on a reported basis but a 2.5% increase incremental on a like-for-like basis. And finally, the free cash -flow ends at EUR1.4b.

Obviously two important elements to be taken away from this chart is on the one hand the impact of the foreign exchanges. I'll come back on that and you will see it throughout the presentation. The strength of the euro and the weakness of some currencies have been weighting on our reported performance by between 5 and 8 points depending on the line you are talking about. And the other one is obviously the fact that we have achieved the target. So that's for 2014 a snapshot.

Beyond the achievement of the target and before we move into the rest of the presentation, I thought it was important that I come back as well on what we have built in 2014, which again beyond the achievement of the target is very important from a qualitative standpoint and for the follow-up in 2015 and the rest.

I will start on the left-hand side which represents what we have built in Fresh Dairy and which obviously is having an impact on the way our numbers look like in a context in which the inflation of the cost of milk has been very high from the beginning of the year, much higher than what we expected. And you know that; we've been telling you that repeatedly. This has obviously been testing our model.

This is true in Europe and in the rest of the world where we have been passing price increases as a reaction. This is true even more in Russia where the level of the pricing or the cost increase for milk has been in excess of 20% and where we had to pass price increases. Globally, the good news to me is that the price increases we've had to pass have been successful; they have obviously triggered some negative evolution of volume on the non-value added part of our portfolio in Russia, which reflects in the numbers, but they have as well translated into a positive value element and positive value not only for the price but also for the mix which translates a strengthening of our portfolio.

At the same time we have continued, and this is specifically the case in Europe, to reinforce our competitiveness by accelerating the reduction of our costs and restructuring initiatives. We have finalized a EUR200m cost saving plan; we have as well taken some initiatives in terms of downsizing our capacities, adjusting our capacities downwards, and the very important result which comes as a result is that we have stabilized the margins in Europe Dairy. So the margins in Europe Dairy in the second half are up, and this is obviously, considering everything we've been going through for the past two years, a very important achievement.

If I move on the right side, starting with ALMA at the top. No need to remind the volatility of the foreign exchanges; I've already mentioned that and this has been largely mentioned by many people in terms of the impact on the performance. We have been as well impacted. But I think it's important as well to remind that despite that we grew in the second half by more than 13% organically in the emerging markets and 2014 again has proven the resilience and the strength of our engine in emerging markets. We have, by the way, taken the opportunity of this year to further strengthen our presence and some of our platforms, namely two, one in China with the investment in Mengniu and the finalization of the investment in the JV for Fresh Dairy products which is completely changing our dimension in this part of the world. And in Africa as well with Brookside which is going to help us accelerate our performance and development in the coming few years.

So that's for ALMA where we have managed to navigate in what are in reality volatile markets. And the last piece was obviously dealing with Fonterra and trying to recover. Franck said that this is extremely important. One year after we are back to the level of the pre-Fonterra crisis on the Asian level, meaning that the level of sales at the end of the year for Asia baby division are above the level of sales we had in this same territory before the Fonterra crisis. So that's obviously a very important achievement.

It has not been achieved exactly through the same brands we had in the beginning, and namely Dumex has not been accelerating as much as we expected, and you will see that we have as a result decided to impair the brands for a bit more than EUR200m. But in front of that we have had a strong success story of our international brands, Nutrilon China to start off, which is an ultra-premium brand we are building in this market, present in the mom and baby stores in particular, which is pretty successful. And the second leg has been of course taking advantage of the online -- the development of the online channel which has boosted the performance of our European brands. And you will see what this shows in terms of the way you can read the performance in Europe and in the ALMA region, both in terms of topline and margin.

So overall many things which have been built in a year which is complex and which goes far beyond the performance but obviously the performance and achieving the target was a very important element.

I'll move to the most classical part of the presentation, the analysis of sales to start with. So you see that we have flat sales fundamentally, EUR21b plus last year, EUR21b plus this year, because ForEx has been playing adversely for minus 5.5% and this is predominantly reflecting the depreciation of the ruble, the depreciation of the Argentine peso but also some level of depreciation for the Brazilian real, the Indonesian rupiah and the Turkish lira at the beginning of the year. And in front of that we delivered 4.7% on a like-for-like basis with volume being down, drawn by Dairy in particular, and the value element which is strongly up at 6.2%, made of price and mix.

You have the same shape for the fourth quarter but you already see two differences. The first is that the foreign exchanges element is not as negative as it has been for the overall year. It's a negative minus 1.4%. Obviously when you think about 2015, the depreciation of the euro, which is now at a level meaningfully below that of last year, is going to be a boost and we expect therefore for 2015, if the exchange rate was to stay at the current level, a positive contribution of roughly 2 points on this line as opposed to a negative one, being the net as well of the evolution of the Russian currency.

The second difference with the full-year picture is about the like-for-like performance which is much higher. And in fact this is simply the result of something we had absolutely guided you to at the beginning of the year which is the base of comparison. We have delivered low single-digit growth in the first half because we had a very high base of comparison in the first half of 2013. The base of comparison of the second half of 2013 is much lower because it's post-Fonterra and therefore we have the phenomenon of rebound and acceleration, which again was expected, with 7.5% topline growth in the last quarter.

If I look at it from a geographical perspective, obviously you see the trends I've been telling you about at the beginning. You see North America and CIS which have been progressively slowing down as the Greek has been plateauing in the US and the category growth has been slowing, and at the same time as the consumer pressure and the inflation has developed in Russia. It remains positive even in the last quarter with plus 2% in these circumstances and it reflects, I believe, the strength of the asset and the position we have built in these two markets.

ALMA, as I told you, is accelerating. We are at 14% topline growth in Q4 which is meaningfully up the performance in the first half but the way the chart shows is that it is absolutely normal. H1 was affected by the base of comparison. So a very solid performance in emerging markets.

And the performance in Europe which shows two elements. The first is that it has been helped by the export of our Chinese baby food to Asia and this is most of the 4.8% topline expansion you see in the fourth quarter. But the second thing it shows as well as a result is that Europe is definitely now back to positive territory. This has been true for four quarters in a row and this is the sign that we are stabilizing in this region of the world which is obviously extremely important for the dynamics of the Group.

I'll now go through each division, starting with Fresh Dairy, page 18, with a picture which is pretty difficult to read overall because it is the sum of markets with very different dynamics. Europe, definitely we are not fully stabilizing the topline because we have decided to give priority to the stabilization of the margin which is achieved, and we keep working the portfolio so as to focus on the value-added part of it and to eliminate the non-profitable part of the portfolio. I'm sure Emmanuel will come back on that but there are some pretty interesting successes in Europe Fresh Dairy. And again, importantly we have managed to wash the inflation and to wash the price increase which was an important test for the portfolio.

North America, I've already mentioned that. The Greek market or the category overall is slowing down because the Greek market has ceased to be a strong engine to it. The very important achievement of the year is that we have consolidated our leadership. This is true both in terms of leadership of the category and in terms of market share and leadership of the Greek segment. So we are definitely the leader on this market. The key question is going to be for the coming month and quarter what are the drivers which are going to reaccelerate the category.

And CIS, I think in a context which has been hurting many corporates because of inflation but also because of the pressure on consumption, we have proven that we have an extremely solid portfolio and one of the remarkable outcomes has been the resilience of our branded products, and in particular of Prostokvashino and the others. So some of good, some of very contrasted performance which builds a lot of progresses within the Dairy portfolio beyond the numbers you see on the chart.

I won't stop too much on innovations; I just invite those who have made the effort to be in Paris to test the product in the fridge because they are really proving that we can make a difference in terms of taste.

