Speaker 1: James Amoroso
Speaker 2: Emmanuel Faber
Speaker 3: Pierre-André Terisse

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As many of you know Danone was one of the founding corporate members of Cage who paid four years of fees up front to help launch Cage back in 2010 so it is with great pleasure that I welcome Danone to the fifth conference and it is with great relief because it means that they started paying their fees again so before writing this year's introduction I looked at last year's introduction and frankly I could have copy pasted nearly all of it. For those of you who were not here it was about how the investment community has historically worried about every new problem that Danone has faced but also forgets how management has overcome every one of those problems.

As you will know the latest problem is infant nutrition in Asia but setting that drag factor aside 2013 demonstrated that the underlying business was strong and that all past issues had been successfully addressed.

For 2014, Danone has laid out its detailed plans to repair the damage done by the false alert and product recall in Asia and to continue to develop the rest of the business. Based on track record alone I would not bet against its management. Emmanuel, please take the stage and thank you very much for coming.

S2

Good morning everyone.

James, thank you for this very expensive introduction this year and thank you for the conclusion as well I may have finished this discussion, but if you have 30 more minutes to spend with me I would like to use them to basically bring you to our own level of confidence that the agenda that we are driving as we speak is the one that will bring Danone back in six months from now to profitable superior top line growth.

To do this, first of all, as James said, we have 2013 as a basis and this year last year showed how much our geographies have played overall positively in creating this agenda for superior and profitable growth. Leaving aside the Fonterra false alert issue that we faced last year and that we are obviously currently addressing in the course of this first half but we really believe that we have the right geographical platforms and by the way the right categories to come back to this.

To achieve this we have basically four pillars that we need to address this year.

One is we need to turn around Europe no doubt on this and I'll come back immediately on that.

Second, we need to continue to keep winning in CIS and in North America two very important geographies for us.

Third, we need to continue to grow in emerging countries and I'll give you a couple of examples of this.

Finally, obviously we need to turn our early life nutrition business back to its full speed, it's been an engine for growth profitability and top line, there's no reason that it shouldn't be back to that in the very near future.

Let me start with Europe, Europe is recovering as you can see on that, it's relentless work by the teams to be able to do that. The dairy teams are obviously at the forefront of that effort and yes, Dairy Europe is definitely dragging the overall growth of Danone and that's why we need to address that and we continue to address this issue urgently and relentlessly. It's 20% of our total sales, Dairy Europe so it's not 80% but it's still 20% and we have good signs that some of our key markets in Europe are gradually improving: France, Spain in Dairy are examples. As long as and because they are more than half of our total Dairy Europe sales if these two key markets are gradually improving we obviously need to address more difficult markets like Italy or Germany but that's definitely for us a very solid basis to continue to improve the situation of Dairy Europe and bring Dairy Europe back to zero in terms of growth by the end of this year.

Obviously, we are not only talking about top line here but there is a lot happening in terms of adapting our cost structure and organisation. We are on track and delivering our €200 million savings plans that we announced a year ago by the end of this year the savings will be there the cost of that programme is exactly on what we had scheduled and discussed with you, no social issues, we ran that in a manner that has been efficient and let me remind you that we have not addressed rank and file workers here, we've addressed the top management issues. We've slashed our number of executive committees in Europe by about half including the number of our people in these executive committees, we've moved managers and top managers all around Europe and the world and sometime outside of Danone to simplify our organisation come to faster decisions, faster market, faster to market action, and significantly better integration and harmonisation of some of our key policies in Europe. Dairy again has been at the forefront of that.

In addition to that, we have centralised our purchasing in Dairy, now in Schiphol, in Amsterdam, which will bring obviously efficiencies both from an organisation and cost point and Dairy has been through the first phase of industrial optimisation.

