



Speaker 1: Emmanuel Faber – Danone SA, CEO

Speaker 2: John Cox - Kepler Chevreux

Speaker 3: Warren Ackerman – Société Générale

Speaker 4: Kartikeyan Swaminathan – Bank of America

Emmanuel Faber – Danone SA, CEO

Thanks for your numerous attendance this morning. I will try to use 30 minutes of your time to convince you that Danone is coming from teenage to an adult age gradually and this is what the management team is really focused on delivering as a reality every day, right now. Let me start last year's results, just to say in one sentence that I consider these results as being a very solid performance in what has proven, as you know, as well as I do, to be a very volatile environment for macroeconomic reasons but also for some Danone specific reasons. Last year all our geographies have contributed to the growth of our business. We turned around Europe and in particular water in Europe has been growing very fast at the back end of last year Medical Nutrition has been growing fast too. We are gradually turning around, slowly, probably too slow for us and for you, our Dairy business, and the infant nutrition business has been growing pretty fast. North America and CIS, two large markets for us, about 20% of our sales have been growing, although as you can see, sequentially that rate of growth has declined to enter into a slower pace for the coming twelve months. And finally, our big emerging countries area, ALMA, 40% of our total sales, is now back on track with engines at full speed after the recovery of the twelve month anniversary of the false alert back in 2013. That makes me very confident with the team to reconfirm the framework in which we are guiding you as to the results of Danone. That framework is that starting in June last year, we are back to profitable growth at Danone.

This year will be profitable growth. We add sustainable profitable growth because the most important thing we need to do this year is to ensure that it will continue for 2016 and beyond, and gradually, as we move towards 2020, we believe that we have very significant opportunities to accelerate that pace of growth again to a strong profitable sustainable growth.

The whole thing starts right now with optimisation. We need to optimise the way we operate. We need to be more disciplined in many ways, more organised and that starts with Europe where a lot has started already last year, even in 2013, will continue. We are in the middle of a transformation which encompasses as you can see on this chart many aspects of the company starting with having the right



portfolio; we have started a revenue growth management program in Dairy. You know that our volumes have declined in Dairy last year. 30% of that decline has actually been managed through this PRGM programme that is going to deliver, that has delivered already last year, significant growth margin improvement in Dairy, looking at all the assortments, the promotion efficiency, the channels, the mix of price positioning in a way that creates the conditions for the return to growth of Dairy in Europe in a profitable manner. That continues and this is now being extended to other categories beyond Dairy in Europe, and by the way, beyond Europe too. Another very important program is about our efficient sourcing, and I will come back to that later on in the discussion, where we have set up our global purchasing platform, Dantrade, which is gradually deploying its organisation across Europe in Dairy and will gradually go outside of Dairy too.

Third, industrial optimisation, our fixed assets, in particular in Dairy, we are conscious that we have underutilised assets in and unoptimised the manufacturing footprint in Europe and we have started a program to reduce by a third the number of our factories in Dairy in Europe from 24 to 16. We are in the middle of doing this, all announcements have been done and we are progressing to deliver the efficiency in the next three/four years that will gradually emerge from this organisation. And lastly, I just wanted to remind you that two years ago we started for Danone a pretty unusual kind of program, cutting 900 jobs in management positions in Europe, essentially management positions, which led us to a €200 million annual savings that were booked last year in 2014 full year basis, which is also a sign of how this organisation is gradually coming to a more mature approach of doing our business. All of these savings, and I should say not all but a good chunk of these savings, in particular this year, will be reinvested, reinvested in many ways.

First of all, reinvested in building the uniqueness and the superiority of our products. The recipe engineering is something that we have accelerated and I have to say even in Dairy we consider that it is essential because the tailwind that we currently have in milk prices globally will not last. We know inflation is going to come back and we know it's very important that when it comes back we have recipes reformulated that use milk in a better way and that ensures that our cost of goods sold is protected. It's also in order to create unparalleled consumer experiences of course and another example of this is how we work on packaging on the bottom part of this chart with the gradual rollout of the iconic cup here on Activia but we are also running that cup on all others of our Dairy products. Investing also in the category expansion, I'll come back to that with a number of innovations but also category building policies on which I will comment further and also investing in services in particular when it