Waters continued sustained strong growth. The story continues with the same drivers. A very balanced growth, double-digit for the year, 7.5% volume contribution, 4.1% price and mix and that is mainly mix. The water performance is overall very solid. The water performance in Europe is very solid and obviously there is an acceleration effect which is coming both from emerging markets and in particular Asia, China and Indonesia, and coming from the Aquadrinks performance. So that's a division which has continued delivering very strong dynamics.

Early Life Nutrition. What I told you about the Group and the base of comparison is obviously showing even more in the case of Early Life Nutrition itself. You see negative numbers for the fourth quarter which have followed the Fonterra event. You see a very strong rebound afterwards and you see an acceleration of this demand with a 28.1% topline growth. If you are thinking in terms of dynamics, I will start with the rest of the world which has been doing very well. I'm thinking of Latin America and Africa which continued showing strong dynamics. Europe has been very solid, excluding the export dimension, and Asia has rebounded, as we have already discussed, with a very strong performance of what we call the blue brands which are Nutrilon and the European brands.

And I will end up with Medical. A very solid performance of Medical Nutrition again with a lot of focus of the team throughout the year. Key dynamics of growth in emerging markets, this is true in Latin America, in Turkey and in China, and a very, very good growth of pediatrics, of the pediatric segment, namely Neocate and the rest of the range across the region. Q3 was a little bit specific but Q4 confirms that we are back to very solid dynamics.

So that's for the topline growth. I'll now move from page 26 to the part of the presentation which is about margins and profitability. So a total profit, operating income which is up from EUR2.1b to EUR2.15b, but you have to look at the two lines above, stripping them. The first line is what we call the other operating items, all the non-current items. The EUR500m negative in 2014 is about two items predominantly. One is the impairment we have made on the Dumex brands as a result of the slow take-off for about half of this amount, EUR250m, and the rest of it are the restructuring charge relating to mainly the EUR200m restructuring plan which are going through the P&L for a total of close to EUR200m.

That's for the non-recurring items. Then about the trading operating margin. It goes from EUR2.8b to EUR2.662b and in terms of margin it goes down from 13.19% to 12.59% which reflects different effects. Moving to page 26, a like-for-like fall of minus 12 bps, and I will come back on that, but before that a negative foreign exchange effect which is attributable for a large part to the impact of the increased -- acceleration of inflation on our Argentine business and which is temporary. And a scope effect which reflects the integration of businesses acquired in 2013 and at the end of 2012, and in particular Central Laitiere in Morocco but also YoCrunch which we are taking the time to bring at the right level and which have contributed negatively to scope. The very same scope effect is expected to be a positive of 10 to 20 bps as we move in 2015 and as a result of the restructuring of our presence in Diary in Indonesia.

Going therefore to the like-for-like elements, there are two different trends which are showing in this slide or actually one is showing more than the other. The one which is very obvious is what I said about the inflation of the cost of milk which you find in the negative 226 bps on the input cost and inflation element. And as a result of that, you find a positive element in the price and mix section of 252 bps which is offsetting most of it but not all of it. The second element was something expected and is reacceleration of our ELN business in Asia which has gradually reabsorbed fixed costs and therefore has been playing negatively in the first part of the year and as we have been moving away or moving on in the year has been playing less and less negatively. But it's altogether a negative for the year.

Altogether this is giving us a minus 12 bps which again is in line with what we expected. One point to mention is about A&P which is positive by 63 bps which reflects two different trends. One is continued investment behind our brands in the markets in which we are growing. And the other one is a continued contraction of our efforts in markets in which we are not growing as we have been focusing, and this is true in particular in Dairy

Europe -- we have been focusing on the reshaping of the portfolio before we can be in a position to reaccelerate. One of the key elements of 2015 will be about the reacceleration of the A&P efforts.

And in fact you see as an illustration on this chart what I was saying about the cost of milk. No decrease since 2009. It's been a number of years in a row that the cost of the milk is increasing as an input for us, far beyond the level which we qualified as a tsunami level back in 2008. It keeps growing and in fact it has grown by more than 10% in 2014. We expect 2015 to be definitely a year which is going to be a bit better from that perspective and this is going to give us for a time the ability to strengthen the equation.

Trading operating margin by business line and geographical area fundamentally reflects everything I've been saying so far. Fresh Dairy products is negative 67 bps, coming for a large part from CIS and Noram with minus 63 bps and for the other part from the time which has been necessary to pass the cost increase into price increase. Remember that we had this strong impact of the cost increase in Q1 and we had passed the price increase in the second quarter.

Waters and Medical have delivered margin progression as a result or together with the progression of the mix and the progression of their topline and leverage.

And last, Early Life Nutrition has been delivering a contraction of its margin as we have been gradually releveraging the fixed base. So better at the end of the year but more difficult at the beginning of the year. But geographically it's important to notice that it's obviously showing in Europe as a result of the export and not so much in ALMA where Dumex has not been delivering what we expected.

Importantly, and just to finish with this slide, excluding this impact from the exported Asian brands on Europe, the European performance is up. So our margins in Europe on a like-for-like basis for the European business in 2014 have been going up, which again is one of the important elements of the year.

I'll move to the rest of the P&L, page 31, starting with the non-current items column on the right. So I already mentioned to you the EUR511m which is reflecting both Dumex impairment and the restructuring costs in Europe. There is a corresponding income tax positive effect, deferred tax effect for EUR170m and a net income of affiliates which is negative for EUR52m, reflecting an impairment we have passed on some of our African business as a result of strong devaluation which has made us rebase part of the performance. So for a negative total of EUR442m net.

If I move to the rest of the P&L, so operating income and margin I've already commented. Financial expenses are essentially stable. This is including some positive exceptional elements which won't reproduce next year. And conversely, the income tax stands at 30.5% income tax rate which is slightly negative versus our target of 30%, again for one-off reasons which won't reproduce. So altogether they balance themselves and they land as expected.

Net income of affiliates is up as a result of the consolidation of our share of the net income of Mengniu from EUR50m to EUR66m. Non-controlling interests is down because the two essential parts where we have non-controlling interests are Russia and Spain which have not been the growing part in terms of share of net income in the Group. So that saves us EUR20m. And the fully diluted number of shares is slightly up on the payment of the dividend of last year for about two-thirds in stock.

All that builds an EPS which is down from EUR2.78 to EUR2.62 but with an improvement of the EPS at plus 2.5% on a like-for-like basis.

Cash, maybe one element or a few elements to mention on this slide. The first is that we have delivered EUR1.4b pre-restructuring and post-restructuring this is closer to EUR1.3b. So in the region we expected, at the bottom of the range but in the region we expected. CapEx which has remained strong at close to 5% and EUR984m and working cap which is different from the previous year i.e. it continues increasing or improving but it doesn't improve as fast as it has been improving in the past.

You can see the reason why on this chart which is page 34. At the bottom left you see that we keep improving the working capital but we tend to be now on levels which are probably the level to be sustained in the coming years i.e. close to 8% with a potential for improvement in percentage which is likely to be weaker. And it means that the improvement of the cash will be coming from the sales operating income and margins going forward.

This free cash-flow of EUR1.3b close to on a net basis has been used to invest to strengthen the platform, as I have mentioned. The main investments have been Mengniu in China, the finalization of the Fresh Dairy joint venture with Mengniu as well, plus the investment into some drying capacity in the Pacific region which we didn't have with the acquisition of Sutton. This is on the one hand. On the other hand, you have Morocco which is playing for the 20% minority interest abroad which is playing on both M&A and change in puts to minority shareholders in different directions. And you have the acquisition of the 40% in Brookside.

