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Gerry Gallagher - *Deutsche Bank*

I would like to introduce Cécile by reference to the company's mission statement, which says their mission is to bring health through food to as many people as possible. For those who are unaware, that is through four business units, being Dairy, Waters, Medical Nutrition and Infant Nutrition.

Cécile Cabanis, the CFO, joined Danone in 2004. Prior to that she worked at L'Oréal and France Telecom, and within Danone has had roles in Corporate Finance, Business Development and in the business's biggest business, Dairy. With that, over to you, Cécile.

Cécile Cabanis - *Chief Financial Officer, Danone*

Thank you, Gerry. You will not see me dancing, unlike Gerry, this morning. Hello to everybody. Thank you for coming so early in the morning, and hello to those who are listening to us on the webcast. I will take this opportunity to come back on the roadmap that we have set for Danone and to share with you our priorities and progress to date. I will let you read the disclaimer before we start.

2015

A first step towards 2020

To start, I would like to revisit briefly what we have set as a roadmap for Danone. We have put in place a clear agenda for the years to come which consists in building a model of strong, profitable and sustainable growth. We are focused on delivering this agenda. 2015 will be both a year of delivery and preparation, delivery of profitable growth and preparation for the year beyond 2015 by investing behind the right bets, being disciplined in our resource allocation and making sure that profitable growth is sustainable beyond 2015. Also, that we can then, past 2020, accelerate the growth. It is an important framework, and we are taking all action to turn this agenda into concrete and tangible results.

Enhance our strengths and keep building a sustainable model

For 2015 we have summarized our priorities around four words: optimize, invest, build and nurture. It is about optimizing our model of growth through portfolio management, efficiencies and discipline. It is about investing behind the right initiatives towards sustainable, profitable growth. It is about building our categories and geographies. It is about nurturing and shaping our Danone 2020 Guiding Vision. This is the right balance that we will place between these four words that will ensure sustainable value creation for Danone in the future. I propose that we take some time to go through the different businesses in order to get into more concrete results and priorities, but first I would like to quickly go back to our Q1 geographical dynamics.

Geographical dynamics

Remember, as we have seen in Q1, all our regions are contributing to growth. Europe has confirmed positive trends, and in the fourth quarter of last year we saw the same pattern in Q1, which is the success of our international brands from the Early Life Nutrition to the Chinese market. Overall in Europe, results continue to show signs of improvement, and this is particularly the case in Waters.

NORAM and CIS, with 2.8% growth, reflected the capacity of Danone to confirm its category leadership in a tough environment.

ALMA reported as well a very strong growth in Q1, where Danone continued to invest behind its four categories. We need to take into account also in ALMA that the growth will normalize after H2 2014, where the basis of comparison was favorable.

Fresh Dairy Products

Keep reinforcing all platforms

Going to the businesses, and starting with Fresh Dairy, globally the division is on track with its roadmap. Across the region we continue to optimize the way we operate, being disciplined and making sure that we create within the division the right condition for investments and that we continue building the category through innovation and initiatives with retailers.

Q1 top line, as we have seen, has reflected some improvement versus Q4 2014, and we have been able to restore margin improvement since the second semester of last year. 2015 is a year of investment in Dairy to reignite progressively the sales growth. Q2 might be below Q1 in terms of reported numbers, but the trends remain similar and we are on track with our roadmap. Based on all actions that we are taking, we expect improvements along the year, starting Q3, with a consecutive contraction between the volume and the value contribution.

Invest in product superiority

I propose that we revisit some key elements of the Dairy journey, starting with investment in product superiority. Differentiation is important in order to bring superior offers to our consumers. This contributes to the development of the category and to the consolidation of our platform. I would like to highlight a few examples.

First, you see here a bottle of Actimel Kids. Actimel continues to improve. The global European sales growth in Q1 was positive, with good dynamics on the Actimel Kids range. We also have some good first signs on initiatives around indulgence, with Danet in Spain, Danette Le Liégeois in France, and we have re-launched under the Gervais brand in France our white indulgence range which looks promising.

In the US, moving to the right of the chart, the good start of Oikos Triple Zero shows that there is still room for growth in the Greek segment, and the Danimals Squeezables offer a new format in a dynamic kids segment.

Fresh Dairy Products Europe: Anchor a new growth model

Let us now go through our regions. I would like to start with Europe because Europe remains the key priority in our Dairy agenda. In Europe, we have optimized our model in order to create the right conditions to reinvest and progressively stabilize the sales. I just want to refresh memories on all the efforts and concrete results of transformation of Dairy in Europe.