We have closed one factory in Spain we have downsized the largest Actimel factory in Europe which is in Rotselaar in Belgium, we have sold three factories in Europe and this has to be seen as basically an ongoing granular analysis of our industrial footprint, manufacturing footprint in Dairy in Europe because we are absolutely committed that Dairy being the flagship of this company should participate to the profitable top line growth of Danone and that means having by two to three years from now a clear top line and a clear tool from an industrial standpoint that will make sense to address that top line this top line opportunities.

On top of this driving Europe back to growth is also relying significantly on innovations. Last year has been a year of fantastic innovations in many many directions. I won't spend your time on this but the teams have been very active and I would just like to

present to you the last and actually first ever worldwide campaign that Danone has just started with Shakira which is a new copy rolled out in more than 50 countries simultaneously that will support Activia return to growth, can I have a copy please? *(Music/presentation plays) When your tummy smiles you smile too, Activia feeling good starts from within.*
You can rush to the store if you want, otherwise we are very very confident that this seems to be a great support of communication and that will be rolled out digital in many ways, under actually very strict contractual arrangements with Shakira's advisors, but that will be a very strong support to the softer functional communication that we are now allowed to make under the new EFSA rules, for EFSA not only in Europe but outside so we see that as the campaign is rolled out in the next few months hopefully.

The second pillar on which we are working now is winning and keep winning in CIS and North America and let me start with North America saying that 2013 has been another great year basically we turned what started as a challenge the Greek segment into an incredible opportunity. It took about 2 years to be there but essentially we are now facing a situation in America where the Greek segment represents about 50% of the total category so can you imagine that in 3 years' time completely new segment has been added to this category, transforming the category itself, that's probably at the very top of our most optimistic thoughts about how far could the Greek go, we shared about a year ago with you that probably it could go to 30 or so maybe 40% now we're at 50%. It's flattering so it's good news because now capacities are maturing, the promotion activity is also gradually maturing to more traditional levels in the dairy category in the US which is about 35% promotions, even though recently Chobani had a bit of a hide because they had a quality problem at the back end of last year so they had to fight back but that promotional activity is now back to normal. We are head to head with Chobani having completely caught up about a third of the market of the segment, sorry for them and for us. Therefore, we are now left in a position where basically you have 3 competitors in the US, one guy that has only Greek, one guy that has everything else but Greek and us with both and so no surprise as you can see on the market sales here that our best ever gap to our friends of General Mills with more than 7 points of market share advantage for Danone in the US. What it means in the future is that without the boost and the kick that the Greek gave to the overall category, yes there may be slightly lower growth overall of the category although as you know there has been a lot of cannibalisation in that category because of the Greek happening and we think that now the category will be moving more on all of its different engine. We're well placed to seize this opportunity that will translate into more category advisory roles for Danone than even today because we are the only ones that can serve our client and customers with everything and therefore we are highly confident about what we're building in the US and what we have built over the last 2 years.

We are also adding a new segment with the acquisition of YoCrunch; promising topping segment also allowing us to enlarge the offering and by the way also the moments of consumptions and the trade channels that we address in the US.

CIS has been last year a year of construction we've continued to build a winning portfolio in terms of brands as you can see on the right part of this chart we have 3 of the 5 biggest brands in the fresh dairy category in Russia. Fantastic growth of Prostokvashino over the last 3 years with 12% average sales growth for this brand which is the largest dairy brand in Russia, but also another good growth and continued solid growth of Tëma which is the toddler and baby dairy food brand of Danone in Russia, 18% CAGR over the last 3 years so fantastic work on the top line. On the bottom line, we had committed to significant improvement year after year more than 100 basis point year after year that's what has been delivered between 2011 and 2013, and we continue to push and drive this agenda.

Some headwinds in Russia but you are aware of this and that's been the case for the last 6 months already with another hike in the prices of milk which lead both Wimm Bill Dam and ourselves, the two leaders to competitively address our pricing policies, SKUs by SKUs, channel by channel in Russia starting last summer, end of this summer. We are still in the process of doing that because the price of milk is not declining so we have an embarked inflation in Russia from last year.