The change in puts for the rest of it is reflecting a decrease of the value of the puts in Spain on the one hand and in Russia on the others. And last, we have used the cash flow to pay the cash part of the dividends for EUR417m. This means that our debt has been stabilized, roughly stable, decreasing by EUR200m, but landing at a level which is fundamentally the same as last year.

You remember we said after the Board of December 11 that we wanted to give ourselves a little bit more freedom in the way we look at the credit metrics of the Group in the current environment. Our rating has been adjusted following that and we have at the beginning of the year made an issue, a bond issue, of EUR1.3b. So really this has been at the very beginning of January. The success of this issue has been extremely strong; it has confirmed that beyond the credit metrics and the rating the resilience of the Danone name on the credit market is still extremely present. We have issued a 10-year with a coupon at 1.125% which was at that time the lowest for a corporate. So again a very strong sign of resilience of our name in the credit market and a confirmation that we have been right in making this decision about the flexibility.

Balance sheet, and this will be one of my last slides. A few changes. Balance sheet is slightly up in total. It reflects mainly the addition of the investments I've been talking to you about and which are for most of them associates and therefore you see the line others that's moving up from EUR6.7b to EUR7.9b. And this is in fact financed not so much by the debt, by the equity which has been strengthened by the payment of the dividend through stock.

I will end up, and I think that's a nice symbol, my presentation with non-financial KPIs because it is very important for us to continue building the model, not only from a pure financial standpoint but also to look at physical metrics which measure the improved sustainability of our model. We have over the past few years delivered a significant reduction of our carbon intensity. This has not only made our business more sustainable together but it has been building productivity as well. We have extended our efforts to the reduction of the water intensity i.e. the water we use for our business and therefore the output we have. And we have as well reduced the frequency rate of our lost time accidents. All that is very much intertwined with the improvement of the performance and is contributing to the improvement of the performance of the Group.

So that's really what I wanted to tell you about 2014 and I will now hand over to Emmanuel Faber, our CEO.

Emmanuel Faber - *Danone SA - CEO*

Thank you, Pierre-Andre. Well, good morning, everyone. As you can imagine, it's a great pleasure for me and it's a tremendous honor to address you this morning in my new capacity as Chief Executive Officer of this incredible Company in the presence of Franck, Pierre-Andre and Cecile.

Before going into the presentation I'd like to, as a CEO, tell you to start that I think this Company has absolutely unique strengths and assets, starting with its people, its culture, of course its brands and many others. And I think that they are very well fit to succeed with both today's challenges and tomorrow's opportunities, provided that we align these strengths and these assets in a disciplined manner. And I think we have started to do that in many ways and this is going to be a conducting aspect of my presentation and my discussion with you this morning.

I thought probably I should start by just sharing with you briefly what my 100 days induction has been as the CEO since October 1 last year. And I have three topics which I would like to share with you. The first one is the team. Franck's and the Board's decision last autumn has basically allowed us, me, to reorganize our executive committee team. 60% of the people on this picture have changed their roles. We have brought a few newcomers from inside the Company; we have changed roles, moving people from one to another role; and despite having spent 17 years in Danone, I'm still amazed how much roles are shaping individuals. And the way this executive committee team has started to work together since the very first days of this year for me is a true sign of confidence in what we are building.

I think I can say already today that this new organization is bringing both a vertical alignment, which Franck described, one Board, one Chairman, one CEO. I should add one Comex and that is the strength of this horizontal alignment which I chose as the CEO to keep the direct reporting of all this team with me so that we really work as a team to lead the Company.

The second aspect is organizational and we have made a few changes. One of them is here on this chart, creating Africa, to build the continent of tomorrow, which Pierre-Andre will lead -- has started to lead, January 1. There have been other changes. As you know, we created a General Secretary function which will next to me gather everything that goes from compliance, food safety, legal, regulatory, corporate affairs communication. And there will be other organizational moves that I want to make to ensure that we are disciplined in the way we maneuver in the future.

The third aspect of my 100 days has been reflecting on the future and the potential of our categories, not that I didn't know them before, but with a new horizon, rethinking about their role as part of our portfolio and as part of our mission, and reconfirming, as I think most of you would have noticed after the Board meeting of December 11, s that we had four businesses and I'm committed to grow them as part of our portfolio.

And the last thing I can share about this 100 days is that they started actually on a Saturday morning on the parking lot of a Costco store for me somewhere in Connecticut with the US team. And that has sort of set the tone of what I did ever since, spending a tremendous amount of time with the teams, again not that I don't know them, not that they don't know me, but in this new capacity it creates a whole new dialog and conversation with them. So I've been touring all the businesses. I think the countries I visited are in blue on this chart. Some of them are big and I didn't spend much time in them but anyway it's been a great, great encounter of the Danone teams that are doing the business and creating value, including for you, the financial community, every day.

My takeaway of this initial period, and now that we are up and running with this new phase of the development of Danone, is first of all that we need to strengthen our efficiency. There is still a lot that we can do on that and I have highlighted here two different examples. One is the fact that we want to be more efficient in our own resources. We will create a position, an organization called One Danone organization that in more than 30 countries or clusters of geographies will allow us to mutualize essential supporting and guideline functions that go from finance, HR, IS/IT, General Secretary, as I just described before, which instead of having one for each of the business units in all of these countries there will be one single organization serving the four businesses in each of these countries or geographies. And they're covering all the world.

It's going to be integrated by a committee that will be led by our IS/IT person who we will elevate to this role of business services integrator reporting to my HR person.

Our ambition is that in less than two years that could be done, bringing more value and more cost efficiency, more safety and sustainability in what we do in this incredibly rich variety of countries in which we operate today.

Another example in a completely different aspect in terms of efficiencies is about what we do in Europe. And we have on this chart a combined vision of a number of initiatives. You actually know all of them but I just wanted to put them back here because they're a sign of what we have started and that we will not stop doing and we'll definitely continue.

An example is DanTrade which is the transactional platform that we created to handle gradually all our purchasing operations around the globe. So it's gradually getting -- beyond rolled out. Another one is our adaptation efficiency and savings programs on overheads in Europe which we announced to you about two years ago. I can confirm that by the end of 2014 we've reached the EUR200m savings that we had on that plan and spent -- that's part of the free cash flow pressure that Pierre-Andre has described earlier -- most of the money, the EUR500m plus restructuring charges and write-offs that were associated with this two-year program. So that's behind us now for most of it.

But also that more efficiency, more efficient organization goes to supply chain and logistics and to factories. And I have put in this chart what the Dairy team has done, greatly actually supported by Cecile in her previous capacity as the CFO for our global Dairy division and her colleagues in

Dairy where we moved from 24 to 16 factories in Europe and we will continue to work on the operational efficiency and the utilization rate of our assets in Europe.

These efficiencies and these organizations are not a goal. They are a way to support and to generate resources for what we want to grow and on what I will continue to build the future of Danone. And that starts with our mission, bring health through food to as many people as possible, which we see as a key cement, a key enlightenment for 100,000 Danoners on the right part of this chart which level of engagement we are following as a critical performance indicator for the current and the future performance of Danone.

The level of engagement of Danoners is absolutely incredible. It matches or surpasses all the best-in-class high-performing companies you can think of in terms of engagement. And they have been through all the difficulties of the past few years in many ways, whether that's in Dairy in Europe, whether that's in ELN in Asia and many others. And before that, as you know, in waters five or six years ago before we restored the business. In Medical Nutrition this year while we were making our minds about the future of this division. These teams are just incredible people. And we will continue to build on their strengths and their talents.