comes to Early Life Nutrition, there is a lot of services, a lot of education, a lot of value added services that we can engage the consumer mothers, key opinion leaders, paediatricians, prescribers with and we are gradually building the platforms of these services in particular in Europe but not only and China would be another example. More classically I would say we are also going to reinvest part of the savings in the growth margin of this year into A&P and you have here four examples of campaigns that are currently running, that started last year, and that has made a significant impact on the businesses that have been underlying these are... these are ad campaigns. Beyond A&P, pushing the topline with point of sale activations and consumer activation is also where we are putting ploughing back the money that we are currently saving on the gross margin, that goes into salesforce execution pushing a lot the efficiency, the professionalism of our merchandisers, all over the place, thousands of them in China, hundreds of them in Mexico, hundreds of them in Brazil. We have a program called Puma that started in Brazil that's about salesforce and merchandising excellence that, as you can see with flags here, we are gradually rolling out, even outside of Latin America, as it's become the sort of internal school for the training of our salesforce on best practices. On the consumer side, it's more about digital where again with viral communication programs you have this example of our Evian Spiderman, "The Amazing Baby and Me 2" film that had a huge viral success on the internet, but also very concrete product campaign launches, city activations, on digital with the example of Mizone in China. Beyond investing this year we are also building.

Building starts with building the categories. Here are a few things of what we do to continue to build the Dairy category. I have heard over the last few months, reconnecting with your community to a certain degree, that there are comments about the fact that the Dairy, you know, may have lost its magic, that Dairy maybe commoditised, in a way. The answer is no. Danone is the leading company in Dairy. We are responsible to grow that category and I have here a few examples. If you look at the chart on the left, this is a per capita consumption of Dairy over the last ten years, and I'm not suggesting in any way that all these geographical areas should go to the level of where Europe is today, which is anywhere between 20 and 30kg per person and per year, but this chart is to illustrate that when we are talking about PCC potential, that potential arrives. It's actual real numbers. From 2004 to 2014, the per capita consumption in North America has grown by 50%. There is no other food category in the US that has grown faster in per capita consumption; I am talking about the real existing big categories in the food aisle, than the French Dairy in the US. The same applies if you look at Latin America. From three and a half to more than five and a half kilo per cap in 2014 in ten years. Of course, Middle East has been



growing, Asia Pacific is growing even faster and this is the reason, simple reason, why the Dairy category overall, worldwide has been growing between 3% and 4% volume wise over the last 15 years and has been the fastest growing food category in the world. There are intrinsic reasons for that. You see some of these drivers through the per capita consumption and, of course, this is done on the responsibility, with our brands, to grow even faster than this category. Building the category is also through the demonstration of its nutritional superiority. There are some obvious cultural positives all over the world about the benefits of fermented milk, but it's our responsibility to also build the science behind it. We now have more than 15 clinical studies that have been published in eight countries over the last four years, that endorse very clearly the benefits of those ferments, the probiotics, and that's beyond the question of whether we can claim it on the packs and on the ads of our products. It's really about the scientific community peer to peer review of these studies. Just to give you an example, last year we have created filed a patent, sorry, that's about the protection of the activity in the Flora bio-specific ferment that activates the defences. This is currently pending but that's the kind of things that Danone needs to continue to do to really build the scientific knowledge, public knowledge behind the reality of yogurt. And ferments are another way of growing and building this category is on the bottom of this chart here. You can see many executions, completely different executions of what fermented milk can be. Just to give you the pink example, that is Jamila, that's Moroccan recipe. In Moroccan yogurt is Raibi, Raibi Jamila is an incredibly popular drink, homemade drink in Morocco and there are now online recipes that are using our own interpretation, this pink pot that you see here, as the base of the homemade recipe now. And so it's really putting together the local culture with the execution of global science about the ferments. In Waters, we continue to grow to the category about hydration and better options for hydration. That's an obsession for our Waters business. Of course, aquadrinks, as you know is not cannibalising water, it's cannibalising much more sweetened bubbling kind of beverages, and that's where the source of our business is for aquadrink, which today represents nearly 40% of our total sales and is therefore a very important driver of the growth. But in the same time and the right side of things, you can see that water sales have been growing, plain water has been growing 5% and therefore we have portfolio-wise both product and geographies, a very powerful engine for growth with our Waters business. In Early Life Nutrition, we are embarked in a journey that's about the science of the first thousand days, and this first thousand days is basically the four pictures that you have from the early stage of pregnancy, through breastfeeding, through baby age and then toddlers, and we are gradually