By the way, this is also true for a number of other dairy markets, important dairy markets for us. The price of milk stays very high, it stays basically where it was at the back end second half of last year, which means that everybody in the industry is gradually increasing prices and we are part of that. So there is a significant programme of multi country, multi SKUs, tactical and competitively driven price increases in a number of significant geographies as we speak now, which means that we will probably have some impact in particular in terms of de-balancing of our margin growth in evolution in Dairy this year, due to the lag time between this inflation of milk and the time by which we are effectively executing the price increases where they need to happen.

By the way managing volatility is part of what we are doing and we need to continue to do. A quick snapshot on our currencies on the left part of this chart impacted 5% last year probably more like 7% this year and depending on the way of the rouble will end, it could even be slightly higher than that. On the right back to what I just said about milk, you can see that we had strong inflation last year; it could be another embarked mid to high single digit inflation this year, in terms of farm gate prices.

I started with talking about the price increases but again I would like to remind you that most of the solution is something that you do not see on the shelf and that the incredibly and relentless work that's being done on the productivity milk is a very very rich raw material and we are trying to extract every drop of value that we can get from milk by cracking its molecule, by making sure we are using each of it; by products, by bringing basically our level of efficiency on using that raw material better every year. Another thing that we are doing in this context of volatility and that we've been doing for a long time is securing long term contracts and you have a number of examples actually across our raw material here on this chart whether this is PET whether this is, which we are recycling increasingly, whether this is new plastics, plant based plastics, whether this is ecosystem farms that we are building around our factories with smaller community of farmers to bring the milk very very close to us or large agreements that we run in Russia on the left with people that build farms for us basically and that run farms for us. Basically all of this is in the Danone model and we think that it's absolutely critical and let me just also say at this stage that all the social programmes that you have here, the team sharing with you from time to time, they are a fundamental part of the way we can address the long term volatility and the long term inflation and scarcity of raw materials that will be available for food and for beverage in the world going forward.

Back to the shorter term here, we are continuing to grow full speed in emerging countries, that's part of our equation, the best example of that last year was and this year will probably be as well, our waters division. As you know looking at the pie charts on the bottom of this chart, already nearly two thirds of our sales in waters are in emerging countries, with a margin expansion last year which is a sign that this geography has a positive mix on the margin because we now have a margin higher in the emerging countries than in Europe in waters and on top of that on the far bottom left, aquadrinks are 30% of our total business now in water. They are going more than 20%, the only thing I can tell you is that this will continue this year, we have an incredible growth in Asia in particular behind aquadrinks, but that's also true in Latin America, and at some point in time we will, we should be able to share with you that Mizone in China will be close to one billion euro sales threshold in the not too far future, so incredible growth for our waters business and profitable growth already.

Another cut would be to look at it through a country angle, when it comes to growing in emerging countries and that's the example of Brazil where we are facing extremely strong growth and profitable growth in all our 4 categories. It's a good example where one and the other has been leveraging on each other's trends.
In Dairy we are leading the category and we are also leading the category growth with you know, above 15% growth.
Waters we started in San Paulo about 6 years ago we are now have 3 times the market share of the next guy in the San Paulo region and we are now adding, we have added, we will expand aquadrinks on top of this.
As you can see from a low start but both early life nutrition and actually medical nutrition are growing significantly and for us Brazil is already the sixth largest market for our medical nutrition business and that's creating a platform to grow the future of that division as well.

Africa will be next as you know, we have invested significantly last year in our growth in Africa and the potential of Africa, taking control of Centrale Laitière, a company that has a 60% market share in Dairy that is using the brand name of Danone since 1955 that we now have full control and management of, driving it back to growth and basically leveraging the fantastic demographics and economics of Morocco for the next 5-10 year. And also Fan Milk our first significant inroads into sub-Saharan Africa, in Ghana which we acquired, co-acquired with Abraaj, a private equity group a few months ago. There will be more to come in terms of our expansion in Africa as we really believe this is a frontier for the next 20 years, we want to participate and we will be there in a number of shapes and forms in the future.