The third of course is the brands. I've put here the objective strong brands. Well, they are great brands but some of them could be stronger. And I won't go into the list because you know that as much as I do and we will keep rejuvenating and enhancing some of the brands on which we need to work. And I'll come back to that in a minute.

And the last part is our geographical footprint. I've commented on that but I think that as a truly global Company we consider that for the future, for an FMCG company, fast consumer goods company, this geographical footprint is clearly creating one of the best platforms on which we can create the future.

So all of this is now gradually being filtered through an initiative that we started last year called Danone 2020 which the team, the Danone team, shared with those of you who attended our New York investor seminar last year. We started to seed the plans into your minds about what we wanted to do. The one thing I can tell you is that this is really creating a new level of ambition and energy in the Company. But I have chosen not to discuss it with you beyond what I just said today because today is really about our 2014 and our 2015 performance and execution. But I promise we'll come back to you on this as we gradually assemble the pieces of the puzzle for Danone 2020.

Today's most important topic for me as a CEO is this chart which basically says three things. 2014 has been a mixed year in terms of profitability of our growth, as you know, for a number of reasons. But we started profitable growth on June 30 last year. We are still in that process and that will be the case for 2015, which is my second message.

2015 will be a year of profitable growth for Danone. And we will gradually, as we move towards 2020, add what is missing in the long-term perspective for Danone, which is strong. But that will be a gradual acceleration because I want to make sure that this is sustainable, which is the challenge for this year. The challenge for this year is not going to be that it's profitable; the challenge, the real challenge will be that it's going to be sustainable and therefore preparing the future of a profitable growth for next year.

Let me go through a few of the critical things that we need to address to grow through this agenda. First of all our base camp, which is Europe. Europe is 40% of our sales, growing 2% last year, so gradually emerging back, as Pierre-Andre said. But he also said that ELN performance, Early Life Nutrition performance, has been fantastic in Europe last year. That it's been fueled by the exports of our European brands in baby towards Asia which has been most of the growth of the 4.8% growth that you've seen in the Q4 numbers for Europe are coming from that. So, yes, we are gradually emerging outside of negative territory in Europe but this is fueled by non-European trends beyond that.

Waters has had a spectacular growth in the Q4 in Europe, 8% growth, and so I would like to spend a bit of time on two of the businesses that have been or are being turned around in Europe.

One obviously is Dairy. In Dairy with minus 4% growth on the Q4 of this year in Europe we are not satisfied of where we are. We obviously need to get Dairy in Europe back to positive growth. This will be on the agenda for this year, gradually emerging to the end of the year. But yet we do have some very promising signs that this is happening.

And I have highlighted two of them. One is the long-awaited stabilization of our Acti brands, Actimel and Activia. Well, Actimel has been positive in a number of key geographies for three months in a row on the fourth quarter of this year. And we do have some very interesting communication mix, in particular in Germany, that works well and that we are now working on developing for other countries in Europe.

And the second is Activia, which is still negative on the fourth quarter, but much better than what it was a year ago. And again, we have an agenda to bring Activia back to positive territories by the end of 2015.

So hard work, a work that is going to be carried out by the renewed European team. Remember that I have asked Gustavo Valle, who ran Europe since one year for Dairy and has started an incredibly strong profitability agenda, to now run the full of Dairy division as part of the Executive Committee.

And I hired one of our best marketeers in the Company, Martin Renaud, to now run Europe for Dairy, with this focus on value-creating brands. Martin has been running Evian global, has been active in Evian since 2008 and running Evian since 2011. And he's the guy that's been in charge with his team of all the viral communication you've seen on Evian, baby inside, baby rollers and all the likes, that have turned this brand back to what it is today, an innovative brand with this incredibly new la Goutte project that we have, etc., etc.

So I'm very confident that with what Gustavo started on efficiency and profitability and Martin's strong brand passion, that we have the right team to get our brands back to growth in Europe.

And I think the other example on Danonino, on the right here of this chart, is one where we already have positive growth here in Europe. We are very happy about the launch of Danio in France, the launch of Danette Liegeois that works well too. And so good signs. Not there in terms of the full numbers, but working hard on it.

And that's very important because the second part of this chart tells you about reinventing Europe, and that's what we need to do. I'll just let you read the chart. But it basically says that we need to continue the strong revenue growth management program that we have started, which is about optimizing our mix, our promotions, our assortments, the way we work with the retailers. It's a global program that we have started in Dairy in Europe and that we will, by the way, expand in many other cases, combined with the efficiencies that I mentioned before in terms of factory utilization rate, efficiencies of the factories, that will generate the ability for us to support the brands and bring back our European business to where we want it to be for Dairy.

The other example I'd like to take is Medical Nutrition, because Medical Nutrition has been under an incredible amount of challenges. It's one of the, as you know, businesses that was a jewel as part of Numico, which kept growing double digit for a number of years after the Numico acquisition. Very highly profitable. And two years ago started to be hit by the crisis on healthcare cost cuts all across the board in Europe, de-reimbursements and renegotiations, etc., etc. And where, for the last 18 months or so, the growth in Europe has been challenged, despite the fact that we're number one. We have a very, very strong platform in Europe. Growth has been challenged to the point that there was basically no growth any more there.

And we have been revisiting that equation for the whole of last year. Beyond what I said before about this team, they've been able to turn Europe back to growth, 5% growth. That really contributed to the fact that in 2014 Medical Nutrition delivered this 8%, nearly 8% growth, which is not exactly back to where they were, but very much aligned with what my expectations are for that business. And now the challenge will be for 2015 to turn this into a profitable growth equation from where we are and the numbers that Pierre-Andre shared earlier about the margin of Medical Nutrition, which is still very high but challenged in many ways, as you can imagine, in this environment.

The next big stop I'd like to make with you is the power houses that we have in our North American and CIS businesses. 20% of our total business, 5% growth last year. Let me start with the US. It's a picture that you've been seeing for many quarters now.

The one thing I'd like to say is, starting with the bottom left, is when you see what Danone has done in the Greek segment over the last three years, we should be very proud, very proud of what our US team has done. If I actually look at the February 1 market shares, they are even better than this. We are beyond Chobani in February, which in and of itself says what the Danone team, when they are up and running, engaged, as I said, are able to deliver.

This proudness makes me confident when I look at the left upper part of the chart, that the market share differential that we have created with our number-two competitor in the US is there to stay, stay or grow in the midterm. And as you know, the challenge for us now is that after the Greek incredible wave of growth, cannibalizing most of the growth or a good deal of the growth of the rest of the category, the question is with the Greek segment now accounting for 50% of the total category and plateauing, what's going to be next?

And you have three items of what's going to be next on the right. Consumers, retailers, partners. Probably the only point of comment I'll make further now, and we can address others during the questions, if you want, is retailers. One of the big challenges that we've had in the past, over the last literally 15 years at Dannon US, is to grow the shelf. The shelf space in the US is three times, four, five times smaller than what it is for yoghurt category and chilled cabinet in that huge country compared to what it is in Europe in certain countries. And therefore growing the shelf is an absolutely necessary thing to do if we want to grow the per capita, which is still, as you know, pretty low and has a lot of potential.