First, on the portfolio, we have now almost completed the work that we started under the program of revenue growth management, which is the program that helped us to improve our portfolios for looking at the assortment, promotion efficiency, mix, channels and price positioning. On efficient sourcing, we have set up a global purchasing platform that we call Dantrade which is gradually being deployed across Dairy. On efficient operations, we have started a program to reduce by a third the number of our factories in Dairy Europe.

Lastly, I just want to remind you that two years ago we started for Danone a program cutting 900 positions in Europe, mostly management positions, which led us to a €200 million saving, which is also a sign of how this organization is gradually coming to a more mature approach of doing business. All those efforts were essential. We launched the right initiatives and we delivered on all the commitments. Optimization is key to build the agenda of sustainable, profitable growth of Danone, but optimization alone is not enough. We need to rebuild growth, and to that extent 2015 will be a year of investment. This should lead us to stabilize Europe Dairy sales by early next year, and you will see improvements starting with Q3.

Fresh Dairy Products NORAM & CIS: Carry on growth agenda

Switching now to our two big platforms: North America and CIS. In North America, the market is quite stable and we had the opportunity to comment on that already. Our agenda remains unchanged. In a category where there is still great potential and as a leader of the category growth, we focus on investing to develop the category. There are initiatives on products, under new moments of consumption, but also through our alliance with Starbucks, through availabilities of our products beyond the retail space, and also initiatives with the retailers. 2015 will be a year of investment to reignite growth in the category.

In CIS, the consumer environment remains uncertain. We are monitoring the portfolio across all price points to adapt to consumption pattern. The recent launch of the Danone umbrella brand is promising. Q2 may be slightly below Q1, as there is still some volatility on the market, but globally our brands show strong resilience and we continue to improve our efficiency in the way we operate.

Waters

Strong growth to support category expansion

Let us now switch to the Waters division. The Waters division confirms its capacity to build a balanced and sustainable model of growth, with volume growth and value growth building on strong foundations, on new brands, better mix and geographical dynamics. All the elements are deeply rooted to support a profitable and sustainable model of growth that will deliver the same quality top line in the coming quarters. This agenda is also supported by great innovations; you can see some examples on this page. To that extent, Q2 will benefit from the same dynamics as Q1.

Keep building the category

If I come back to the overall agenda of Waters, the mission of the division is to convert people to healthier hydration. The evolution of the market share that you can see on the chart shows our capacity to bring innovations to consumers and to activate fully a strong portfolio of brands through marketing expertise and strong connection with consumers.

Coming back to my four words, build and invest are very relevant for the Waters agenda. We have built solid fundamentals around the category which enables us to have a great plain water platform with very strong brands. On top of that, we have been able to develop very successfully the aquadrinks.

360° Activation / Invest for better product activation and develop brand equities

Maintaining the right rhythm of investment will be key to continue to deliver quality growth. It is about innovation and activation. Innovation is at the center of the agenda to keep building superior and differentiated offers: new packaging on Volvic for kids that you can see here; flavor extension on Mizone to extend the offer; and new packaging with a pouch on Levité.

Activation is also a key part of the agenda, and activation is made through close interactions with consumers. It is key to build the brand equity. You have here some examples: the Evian Spiderman film that had a huge viral success on the internet; also very concrete campaign product launches, city activations with Evian Chez Vous; and some specific digital activation of Mizone in China.

In Waters, as expressed before, all elements are deeply rooted to continue building growth.

Early Life Nutrition

Build sustainable growth

I would like now to move on to the Early Life Nutrition division. With 11.6% growth in Q1, the growth performance is strong. You have to remember that the basis of comparison remains favorable but is more normalized than it was the case for H2 last year. Europe keeps growing double-digit, with continued strong dynamics on infant milk formula, mostly driven by the success of our international brands Aptamil and Nutrilon for the Chinese market.

Sales also keep growing double-digit in the rest of the world, with continuing market shares gains in Latam and solid trends in the rest of the world. In Q2 the trends are close to Q1, and growth should be in the zone of high single-digit.

Continue building our categories

In Early Life Nutrition the combination of research, science, marketing competencies and strong brand equities makes us confident in our capacity to grow in all regions. We have embarked on a journey that supports the first 1,000 days, which you can see in this chart. These first 1,000 days are basically from the early stage of pregnancy till toddlers. We are gradually creating products, services, complements and supplements to address each of these stages.

Also, to make sure that we do things that are relevant, we are creating local studies on local diets and habits for babies that allow us to mark deficiencies that babies are facing. Having that allows us to work with health authorities to create specific solutions. For example, we know that allergies have been booming around the world for babies, and it is very important that we can address these specific conditions to our product portfolio.