Now our fourth and very important pillar for this year is turning our early life nutrition business back to full speed.

First of all, what do we mean by full speed. Just a chart that we shared with you during the full year to, you know, talk about the underlying growth of that division if you exclude the 2 brands that have been severely affected short term by the Fonterra false alert. This is what we mean by full speed.

Second, what's happening now with what is not full speed, basically that's China and in China what we are currently building is a business that will come from a one engine for growth to three engines for growth.

Let me just tell you that what's happened between August 2nd and December. We basically didn't sell one tin to our distribution system during this period of time. What the 3 actions that were took in China for this 5 month period was:

1) Make sure that our trade system was going to be loyal to us, still up and running by the time we would have the product launches ready to go. And that means in China that you have to deal with a multi-layer distribution system, you have to deal with the fact that suddenly with a drop of 80% of the sell out; because mothers obviously turn to brands that are not in the newspapers with possible safety issues; so you come from 100% to like 20%, and suddenly you face 5 months of inventory instead of 1. And so cleaning that inventory, helping our trade to stay healthy from an economic perspective and get them ready to go for the next phase has been a 5 month exercise that meant that we did not sell to them at all, we just cleaned the inventory. Actually some of the products we bought back from them just to ensure that they would have fresh products and no cash constraints, that's part of the non-recurring charge that we took last year on this event, and we made sure that we continued to have regular good business relationship, keeping them abreast with the next innovation programme and preparing for the launches that took place after Chinese New Year.
2) second thing we kept talking to everyone, key opinion leaders, authorities, we obviously ran the independent and actually accredited studies that lead to the conclusion that Fonterra's initial conclusions were just wrong and there was absolutely no risk in the products that, in the ingredients that we had been using and that came in September and then we made sure that the Chinese authorities would

be well aware of that. We have been working with them, hand in hand to ensure again that we would be able to continue to run fully our next platform.

3) third is that we ran a very emotional TV campaign about confidence and trust and how high we put that in our agenda, which was rolled out in all key cities in China, had a significant and positive impact on the image of the brand which is finally what is absolutely essential if we want to be back and from a situation where the off take adds of our distribution system was about 10%-15% in August and September, that improved to about 30%-35% from the previous 100% at the end of the year. So it was a significant improvement to start the year now and even most importantly and more importantly for us the image of the brand was back and we are running panels with mothers and key opinion leaders all time in China and in many countries.

   By the way, to the question: whether Dumex is a perfectly safe brand and would I adopt Dumex as my brand? 90% of mothers in early January were saying yes in China.

Now we think that with those activities in place we have a clean base to re-start. The second aspect is obviously that when a mother changes a brand, she is not going to change it back if that new brand is ok with her child. It's obvious. So what needs to happen is that mothers re-start using Dumex on our new programmes as one of their options and that's what is currently happening and so there is obviously a lag time because when it comes to infant formula we are talking about six months so we have this lag time here and we are in the process of going through this lag time.

Now what's going to be our 3 engines, one is on the top left here, we are re-launching Dumex in three directions.

One is the core Dumex brand is going to be positioned 10% lower in price to what it is today so we will continue the same brand but at the lower price which will be used as a flanker brand and also as a brand that will compete more directly with the potentially growing local competition, which for a number of reasons we think can be contained over time.

Second, we are launching a Dumex international imported from Europe product, it has been launched and that will basically replace the previous brand in terms of positioning which we are launching actually higher in price than the previous brand so it will be a premium plus brand compared to the previous premium segment.

The third is Dumex product in the range will be an ultra-premium range which will compete with Illuma which is a new top premium brand of Whyett and Nestle which is more tactical basically. So essentially this is the first pillar. Dumex.