And the good news is that the Greek has been the shock that created the wave to push the shelf. And the shelf has grown 15% in total since three years in the US. Dannon's share of shelf has grown 20%. So we have grown our own share of shelf. But now, with a category where the Greek is plateauing and there is no growth, the velocity is going down. And that means that next year, this year, 2015, is going to be about cleaning the shelves, making sure that we use that additional space as category captains to really put back the products that have good rotations. We need to refuel the advertising and spend. We need to catch up on promotions, which we haven't done last year, managing our margin expansion too. And our teams are well aligned on doing this gradually in the course of 2015.

The next big geography in that group is CIS. Well, I won't go back on what happened in CIS in 2014. Ruble devaluation. Huge inflation two years in a row in in milk prices. Just a reminder that we are a very Russian company. We have, as such, a particular status in terms of governmental support, on which I won't expand much but is absolutely essential. And that's part of the reasons my visits and actually Franck's visits to Russia was important last month.

But a few words in the blue box on the top. We have 100% sourcing capabilities there, 100% local business. Huge heritage brand that you can see on the bottom part of this chart, which, despite this inflation in selling prices as a function of the inflation in milk, have been growing. Prostokvashino, our biggest brand, which is one of our top biggest brands in the world basically last year, has grown nearly 20%. Danissimo has grown 20% nearly. And Tema, our baby food mix, dairy mix, has been growing nearly 30%. So huge growth.

Of course, we expect this year to be more challenged in terms of volume growth. But we've continued to see good resilience in this volume growth for these brands, these key brands, in the fourth quarter. And that makes us confident that we are doing the right thing. I should say that working on efficiency and simplifying organization is absolutely part of the CIS agenda, as we speak, as much as it is part of the European dairy agenda, as I said earlier. And this, again, will help us fuel our key brands to continue to deliver value to our consumers in Russia this year.

Turning to the future to a certain degree, ALMA region, 40% of our sales, plus 7.4% topline growth. Huge growth in the last quarter of this year.

Let me briefly organize a visit of this zone, starting with Latin America. Latin America is a country where Danone has been growing brands for 20 years. You can see our leading positions in many of these countries. The last year in particular, Q4, has been a growth for all our businesses there. ELN has been growing 50% in this region, 50% in baby, driven by Brazil, which is growing very, very fast. Medical Nutrition in Brazil has been growing 20% too. So we grow very fast in these categories.

And I have shared with you in our more heritage categories, in Dairy and in Waters, some of our numbers for last year. Per capita continues to grow, actually in the four categories for us. But that's true in particular with Dairy. Our Waters business has grown significantly last year despite some challenges in the regulatory and competitive environment in Mexico, which we are gradually addressing.

But Brazil, Argentina have been growing fast. Our aquadrinks have been growing in this region more than double digit, or basically double digit too. So it's also one of the big engines for our Waters business in total. And you can see a collection of innovations, not even mentioning Oikos in Brazil, which is not even in this picture. That's today already our fourth biggest brand in Brazil in Dairy.

The next stop for the visit is Asia, where again, starting with WaterS, Asia Waters has been growing very fast last year too, with Indonesia and aqua growing nearly 20% in 2014, despite an Indonesia consumption, political, etc., situation which has been a challenge last year. And in China, Mizone continues to grow very fast, last year 30% growth, beyond 30% growth, which obviously drives the total of our aquadrink growth in this region beyond the 30% range. So huge growth coming from our water business in Asia.

Very good growth and strong growth too in ELN. Apart even from the post-Fonterra recovery, I chose to just show you, for instance, ELN in Indonesia, where, on the basis of our three big brands, Nutrilon, SGM and Bebelac, which I think are not the right ones on the paper copy, but trust me on the screen, these are the big brands that we have there, has been growing way into double digits in 2014, in a profitable manner. So the engines that we have in this part of the world are there.

On the right part of this chart, I'm just willing to share the fact that China is under construction. It's under construction. And basically we are reshaping the future of Danone in China. And the anchor of this is our alliance with COFCO and with Mengniu, which Pierre-Andre alluded to, which we have closed and secured and started to be put at work this year. We are the second-largest shareholder of Mengniu, which is the biggest Dairy company in China, with a shareholder agreement with COFCO, which is a state-owned company that has been in charge of organizing some of the critical food sectors and categories in China. So they have 20% of Mengniu; we have 10%. We have a shareholder agreement together.

We have created a JV in the Fresh Dairy business, where we own 20%. It's managed by a Danone GM, integrated into the Mengniu teams. This JV is the largest Fresh Dairy company in China, with a 25% market share. It's been growing more than 20% last year. It is profitable and it will soon reach the EUR1b sales. Our JV in China in Fresh Dairy will reach this mark in the foreseeable future.

We added to that alliance an alliance in baby food by combining our strengths in managing Yashili. Yashili is one of the largest local brands in China, which was a family-owned business which Mengniu bought. And they basically invited us to come and help them grow that business together. We have a 25% stake. The GM of Yashili since a month and a half is someone from Danone, with a long experience, a Chinese person, long experience in baby food. And Mengniu has an option to acquire about a similar stake in our local baby food business in China.

So this is gradually reshaping in these two categories, the way we operate in this very important market for the future for us.

And just one word, by the way, on ELN in China, recovering, as both Franck and Pierre-Andre said. The one thing I would like to just highlight on top of what they said is something that we've been sharing with you too, which is on the left part of this chart, which is the fact that there is a very, very quick shift in the channels, with e-commerce now being around 30% of the total ELN market. So 30% of the ELN market in China is e-commerce.

As you know, we are by far the leaders in e-commerce. E-commerce requires a huge amount of organization, platforms, competencies to be run. We ourselves are running after that. I can tell you it's not easy given the pace and the country at which it goes, talking to Alibaba and all the likes.

One aspect I would like to single out of this chart is that another key element, if you want to successfully invest in that e-commerce market in China, is where are your brands coming from, because e-commerce has been a flight to safety and quality for Chinese mothers. And the backflip of the issues in New Zealand that are now behind us two years ago is the fact that there is one and one only area that has been identified as a safe harbor from a milk safety standpoint, and this is the golden European milk belt, which starts from a bit of the UK, Netherlands, Germany, and with France.

Guess what? We are number one with our brands it seems decades in Germany, in the Netherlands and in the UK. And this is one of the key reasons why Danone brands are so successful in e-commerce, because e-commerce is basically channeling safety for the mothers in China. So it's very hard to replicate if you do not actually have that heritage of 50 years rooted in this milk belt in Europe.

And I think Pierre-Andre rightly pointed out to you that that also creates some distortions in the reading of our performance because it's been a significant part of the Q4 growth in Europe. And it's also been a significant part of the margin improvement in the same region. And that's why I'm sharing a little bit more about these trends with you as we're managing through at Chinese speed into it.

The last part, of course, of ALMA is Africa. You have all the numbers there. One of my other favorite numbers is about Nigeria. Nigeria's population is going to double again in the next 40 years. By 2050 it will be 450m people. Another interesting number when it comes to digital and food and the rest, mobile phone banking represents a third of the total of the GDP of Kenya. So forget about the old images of what is Africa. Africa is about tomorrow. So we got organized for that.

We've started already, as you know, multiplying by 5 or 6 the level of our sales, crossing the EUR1b mark healthily last year in Africa. And that will be now Pierre-Andre's existing job to continue to develop fixed control, monitor and also grow our franchises for Danone to benefit about this African growth in the next 10 years.

I'd like to turn to our guidance, to my guidance basically, sharing with my colleagues a chart which is no news, I think, for you who attend our full-year conferences. That's not particularly creative, but it's not to say that I don't think it is important. That's the environment in which we are. But I would like to say that this is a year where we really believe Danone has its own destiny in our hands, despite all of this.