Review of Chinese business

I would like to take this opportunity of meeting you today to make a quick follow-up on our Chinese situation. As we shared previously, Danone's footprint in China is made of local and international brands. Danone business in China has significantly changed on the back of the Fonterra false alert and the transformation of the channel mix in this country. In China, Danone is now quite close in terms of market share to what it was prior to the Fonterra alert, but what was 2/3 Dumex is now 2/3 based on e-commerce.

Basically, today I can confirm the trends that we have seen in Q1, meaning that first the category continues to move towards e-commerce due to the success of international brands. Secondly, the mum and baby store Platinum channel is still very dynamic, and we launched a premium offer there that is called Nutrilon that is increasing its share. Thirdly, unfortunately the Dumex brand is still struggling to find positive trends, also because, as expected, the retail channel continues to decline. Dumex has lost market share, and we need to revisit the way we operate and leverage on our partnership with Yashili.

Medical Nutrition

Very resilient dynamics

Let us now move to the Medical Nutrition business. We have reported excellent growth performance for the division during the last quarter, outperforming historical average. It is basically the case in Europe, where UK, Poland and Turkey have been very dynamic. The rest of the world is also very strong, with some countries being double-digit.

On a product perspective, we had a good performance on Neocate in pediatrics and Nutrison in tubes. The division is confirming its strong potential based on of scientific credibility, understanding and connecting with patients and consumers, and the capacity to grow in new countries. We are basically clear in our capacity to grow going forward and build an agenda of profitable growth, leveraging new geographies and product portfolio mix.

2015: A first step towards 2020

Basically, in an overall context that continues to be complex and volatile, actions are in place to deliver our 2015 agenda and to anchor our model of profitable growth in a sustainable manner. In order to create sustainable value for all stakeholders, we will have to carefully manage the balance between our four words: optimize, invest, build and nurture.

Creating sustainable value is a question of defining the right reason and the right balance between cost optimization and efficiency on one hand, and investments and resource allocation on the other hand. It is about executing the priorities that we have set for Danone, being to continue to be competitive in our brands and our categories, to create the right conditions for sustainable profitable growth, and to start our Danone 2020 journey.

2015 guidance: anchor the new sustainable model

To finish on this presentation, I would like to confirm our objective of delivering between 4% and 5% like-for-like growth, with a margin that we are going to manage as being slightly up, to make sure that we invest rightly to prepare 2016 and beyond. As mentioned previously, both semesters will be pretty balanced in terms of sales growth, with some variations quarter to quarter. Indeed, even with a more difficult basis of comparison in Early Life Nutrition in H2, we should see Dairy accelerate in H2 with Europe progressively improving.

Regarding the like-for-like margin, margin will be unbalanced between H1 and H2 for two reasons; first, the favorable cost impact will be skewed towards H1, and second, investment will gradually increase towards H2.

That is it for the presentation. I would now hand the floor to your questions.

Q&A

Question: Gustavo has come over to run the overall Dairy business. The US business has been very successful, growing volumes, gaining share for a number of years. What do you think the US has done well that Europe has not? What sort of lessons do you think the European business will learn from having Gustavo in charge?

Cécile Cabanis: I think the two countries and regions are very different, both in terms of maturity of the business and dynamics of the category. I do not think we can compare where we stand with US agenda and where we stand in Europe. I think overall I would come back to what I said, meaning that in each region, depending on the maturity of the category, it is about finding the right balance between investing and optimizing. In Europe we have an agenda where we needed to deliver some efficiency to recreate some room to manoeuvre in order to invest and stabilize growth. That is how we think one should manage the agenda.

In the US you have had a very significant growth pattern in the last two years pushed by the emergence of the Greek segment, which is now plateauing. We absolutely need now to invest and reignite growth in the category. The two maturities and situations of the business are quite different. In the US, you still have a per capita that is very low and offers great potential in the category; in Europe, you have a very different structure of the market. I think the common agenda is really, depending on where we stand and on the dynamics of the category, how we balance between efficiencies and investment in order to create the right model of profitable, sustainable growth.

Question: To your point on making greater investments in H2, so not extrapolating the H1 trend or trends in margins, what if the top line in H2 does not come the way you had expected it? Can you rein in some of those investments?

Cécile Cabanis: I think the way we described the roadmap – and sorry, I have not insisted earlier – is to allocate resources on a pay-as-you-go manner, which is exactly, to your point, the way to keep some flexibility to make sure that we invest behind the right bets and the right actions to sustain the growth.