creating products, services, complements, supplements, that are addressing each of these stages for the journey of these one thousand days, which is beyond the baby's journey, it's also mum and dad's journey. To make sure we do things that are relevant we have a unique approach that where we are creating local studies, sociological and epidemiological studies, on the diets, local diets and habits for babies that allow us now in 16 key countries, to map precisely the deficiencies that babies are facing in their 1,000 days journey and that allow us to work with the health authorities to create special solutions to address those. One of the issues that we're facing on the right part of this chart is, for instance, are allergies. Allergies have been incredibly booming around the world for adults but also for babies. There is now evidence that through metabolic imprinting there is generic transmission of some allergens in the baby's metabolism. So, it's very, very important that at the right moment, as soon as possible in the life of a baby, we can address these needs and this is simply a number here showing that there are now twice the number of severe allergic admissions in hospital than ten years ago globally. Just to give you another perspective, as I assume most of you know how Beijing is an issue from an environmental standpoint just to breath in Beijing these days, I'll be there in less than a week for the next weekend, with about 500 PPM compared to the norm, which is 50. Even Shanghai now is turning to a very, very difficult situation. No doubt that for Chinese babies, specific solutions to address this kind of environment will be required and this is why beyond the brand new global research centre we opened in Utrecht for our global ELN, we have also established in Singapore and in China local research centres to address the specific needs. Finally, about building the categories, Medical Nutrition. Medical Nutrition is of course a category that is hugely important from even a health, economics and public health and social standpoint, given the demographics in areas like Europe, for instance. But, even China will get older over time and quite rapidly actually, we are building the core of our competencies in paediatrics, in metabolics, in elderly frailty management, with the result that you see on the right, which is the. It has resumed in 2014 with a 5% growth in Europe and a total of 8% growth of our Medical Nutrition business, but this growth is also fuelled by new geographies, which our businesses hold leading positions in China, Turkey, Brazil, which are all growing beyond or into double digits.

Building is also the last geography. It's about Africa. We made the decision last December to start a specific organisation that is now managed by Pierre-André. So, he is now in Africa. He is actually today attending the CEO forum of Africa and we have done that because we really believe that this continent, if you have a mission which is about bringing healthy through food to as many people as possible, this continent is really where we need to be to accelerate because this is an incredible part of the growth



and of the mission of Danone for the next 30 years. Just to give you one of these fascinating numbers about Africa, by 2050, this is far from now, but 40% of the population in the world will be in Africa. You know, countries like Nigeria is going to double their population by then, close to one billion people in Nigeria probably by the end of this century. So, that's the kind of secular growth that's coming from Africa. There will be ups and downs, obviously, but we decided to really focus one part of our organisation on building Africa.

Building is also about Danone 2020, as I speak about the future. I've written here Danone 2020 as a guiding vision but I would like even to say that there is something particular in the way we are dealing with this vision, which is that we are also building it as we walk. That's a vision which is built by the decisions that gradually we're making. One of them was about this Africa decision that we took in December. Another one is the one Danone organisation. That project was launched in December. It's essentially about building the backbones of Danone activities, Danone's business in 30 large clusters of geographies around the world, where we will put together Finance, HR, IS, IT, Quality, Food Safety, Compliance, Legal, General Secretary, Lobbying, Government Affairs, Communication, all of this as a backbone for our businesses. Today, the situation is that in literally all our countries, we operate in completely autonomous country business units that reports into their global four global business units. And that's fine from many aspects, and we want to continue with that, except that we need absolutely to have much more efficiency, much more expertise, in utilising these resources and building what I call backbones. They have to be backbones. In two years from now, they will be in place in 30 different countries. And so that's the kind of decision where Danone 2020 is shaped not by big declarations but simply by the decisions that we're creating and that translates into an overall message to the organisation on how we want to work. Another, of course, big news for me and for the team here of Danone, is we have, yesterday night, completed the composition, the roles of the Executive Committee team that I have the joy to lead every day at Danone. It's composition is now final to lead us to Danone 2020, five years from now. And we are welcoming back two extraordinary persons, one is Lorna Davis. Lorna is a South African born woman who has lived in the five continents, worked in seven countries, was before she joined us, the head at Kraft in North America of Nabisco, the biscuits business of Kraft. She'd been working in China before. Before that she was with Danone. She was transferred to Kraft when we sold our biscuits operations in 2007, and she has been in charge with us of many activities, in particular in biscuits, but she also has been in charge of what has been a very successful best practice sharing and change management program called "Growth Too". She will be in charge of "Growth Too