The second pillar is one you see on the bottom left of this chart. We shared with you here actually a year ago that we felt it was now the right time for us to introduce our international blockbuster mix in China, beyond Dumex. And for all the reasons of what happened last year, we decided in August to postpone that and to launch it as part of our new programme so right now we are launching our blockbuster brand international, Nutrilon range of products, that will be a super-premium brand and that will compete directly with our good old friends international manufacturers of baby food that are active in China. The tests are incredibly good, that mix is winning in all other markets in Malaysia, it's winning in Indonesia, it's winning in Thailand, it's winning in Latin America where we use it etc... So we are confident that it will also take its fair share in China.

The third pillar is on the right here, and that's essentially one very important aspect if you look at the graph, it's a 3 year graph that shows the channels in baby food in China and that's, the red part is modern trade, the green part which is growing is mum and baby stores, specialist stores which are just right outside the clinics and the hospitals and where you can get everything that baby needs, including baby food obviously, and the blue part is e-commerce and you can see that e-commerce is nearly in 3 years closing the gap with modern trade and it happens that the brand that you see on the bottom here, the Karicare, Aptamil and others are Danone brands and they are also the leading brands on e-commerce in China. And so that's a channel that doesn't appear in market shares but does appear definitely in what we do in terms of business and that is increasingly a very important engine for our development there.

So in a nutshell we will come from one Dumex strategy to Dumex plus nutrient plus e-commerce strategy in China and that makes us very confident that by the end of the year we should have in total about 60% of our previous level of sales, pre-crisis in August last year, that's our target. 60% we could be up to 80% we could be 40% if that's our lower scenario. Let me remind you that the off take was 35% at the end of last year so we feel that we have the right actions as we speak to make sure that China becomes this 3 engine, actually more profitable in terms of product mix overall, there are very concrete signs in the course of the second half of this year and obviously going forward.

My final chart is to wrap up on our objectives, which you already know, no change and let me remind you that there will be a strong de-balance both in terms of top line and margin evolution between H1 and H2 for a number of pretty obvious reasons and that keeps me into my first words, what we are currently doing is addressing and making sure that Danone delivers profitable superior growth as soon as the second half of this year.

Thank you.

S3 Questions? We move on to the second question.

? *Good morning, I think you said the, you expect the margins to be better given the mix change you're hoping to effect in China, do we assume that if you get back to 60% of your business by the year end that the profitability then will be closer to 100% of where it was if you're successful?*

S3 It's difficult to comment on that as obviously a number of facts are missing, the mix is one of them, the absorption of fixed cost is another one and as you rightly point out if we are back to 60% we won't be back to the full scale as we were before and therefore we will have a lower absorption of fixed costs, so I will not comment but clearly we will try as Emmanuel said over time as a success of these milk brands strategy will be essentially more solid hence this is going to be reflected in the profitability at some stage. Another question?

Eddy *Yes. Morning, just on the input cost scenario you've obviously spoken quite a lot about milk prices and the trends there, can you remind us what proportion of your total input cost base is dairy, what's happening in the rest of that cost base and perhaps also talk sort of about the range of experiences in cost in different regions across dairy.*

S3 Yes. There is by far the largest input we have it's about 40% of the total, total input costs, the next one being packaging of course and in particular in packaging plastic packaging among which PET, and then you have a range of material which we use in our products including, including fruits, including sugar many many things but again milk as well as PET by the way have been by far the most important and the one causing the biggest on which we have observed the biggest volatility for the past, for the past few years. On the milk specifically we have seen, and that was reflected in a slide Emmanuel showed, we've seen an increase in volatility since 2006 but also an inflation which has been pretty steep and has been pretty steep across all regions with price levels on the liquid milk which are obviously very different from one country to the other but which stand to vary and move in the same direction. This has been the case as well for the past 18-24 months with an inflation level in the course of 2013 which has reached 10% as an average, with some specific exceptions going far beyond that and Russia has clearly been one of them. But most of the countries dealing along with this, with this average and trends which continue at a pace which is very same about level in 2014 which implies a mid to high single digit inflation for the year again with inflation which you can see, observable sorry in markets as Asia, Americas, Europe, and many many others. So there are some differences but to some extent we have to deal with that at a global level hence the very comprehensive policy which Emmanuel described and which we are trying to push in many markets, more markets in fact starting from productivity continuing with an attempt to try and strengthen our control, our level of control over the upstream as well as the quality of the input we receive in all dimensions both product quality but also stability of price and continuing with what we are in at the moment. In addition to which is price management but that's pretty much global, a global issue impacting all of our geographies in Dairy.