The four key words I would like to use on the next page to describe what we are going to do this year are there, optimize, invest, build, nurture. If I look at it, to summarize this chart briefly, I think the takeaway you can have about our model in 2015 is actually it's going to work in a pretty simple manner in a complex environment. Forget the complex environment. The simple matter is that there are obvious reasons why there will be tailwinds, favorable trends in input costs this year. And there will be, we don't know how much exactly, because there are some regions in which it's clear on the milk, like in Europe, for instance, or in the US, but there are some regions in which it's not clear at all and inflation continues.

We don't know how long for. And clearly we see milk cost going back gradually in the second half of the year. But, in a nutshell, there are tailwinds that are built in the equation, at least for the early part of this year.

There are also tailwinds in the fact that we are embarking some of the price increases that we went through in the course of 2014 into the 2015 equation. So if I combine these two tailwinds with the continued efforts that we're doing on revenue growth management, value creation through the topline, if I combine that with the efficiencies that I described on our factories, on our supply chain, on our overheads, on our organizations, the two of them makes me confident on the fact that we will be able to do three things in this year.

One is to make sure that we build profitable growth. The second is that we will be able to reinvest in the brands, in the sales force, in the capacities, in the people that we need to grow the business. And the third is to prepare 2016 because, as I said, we do not expect that these tailwinds are going to be forever. So it's a year both of delivery and preparation.

And if I look at this overall equation, turning now to the guidance, I'm very confident that we will be able to deliver these numbers, 4% to 5% growth in this environment, with a combination of geographies and categories I described, with a margin that we are going to manage as being slightly up, and it's really about managing that margin because we just want to make sure that we invest enough to prepare 2016, because 2016, as I said earlier, we want that profitable growth to continue. And that's why the important word in the 2015 box is sustainable. Not only it will be profitable, but we want it sustainable. And sustainability, we would be accountable for that in 2016 and beyond.

So that's, in a nutshell, what I wanted to share with you this morning. I would just like to add one more thing, which is about our dividend. I have the pleasure, shared with Franck as the Chairman of our Board, to say that the Board has decided to propose for the next AGM an increase of the dividend to EUR1.50 per share. My CEO comment on this is that this is despite, as you know, a reported negative or decline of EPS in 2014 because of the ForEx last year. That's a sign of the confidence in what we are building this year for the EPS development and beyond this year.

And I would simply like also to thank our shareholders in my concluding words for this long introduction, thank our shareholders for their patience and their loyalty across these three difficult years, 2012, 2013 and 2014. We are out of these years now, looking at the future. And we're happy to resume the story of dividend growth for Danone. Thank you.

QUESTIONS AND ANSWERS

Pierre-Andre Terisse - *Danone SA - CFO*

We'll now go through Q&A. And we'll start with the room, questions from the room. Cedric maybe to start with and Pierre afterwards.

Cedric Besnard - *Barclays - Analyst*

Good morning. Cedric Besnard from Barclays. I just had a quick question for Mr. Faber. You've taken a fresh look at your four categories. And I was wondering what you thought would be the next strategic steps for the Waters division, which has clearly been a key success story for the past two years and a pretty reliable one. We've seen Indonesia building up. We've seen China with Mizone. How easy, do you think, to replicate the success of the aquadrinks in new markets or do you think the future is about Western Europe? So what are your plans for the Waters division? Thank you.

Emmanuel Faber - *Danone SA - CEO*

Thank you for the question. I'm conscious that in this era in which we are starting now with this new organization, team, etc., there are things that we need to change, and I think I discussed a lot about this, and there are things that we need to keep as they are because they're working well. And I think Waters is really part of that. So my priority with the team, with the Comex, with Paco Camacho, who heads that business in a very successful manner, is to ensure that it continues to deliver what is today a strong, actually superior, profitable growth.

After the turnaround that had been started by Thomas Kunz, that has been continued with the acceleration by Paco and the team, I think it's essential that we continue to let these guys run the business the way they do it. There are still many ways in which we can improve the way Europe is working. We are turning around brands in Spain, for instance, that have been in difficult shape for a while. Our French brands are reaccelerating. That's great. The UK is doing great. Aquadrinks is probably no limit in a number of geographies too. But it's very important that we keep them operating the business as they have found what I think is the right equation.

Last year was profitable growth. This year will be profitable growth, beyond the average growth of Danone and already with a margin that's beyond our growth. So I'll really take the question, but as I said, Franck, I and others have been looking at our four categories across the last three months of December, and that's one clear decision that we won't just learn to continue to roll out the model at the time. Thank you.

Pierre-Andre Terisse - *Danone SA - CFO*

There was a question from Pierre.

Pierre Tegner - *Natixis - Analyst*

Good morning. Pierre Tegner, Natixis. I have three questions. First one, an easy technical one. On the decline of the put options, what's the contribution of the ruble drop there? So if there is only ruble drop beyond that.

Two other questions, much more on what you have just said about operational discipline, more focus and some organizational changes. First one is that in more concrete terms, have you or are you willing to change the way you build the short-term business plan with your local managers? And so the question is what is changing for them? Are they maintaining their responsibility on organic growth, on margin, on cost control? So how will you adapt that?

And the second question, which is probably much more on the long term, due to all of the things you have said, we understand that there is necessity to better leverage your size and better leverage your size geographically, probably better dilute the geographical exposure. So is there a sense to move forward towards more a geographical organization instead of business unit organization? And what could be the key advantage and what are the key steps first to put in place before driving this kind of change? Thanks.

Pierre-Andre Terisse - *Danone SA - CFO*

Maybe I take the first and easy one indeed about the evolution of the put option. So as I said, the decline of the put option is attributable to Spain, Morocco and Russia. Morocco simply because we have less minorities, Spain because the value of the put has declined. And the last one is Russia, and Russia is predominantly -- the most of it is foreign exchange, indeed.

Emmanuel Faber - *Danone SA - CEO*

Yes. I think the aspect of the engagement of people at Danone is about accountability. The fact that this accountability goes in many ways, in the way we assess our managers, and we will probably be more aligned now. We will seek alignment on the way we assess our managers, but also, strictly speaking, with their bonus. You have seen that actually in Franck or my own bonus when the performance of the Company has been declining and we weren't very happy about it. Over the last two years, my bonus has been slashed by more than 50%, even beyond that.

And what is true at my level is also true, with some limits obviously, for many people. So people feel accountable and they can measure the impact that they have on the Company's performance, and that has an impact for them. It's not even that people like money or don't like money; it's simply that it's walking the talk. We say it's important so we compensate people for what they deliver, or what they don't.

The essence strictly of Danone is about the country business units, which we have some time now changed to cluster business units as we have reorganized in Europe and in other regions, so making sure that we have broader geographical scale and leverage. But the idea stays the same. We want the GMs, with the GMs of those cluster business units, to be fully accountable on the performance that they deliver. That performance is about topline. It's about bottom line, cash flow and others, depending on the roles, the years and whatever. And I don't want to change this today. I think this accountability is the best assurance that we have, at the end of the day, that overall we walk the talk of the commitment we make.

The one difference though is that we are going to be more disciplined at the global business unit level. And as part of this unified executive committed team that works collectively and has shared responsibilities about the roles of each of the four businesses. To Cedric's question on Waters, I think I had a pretty simple answer. And that drives the role that we expect from Waters for the next three years. And as a consequence, that drives the role that Indonesia, China, Evian, and others will have. And so where there will be more discipline and alignment is basically between these global roles that we expect from the businesses and what they deliver locally. I want the GMs to continue to be fully committed to what they deliver in terms of performance.