2020” now. So to shape the Danone 2020 initiative, Lorna will be in charge of leading that initiative together with the rest of the Executive Committee members. She will also be responsible to establish the storyline, the Manifesto that we'd exemplify with all the teams of Danone. How Danone wants to work and to create its mission day by day by 2020, with a view that this conversation about our mission, our business with all the teams on a crowd sourcing basis, will be a very strong catalyser for worldwide innovations. And so there is a direct link through this bottom of process, networking process, with accelerating and reinforcing topline. On the right side, right brain, parts of that chart, Pascal De Petrini, Pascal is today with Fonterra. He's running their Asia Pacific, Middle East, Africa business. Pascal was before with Danone, has spent 30 years in the food industry, started in supply chain, operations, has been in charge of putting SAP in place worldwide with Danone when I was directly in charge of that, so worked with me for four years on this, has been running our biscuits operation in China, has been running Aqua in Indonesia, has been in charge of our Water business in Asia, then our ELN, Early Life Nutrition business in Asia after we acquired Numico. Pascal will be in charge of what we call Strategic Resource Cycles, which is all our supply together, so putting together all the purchasing operations, sourcing and supplier development of Danone, both with a view to create a sustainable and a more efficient organisation to ensure that we gradually enter into a circular vision of these cycles. This is absolutely fundamental. You heard me say that in New York last year, we are walking the talk by appointing Pascal at the Executive Committee level to sponsor and lead these functions, which will include the sponsoring of our operations function, operations meaning manufacturing, supply chain and logistics. So these two additions to the team, as you can see, very different people, very different backgrounds, very complementary missions, is a fantastic add-on to a team which is now complete. They will actually join us in June, so this is now going to be very soon and I am incredibly excited about the fact that they come and join the team. Let me maybe just finish by saying two things. One, we... all of this, including actually the appointment of Lorna and Pascal, is about also beyond building, nurturing the future, and I'll just... I'd like to take two examples, and I know some of you may believe that it's anecdotal. I think for a company that's about agriculture, about water resources, about nutrition, food in the world, they are critical components for our licence to operate in the future, and I'm not going to read these numbers but you can read them. They are very important actions that we can consider as being strategic for us, even politically strategic for us, in the long term. So, we continue to nurture a more and more sustainable operation from an environmental, from a social standpoint, for Danone as part of our project and one very recent example of that is the creation, after very... first generation



investment fund on the carbon footprint reduction fund that we created five years ago, we decided to partner now with Mars inc to create €120 million investment fund that will invest in family farming. I could be very long on family farming but, basically, everyone talks about it and no one is doing anything about it because it is so complex. That's the blah blah blah of the international aid and official development assistance, but no one can really touch that, until you have actual on the ground actions as some of them we have taken and this will allow us, that will actually be part of Pascal De Petrini's functions. Allow us to connect the reality of Danone to this world of family farming, which is about Africa, which is about India, which is about China, to a certain degree, and many other areas in the world. Let me recap by saying we are at the early stage of our 2020 ambition, but well focused and confident in what we currently delivering to build these different steps. That allows me to finish to reconfirm again the guidance for this year, 4 to 5% topline in what continues to be a volatile environment with different engines working at different speeds at Danone as we rebuild some of them and the margin will, sorry for that, only be slightly up this year. That's our first full year of profitable growth but, as I explained, and I hope in a convincing manner, we need to also invest in the performance that we will deliver in the future for you. Thank you very much.

Right, we'll be taking some questions. Just raise your hand and the microphone will be at your side very quickly. I can't see any hands at the moment. There's one at the back. John Cox, looks like. Near the camera.