? *Can I just ask on a market share, you say that you're back to about 35% of where you were in China pre-recall and that you're the best selling I think you're the best selling brands in the e-commerce channel which is nearly the same size as modern trade, so I mean your best guess as to where your Danone corporate market share is in China formula at the moment please.*

S2 I was probably not clear enough on what I said about the 35%. 35% is the level of off take from our distribution so it's not market share it's basically compared to a level of 100% in July 2013, how much do consumers actually buy from the trade and this I'm sorry if they bought 100% in August they would buy literally zero or between 10%-15% depending in the weeks and by the end of the year they would be anywhere between 25-27 and 30-35%. So the end of the year off take level compared to the pre-crisis of the Dumex brand was 35%. That's what I meant. As far as what the total market share of Danone is concerned including e-commerce, I think that's a pretty well-kept secret and I would like to keep it this way at this stage; let alone the fact that on top of the official e-commerce there is also an unofficial import which is affecting us and I think we discussed that already with you several times, is affecting our ability to supply in other countries when Chinese related traders are basically emptying the shelf here of Tesco or whatever and they send it across from e-commerce there that's also one way of buying so there are a lot of out in Nielsen scope business in China. Some of it is official some of it is unofficial, we have been working hard to make things as official as possible and working with authorities on this, so in total we are, we won't even try I think to calculate a global market share.

S3 Yep. Warren. This is going to be the last in the room by the way.

Warren *Yeah hi the work in Africa, why did you choose to have a private equity partner in developing that part of the Africa at the moment and then will that product be a chilled refrigerated product or will it largely be Tetrapak and shelf stable as you develop the market and then lastly how much of a financial burden are you willing to take on your income statement as you develop Africa?*

S2 Well if you, if we look at actually both transactions last year Centrale Laitière is the company that is profitable that has a margin which is comparable to the rest of our dairy operations, so it's actually accretive in terms of EPS. The transaction you are referring to is Fan Milk. So Fan Milk is a business that was created in the 50's in Ghana, it's about 120 million euros of sales, it's very profitable actually, it has a market share if you call it this way, of probably 60 or 70% in Ghana. What is what Fan Milk core product is, it's frozen yogurt so they have a cold chain in Ghana, in Nigeria, in Togo, in Benin, in Ivory Coast but the two biggest markets are really Ghana and Nigeria, Lagos precisely. This cold chain is completed for the last mile with a fleet of thirty thousand bicycle men that are basically carrying ice boxes and going door to door and cross roads and are selling all day long the frozen yogurt. So from the frozen yogurt and sorry so that's already an ongoing growing and profitable business, very well-known brand. We partnered with Abraaj because we felt that they would be a good addition to us in sharing management and country experience basically. As you know Danone has been through a number of successful and sometimes by exception less successful partnerships, we really believe that partnerships are creating value and in that particular case we think that we will learn a lot of Abraaj. They have 7 billion euros invested in private equity funds in Africa and I think we have a lot to learn from them. Then we will gradually, there is an agreement that will give us, provide us control and full management of Fan Milk on the basis of which we will then bring additional products and the direction that you're describing including non-fresh is a possibility. There is no doubt that to develop sub-Saharan Africa for us, we will also have to go outside of the cold chain and sometime actually outside of milk you know in order to make sure that we can deliver the corporate mission that we think we can deliver to African consumers.

S1 Ok we're going to close it, close the main session there, so thank you very much Emmanuel and Pierre-André.