Question: Firstly, about pricing in Dairy, it is still negative; how much can you improve that, and what is the trend rate of pricing that you are aiming for in Dairy?

Second question was just about bolt-on M&A, acquiring brands and just your plans for that in the future.

Cécile Cabanis: On Dairy pricing, basically today we believe that we have the right price positioning in our market. Now, if you look at Europe, we have worked a lot on our portfolio in order to improve the mix and the quality of our portfolio. Our mission as a category leader is really to create a differentiated offer and invest behind products' superiority.

On bolt-on M&A, just to remind you, today the key engine of growth is our internal organic growth. It might be the case that we have some opportunities that make sense for the development of this growth and that makes sense to create value for Danone, and we will look at them. However, we are really focused on internal growth for Danone.

Question: We see that the Chinese market local brand does not work at all. Can I ask the fundamental reasons of this problem? Do you think that it may change in the future what Danone can do to change this trend if possible? Thank you.

Cécile Cabanis: On the reason of the difficulty we have on Dumex, it started of course with the Fonterra false alert, and today, as I explained, because there has been a huge shift in the way the channel mix is working in China and because Dumex was mainly a brand in retail, we have not been able to restart, also because we have been focusing on international brands.

To your question of what can we do, we are working today on optimizing the way we operate together with distributors and revising the model of Dumex. We are sharing with Yashili – because you know that we have a minority investment in Yashili – to see how to leverage the partnership, because it is another local brand and to see what makes sense for both.

Question: One question still on the Infant Nutrition and on China basically. Which risk do you see for the ecommerce regulations in China, as a big part of your sales comes from international brands like you said and basically from the European brands? Do you see any risk of new regulatory framework and action there?

Cécile Cabanis: I think we need to split two things, the brand and the consumer on one side and then the channel by which the brands are brought to consumers. To date, the success of our international brands is made of trust by mothers, very strong brand equity and the fact that they come from a region that is safe to Chinese consumers. That is one. We continue to work on the brands because this is really what creates a bond with the mothers and the consumers. The channels will evolve for sure, but we are confident that the way it will evolve will not question the fact that our brands are successful; it is just how it will be channeled to the consumer. Today, we do not see a risk on the evolution of the channel to our business.

Question: One question on Waters: do you see any risk with your growth rate that there is more competition emerging? So far you have been lucky that the soft drinks companies are not really going into flavored waters because of the lower price point. Is Pepsi in Mexico the first hint to an emerging risk in that part?

Cécile Cabanis: I think on Waters, the way we have built the plain water platforms with very strong brands and then developed the aquadrinks is a unique way, and soft drinks companies will not be able to make. I think it is part of the success. Now, we continue to put full activation, innovation, and that is the way we will continue to build growth. The market and the source of business for aquadrinks is huge, because really we are talking about the full planet of CSD. So there is still much opportunity of growth there.

Gerry Gallagher: I will ask a question, Cécile: could you give us a bit more color on the second half of the year and the confidence the business has in terms of delivering top line growth for the year as a whole?

Cécile Cabanis: I think on the top line it is basically what I commented. We see today that the growth should be balanced overall between H1 and H2. I know that some of you were concerned about the basis of comparison for ELN, which is true, it will be more difficult. However, at the same time, if we look at Dairy and at Europe and you take the fact that the revenue growth management will start to recycle, there will be an improvement in Europe which should lead to an acceleration of the Dairy. All in all, we should see a balanced growth between H1 and H2.

Question: Maybe as a follow-up on Europe and Dairy: you seem confident that growth will be better in H2, but you mentioned that in Q2 it is not going to be the case compared to Q1. What makes you so confident that growth will be a little bit better in H2 in Dairy in Europe?

Cécile Cabanis: In Q2 you have to remember that last year we took some price increases, so we have some effect of the phasing of this mix price effect. As I just said, we started our revenue growth management program last year at the end of H1, which had an impact on the volume in that a third of the negative volume that we have seen in Europe was coming from that. It will recycle at the end of H1, and this should lead to an improvement. That is why we are confident.

Question: Last question, just on the balance sheet and cash flow: can you just talk about the evolution of balance sheet and cash and pay-out going forward, please?

Cécile Cabanis: I think on cash flow, what you have seen is that at the end of last year we decided to go for a rating downgrade which is giving us the right flexibility on our balance sheet. Basically at Danone the way we are using our free cash is really to pay for dividend and investment, and that is what we will continue to do. The pay-out dividend, the dividend has not decreased in the past many years, so basically we continue to have some management of the balance sheet and be careful on where we will allocate capital.