John Cox - Kepler Chevreux

Yeah, good morning. John Cox from Kepler Chevreux. Could you give some sort of definition to sort of strong sustainable, profitable growth? Is it... is it really, you know, best in class topline with some incremental margin improvement? Is that what we should be looking for? Second question, just on sort of balance sheet return ratios like ROIC, Danone is... is probably one of the most disappointing among peers. What are your thoughts about that going forward as well? Thank you.

Emmanuel Faber – Danone SA, CEO

Thank you for the question, John. I think that if we had, you know, been willing to be more qualifying on these words, we would have been this morning. More than the words themselves, I think what's important is the order of the words. We start with profitable; we then want to be sustainably profitable



and only then we aspire to be strong in terms of growth. I think it's very important that we rebuild gradually the model this way. So, unfortunately, I will disappoint you on this first part of your question because I won't be much more specific. I think that there is a significant margin improvement potential in Danone's business model in the next five years. I think what I explained about the demographics, the nutritional aspects, the health economics, the platforms that we have in our categories, they are growing categories. You know, we're not talking about categories that would be hurt by obesity that would be hurt by overconsumption here or there, that on which we would be stuck in, you know, a low growth. So, there is plenty also of growth potential if we are just looking at this. Unfortunately, I won't be more specific at this stage on this first part. On the second part, well, I think that there is a small and a big answer. The small answer is that we are very focused on the discipline with which we allocate day by day the... I would say the operational capital together with Cécile and the rest of the Executive Committee. We are working on an align way as to where we put our A&P, where we put our capex, how we allocate our structural costs etc. etc. And I, you know, have given a few examples. The Board decided or agreed to our recommendation in December to extend the credit ratios of Danone. In the current environment we believe that being a single A is not a must for us and a triple B plus is okay. So we... you know, this is also I think an indication of the fact that we want to leverage or we believe we could slightly leverage more our balance sheet than today, in terms of allocation of the nature of the balance sheet but that's the you know, that's the discipline in the... in the small part of the answer. In the bigger part of the answer, I think that, you know, referring to my comments in New York last year, I would be worried as a CEO now to create a situation where a transformational acquisition would lead the ROIC of Danone, which we had patiently driven from 7 to 17% in between 1997, when Franck and I arrived, and 2007. So like a drop of ten points of ROIC. I would not consider this. I think that is probably way too much in the current environment, and second, I would not, I would not consider any use of Danone's equity to finance whatever transformational, non-transformational situations. Danone does not need to make any transformational deal to be successful. If there are opportunities we look at them but we will look at them with the two points that I just mentioned. If that means there is no deal, there is no deal. We will, you know... life will continue.

Next question. Yeah.



Warren Ackerman – Société Générale

Hi, Emmanuel. It's Warren Ackerman at SocGen. A couple of questions. The first one is about the New Zealand infant formula industry. Given the recent poison threats to the New Zealand infant formula market, anecdotally we're hearing that sort of some of the Chinese distributors have dropped volumes to New Zealand by around 70%. Given Danone is the clear market leader in New Zealand with brands like Karicare, which is also a big brand, or quite a big brand in China, do you expect any impact from Karicare in China and what impact do you think this might have on the New Zealand Dairy industry overall where you've made some investments? Do you think it's going to taint the industry further? Do you think more volume will shift from New Zealand to Europe? And then, just secondly, can I go back to the... the stake you took in... in Yashili back in November you took a 25% stake in Yashili, you spent €500 million taking that stake and then in January Yashili had a profit warning saying that profits would be down 50%. I was just wondering was that picked up in your due diligence and maybe can you explain the rationale for that investment and how you kind of see that playing out in the next couple of years? Thanks.

Emmanuel Faber – Danone SA, CEO

Thank you Warren. New Zealand. Two New Zealand cooperatives received threats of poisoning milk, powder milk. This is... there is a legal and a police investigation on this. The reaction in New Zealand is extremely calm and mature. It's not a food safety issue; it's a food security issue. Although the New Zealand government has characterised the threat as being very low, the risk as being very low, they wanted to be serious enough with it and they warned New Zealand citizens about the existence of that threat. We have no sign that our operations are affected by that. You're mentioning the... traders to China, I think that there will be a question about the overall timeframe in which this crisis will be resolved but, again, there is no sign that our operations are affected by this. You rightly mention that we also have a lot of brands that are coming through internet into China from Europe too, and yes, one can think that if there was going to be something that serious, and again, no sign of this in New Zealand, in terms of concern by it, there could be other ways for Chinese mums to find appropriate milk. But, again, social media is absolutely flat about it after two to three days of discussions, including in China and so, you know, we would let the police investigation go and focus as... as everyone else on our business.