To your second question about geographical scope, I'd like to address that question when we share with you later this year about Danone 2020, because I think I have shared that in New York already. My vision of the world, and I may be too pessimistic as in 2008, I don't know, but I see this world becoming more fragmented than what it is today. The digital and the standardization and FMCG, all of that gives us the impression that it's going to be standardized. But it's not. There will be all of this, of course. But there will be fragmentation. And I think, unfortunately, the last six months of 2014 and first weeks of 2015 have given examples of how much politically, economically, fiscally, religiously this work is going to be fragmented.

And we are shaping gradually a strategy for Danone, an organization for Danone, that is going to be able to thrive in a fragmented environment. So the idea of being rooted locally and being able to interact between these different zones 10, 15 years from now is somewhere in my mind, in Franck's mind, in the way we, with the Comex, we gradually take decisions to walk into this agenda.

But it's way too early to say that we are thinking about going from four business units to, I don't know, four geographies or five geographies. Having said that, again, I think what we're going to do with One Danone organization, this backbone that we will be creating that we'll be very strong locally in 30 different clusters of geographies, is also something on which we will be able to build gradually if we need to accelerate that pace and that thinking and that execution in some areas of the world.

Pierre-Andre Terisse - *Danone SA - CFO*

We'll take questions from the phone.

Operator

Warren Ackerman, Societe Generale.

Warren Ackerman - *Societe Generale - Analyst*

Good morning, Emmanuel. Good morning, Pierre-Andre. It's Warren Ackerman here at Societe Generale. Two questions from me. The first one is on Dairy. Dairy volumes down 7% in Q2 and Q3 and now down 8% in Q4, even though the pricing element is easing. So the question is when should we expect to see volumes improving in Fresh Dairy as the big engines of Russia and the US are stalling and Europe is still tough? I'm wondering about the volume margin equation. Have you got that right because margins have come down in Fresh Dairy from 15% in the second half of 2010 to 9%? And the question really is what should be the right volume margin equation in Fresh Dairy in, say, three years' time? Do you think Dairy volumes could be positive anytime soon or does the pruning in Europe carry on for some time? So it's a question about Dairy.

And then the second one is just going back to Early Life Nutrition and specifically on China baby e-commerce, a couple of points there. Number one, can you quantify the exact impact of the boost to European volumes from China in Early Life Nutrition?

And then specifically on China itself, what is your outlook for China baby in 2015? Do you expect to hang onto pricing in China with lower Dairy? And do you expect more competition in China in super-premium and e-commerce?

And there was an interesting comment from Mead Johnson at CAGNY Conference, where they were talking about $1.5b of Internet trade in China not paying government duties in terms of taxation. Is that something that you could also comment on for the e-commerce channel in China? Thank you.

Emmanuel Faber - *Danone SA - CEO*

Well I suggest I probably take the answer, but I would like Pierre-Andre or Cecile to comment, if they want to. On Dairy, well you helped me in the answer, Warren, in saying say three years. So if we say three years, we really see no reason why Dairy shouldn't grow close to mid single digits. And that would be definitely a mix of volume and mix in value growth. How much will that be volume? I don't know. I don't know.

But if you look at the very long-term growth of Dairy, you look at all the trends on 20 years, on a 10-year basis, Dairy is one of, and most of the years, the fastest-growing food category in the world volume-wise, 2% to 3%. And when we explore new geographies, we continue to see that growth.

And so one of the aspects that I mentioned as one of the four words in our 2015 slide about the model, I said build categories, build. Danone is the leading company in the world in Fresh Dairy. And our responsibility is to grow the category. It's fundamentally something that we have been able to do in the long term. We've been through the deflation of our Acti brands for two, three, four years now in a row. And that will take time before, as I said, we restore them back to growth.

But there is absolutely no reason why, three years from now, Dairy shouldn't grow close to mid single digit, with volume growth being a good contribution to this. But this is not going to be for 2015. And when I was talking about building 2016 in a sustainable manner, that's one of the elements that we are looking at and that we are preparing already in 2015.

In ELN, two things, we expect to grow this year in China. There will be continued growth in the mum-and-baby stores in which we have introduced our Nutrilon program, Chinese Nutrilon program, which is starting strongly today. There will be a continued decline in retail channel as a channel beyond whoever competitor is competing there, which is where our heritage brand in China, Dumex, is mostly focused today. And therefore we do not expect Dumex to be much contributing in terms of our growth in China for this year.

And we expect e-commerce to continue to push, but the question is how much. And we haven't projected that. And that's also related to your very legitimate question about the fiscal status of all that business. For us it's very clear that there is a long-term element to build in this e-commerce Internet business in relation to the regulation -- the local regulations and the way the government in China is basically putting this into a situation where they believe this is sustainable for them.

As being a leader in this e-commerce channel, we're talking to the government. The government is thinking about creating free trade zones and a number of other initiatives that will gradually channel some of these imported brands in a more regulated manner. We really are working with them because we also believe that to become truly sustainable, that business needs to be more regulated than what it is today.

And what that model will be in two to three years from now, I don't know. So that's my answer. But I think the net-net of that is that there will be growth in China, which will both come from volume and value as far as Danone is concerned this year.

And I would like to turn to my finance colleagues to answer your question on the impact on the reading of our European businesses.

Pierre-Andre Terisse - *Danone SA - CFO*

So, yes, I'll take it, if you don't mind. As I said in the geographical slides, most of the 4.8% topline growth of Europe is coming from this element of the business, i.e. export of brands to Asia. And conversely, of course, if you take that into account in the growth of emerging markets, that would boost it by about the same thing. And you have the same impact on margin. Most of the margin improvement you see in Europe, not all of it, but most of it is coming from this element. And conversely you see a contraction on the margin of ALMA, which would be reduced if you add this element.

We'll take the next question by phone.

Emmanuel Faber - *Danone SA - CEO*

Can we take a question in the room?

Pierre-Andre Terisse - *Danone SA - CFO*

Anybody in the room has a question? Yes, one question in the room. Please. You will have the mic in a minute.

Cathal Kenny - *Davy - Analyst*

Good morning. Cathal Kenny, from Davy. Two questions, if I may, please. Firstly on just margin momentum in Russia, can you just give a sense how that played out in 2014 and what's your outlook for 2015?

And then just a more general question. A&P spend in terms of its margin contribution for 2015 and 2016 in terms of how you see that playing out.

Pierre-Andre Terisse - *Danone SA - CFO*

Okay. I'll take the first one and maybe I can hand over to Cecile for the one about A&P 2015/2016. On margins in Russia, they've been contracting in 2014, as you have seen on the slide. And as a result of strong inflation of the cost of milk, pass that through price increase, which have been offsetting most of it, but then a slowdown of the growth towards the end of the year.

We are still confident in our ability to grow margins in Russia, in particular as a result of the strength of our brands. But that's not been the case indeed in 2014.

Cecile?

Cecile Cabanis - *Danone SA - CFO Designate*

Yes. So on your question on A&P, as we discussed earlier, our agenda for 2015 is very clear. It's both to deliver profitable growth and to reinvest in the brand in order to build beyond 2015. So you will see an increase of our investment in A&P in 2015.

Pierre-Andre Terisse - *Danone SA - CFO*

Thank you. So from the phone maybe.

Operator

Jeremy Fialko, Redburn.

Jeremy Fialko - *Redburn - Analyst*

Hi. It's Jeremy Fialko at Redburn here. So just a question in terms of the topline growth and the phasing. So obviously you've exited 2014 at a very good rate around 7.5%. You've still got the quite easy comps in your Asian baby food business in the first half of 2015. But then obviously you'll start lapping those and maybe be passing some price reductions through in the Dairy division. So could you just talk a little bit more in terms of how the growth will evolve over the course of 2015? And also perhaps talk about some of the divisions, particularly what you think Dairy can do in terms of topline growth this year.

Pierre-Andre Terisse - *Danone SA - CFO*

Cecile?

Cecile Cabanis - *Danone SA - CFO Designate*

Yes. Once again, if we take the 2015 equation, I think the question is a bit different. It won't be about the speed of growth but it's about finding the good rhythm of growth that will enable to reinvest in the model in order to consolidate a sustainable model. So what we have been saying between 4% and 5% is comparable to what we've seen this year. And we believe it's the right rhythm of growth in order to make sure we consolidate the business model.

Jeremy Fialko - *Redburn - Analyst*

And anything more in terms of the phasing or something on the divisions?

Cecile Cabanis - *Danone SA - CFO Designate*

I think as far as the phasing, we believe it will be quite balanced, the phasing in terms of growth, because you will have on one hand, as you pointed out, a favorable basis of comparison in H1. And we believe that now we have set the right conditions in Dairy to start to see a sequential improvement of the trends that will work throughout the year.

Pierre-Andre Terisse - *Danone SA - CFO*

Thank you. Next question over the phone maybe.

Operator

Adam Spielman, Citi.

Adam Spielman - *Citi - Analyst*

Thank you very much. I'm sorry I dropped off before. I'm sorry about that. Can you talk in a little bit more detail about your plans for Dairy? Particularly I'm interested in the balance between the fact in the first half you expect to see input cost reductions in Europe and North America, but I'm interested to see how that will be balanced with pricing, whether the very strong pricing you've had recently will continue and how that will play out.

I'm also very interested to hear about your plans for reinvestment in marketing and sales force. And I'm sure you won't be precise in terms of bps of A&P you expect, but the more help you can give for that, particularly in Dairy, the better. Thank you.

Cecile Cabanis - *Danone SA - CFO Designate*

It's Cecile. As we say earlier, we believe we will have a favorable milk context throughout 2015, including a rebound somewhere in the course of H2. The favorable environment will be in US and Europe, and there will be continuing inflation in the other countries. So the context will be favorable. At the same time, it is very key now that in Dairy we're reinvesting behind our brands in order to make sure we are sequentially improving the model of growth.

In terms of pricing, to your point, we have differentiated products. So we do not expect and we are building our product that way, so we do not expect to have a massive price reduction given the context of milk. There will certainly be some adjustment in some countries. But as you know, we've been working in the past month and year about making sure our portfolio is resilient, and working especially about the profitable gross revenue management, in Europe improving the mix, rationalizing our portfolio. And you've seen in CIS, when Pierre-Andre and Emmanuel commented, that we have been having very resilient brand in the context of heavy inflation. So we will continue to do that.

Adam Spielman - *Citi - Analyst*

Can I come back to press you a little bit more on the marketing spend? Is it right to think that almost all the benefit you'll get from favorable input costs in Dairy in North America and in Europe will be reinvested in marketing activities of some way and hence you're projecting only a slight improvement in margin? Is that the correct way of reading your comments?

Emmanuel Faber - *Danone SA - CEO*

I'll take it. This is Emmanuel. I think that may be one of the ways, but I think there are other ways. The reality is that we have shortened our management horizon in order to be able to adjust what we spend and the way we generate our resources faster, to be more flexible, including in the way we are planning our business cycles. This is currently happening. And we believe this is very important given the volatility of the environment in which we are.

And so the commitment is there, without compromising on slight improvement of the margin at the level of the Company. When and how much we are going to spend respecting that commitment will of course depend on the success of a number of initiatives. But beyond this, will depend on whether we've been wrong or right with the assumption that Cecile was just describing, which looks like it's the consensual assumption today, which is that milk prices are going to be favorable all across 2015, even though probably a bit more on the first half than the second overall.

I won't comment more. And you were asking, I think, without nearly hoping that we would give much more details on our marketing and sales for expenses for this year. We are just making sure that the way we balanced the fixed part of this and the variable is going to always protect our ability to deliver on a profitable growth this year.

Adam Spielman - *Citi - Analyst*

Thank you very much.

Pierre-Andre Terisse - *Danone SA - CFO*

Thank you. We have another question on the phone, I believe. No. No other question on the phone? We have another question on the phone then we'll see depending on the answer.

Operator

Alain Oberhuber, MainFirst.

Alain Oberhuber - *MainFirst - Analyst*

Yes. Good morning, Emmanuel, Pierre-Andre. Alain Oberhuber, MainFirst. I have two questions. First question is could we have a little bit more insight about the Starbucks/Kellogg's joint venture, when you think some sales will come and overall what kind of potential we could see?

The other question is going back to Brazil and Mexico in particular. Are you currently also facing some consumer spending reduction, and from Mexico in particular some tax increases which have or could have a negative impact on your future growth in Mexico?

Pierre-Andre Terisse - *Danone SA - CFO*

So I'll take the first one and I'll leave the second one to Emmanuel. About Starbucks, so we are in the real work now. You remember that we announced some months ago that we would be together with Starbucks designing a product which would be cobranded under the Evolution Fresh, Inspired by Danone, and that this product will be launched both in the Starbucks stores and in the supermarkets.

This is coming now. We should be able to launch this product in the first half of this year, in the second part of the first half of this year. And that will be in the US. And then we'll be looking at it depending on -- at a possible rollover, depending on the success. So that's coming, in fact.

Emmanuel, on Mexico?

Emmanuel Faber - *Danone SA - CEO*

Yes. On Mexico, I think we see solid business trends overall, including in our Dairy business, which is our biggest business there. Although it's currently going through a turnaround situation in the sense that you're right to say that there is a lot of pressure on pricing from the shoppers basically. The situation is a bit different between the traditional trade and the modern organized trade in Mexico, which is going back quicker than traditionally trade. But yes, Mexico's environment is a bit challenging.

Now specifically about the Waters business, I commented on that earlier, talking about the Latin American growth in Waters. We are facing a situation where there has been a sugar tax being implemented in the country that touches everything, basically targeting CSDs but has been extended to all sugared beverages, and therefore it includes our aquadrinks, and that hits the growth of our aquadrinks, despite the fact that they are a much healthier option than the blue or the red.

And the result of that is that at least on the short term we see a lot of push by the red and the blue into the water space, where, because of their big HOD or DSD, direct system delivery systems in Mexico, they have access to a lot of distribution. They need to move cases in order to build, to match their fixed cost. And for the time being, they push Waters.

Pushing water in a non-strategic manner with no marketing skills means destroying value. That's what they do. And we therefore are facing price competition in Waters. That turned into some negative sales for us in total in Mexico in Waters last year. That's why I was commenting on the stellar performance of our total Latin American Waters business, because they are growing despite that Mexican situation, which is gradually improving. We've been reworking a number of things in our equation in water in Mexico. And you should expect growth back in Mexico Waters this year.

Pierre-Andre Terisse - *Danone SA - CFO*

Okay. Well, thank you, all. We'll stop here. It's close to 11 o'clock. Thank you very much for attending this conference physically and by phone. I think it was long but very important.

And have a good day and see you on the road then. Bye-bye.

Emmanuel Faber - *Danone SA - CEO*

And Pierre-Andre, good luck in Africa.