On Yashili, I will put it this way. I think the profit warning was the reason why Mengniu, COFCO..., you know, were in discussions with us on how we could help and support the Yashili team with some Early Life Nutrition international experience. And so that was... you know, the fact that Yashili was having some difficulties was one of the reasons and key reason for their interest in us partnering with them on this. So, no surprise for us. Then linked to that, why did we do that? Well, I think that there will be in China, basically, 20 years from now two large segments in the ELN business. One will be a few very large international brands and companies and a number, much lower than the current 500 Chinese local branch, probably ten, among which probably three will be or five will be significant that will, you know, consolidate the overall market. Yashili has been elected as one of the top ten domestic champions by the Chinese government where they said that this list of domestic champions will be the consolidators of the industry and they will receive Chinese government support in many ways, including financial support to clean the market and make sure that the food safety environment is even better than what it is today in China where they've made a lot of progress obviously but can still do a lot more. And this is the context in which we believe that partnering with COFCO, the largest state owned enterprise active in the food and agri business in China, is a long term investment for us by having a stake in one of the leading Chinese companies in that business, and today, this company is managed by a Danone executive that has been appointed by the board of Yashili to run Yashili and think about how this company could do better.

There was a question in the middle also.

Kartikeyan Swaminathan – Bank of America

Thank you. Kartikeyan Swaminathan from Bank of America. Two questions, if I may? The first was on Waters, clearly you've done a great job of driving the growth and part of that has come from the increase of aquadrinks within the mix. Now that that's reached quite a significant part of your portfolio, how much further could it go and secondly, as a follow on to that, if it could converge to some kind of saturation point, what are your plans beyond that to grow your product range and sustain the growth?

The second question was on Fresh Dairy, so in terms of trying to return the division to its former glory days of growth, do you believe it's very much a marketing, branding and investment issue to purely rebuild the category or could there be some geographic shift that you envisage to rebalance your portfolio and regain the growth momentum again?



Emmanuel Faber – Danone SA, CEO

Thank you. On Waters, we don't know how far the aquadrinks category can go because, again, the source of business is mostly CSDs and juice and given the size of the CSD category in the world I think we've only scratched these and not the surface of it with our aqua drink brand. That, you know, can be the... the sky kind of limit. Having said that, you know, I think we need to be realistic or maybe cautious in the way we project growth models when they rely on growth rates currently of 20-30%. I think that's great in the short term but we are certainly not planning to deliver what I called the strong growth, and unfortunately I didn't qualify what that meant. You know, in the coming years by having aquadrinks continuing to grow 30% per annum, we don't need that to deliver what we think is a strong growth at the company level. And so we will gradually continue to extend new geographies, new SKUs, new brands into the aqua drink space but we want to be, again, disciplined and cautious in the way we expand that portfolio beyond the existing one. On Fresh Dairy, I don't expect much geographical shifts in the coming, I don't know, three/four years. I think most of what will resume the growth is the fact that we turnaround Europe, we don't need Europe to be a growing, you know, mid-single digit in Dairy. We need Europe to be positive in Dairy. And to have Dairy positive in Europe, it means we have to have Actimel and Activia positive. They have been in a number of important countries positive in the Q4 last year, and these are important signs that make us confident that gradually we are bottoming out and we will continue to have negative trans this year in Actimel and Activia lower than in the previous five years and gradually getting these brands back to zero and positive next year. That's the one twisting point that need to accomplish in the next 18 months in Europe to get Dairy back to profitable growth in Europe. While in the same time, we are reinvesting behind the other brands and also behind Actimel and Activia. And so the profitable growth of Dairy will not come from the fact that we resume the fantastic growth of Activia and Actimel, but putting them back to growth and continuing to grow the rest of the business that already grows and be much more efficient on the costs side to generate the improvement in the margin than what had been the case in the past. So, it will be a different combination than what we had ten years ago. I think that was the last question.

Thank you very much. Thank you.