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PRESENTATION

Regis Massuyeau - *Danone SA - IR Director*

Good morning, all. Thanks everybody being here with us in Paris. Thanks for those being connected for the 2015 full-year results of Danone.

My role is to invite you to look at the disclaimer and to let you know that all definitions are on the back of the presentation. So if everything is okay for you with this, we should start. And I welcome Emmanuel to start with the presentation. Thank you.

Emmanuel Faber - *Danone SA - CEO*

Thank you, Regis. My role is to take you through this presentation. Thank you for joining this presentation. Thank you for all of you on the web, attending this meeting. It's obviously an important meeting for Danone after one year of a new leadership team in place. And we are very excited to share with you the progress and the results of the year.

As you know, we have put 2015 as the first year of a transformation journey that will take us to 2020 to generate, over time, a strong, sustainable, profitable growth. And you've heard Regis, Cecile, myself all over the year telling you that we're building this day after day.

Today we are reporting the full-year results for this first year, which we have titled the year of progress and delivery. Why progress and delivery? If you look at our sales growth, organic sales have been growing 4.4%. Actually three of our four businesses are delivering beyond 7% organic top-line growth.

And I would dare to call this delivery in the kind of environment in which we've been operating. And dairy is recovering in the course of the year 2015, coming from a negative H1 and many more unfortunately negative before that, to a positive in H2, which gives us confidence in the fact that dairy is gradually coming back to where it needs to be for us to build the equation that I've just mentioned. So a balance of delivery and progress.

When I look at the margin, 17-basis-point improvement, you remember our commitment to improve the margin slightly, up on an organic basis. This is what we call slightly. I think this is also a year of progress because that's been a very long time since Danone had seen an improvement in its margin on a year-on-year basis. And secondly, it's also a year of delivery because we've been able to reinvest significantly to prepare 2016 and beyond, before delivering this 17 bps improvement.

It's also a year of delivery and progress on the right column of this page. You can see our recurring EPS growing 12% in total, 8.4% at constant exchange rates. For those of you who've been with us for a long time, I remember the days where there were questions about the fact that the organic model of Danone was great, delivering a lot of top line, delivering margin expansion, but not so much falls through into the EPS. I can tell you that this team is very focused on ensuring that the growth, the profitable growth that we deliver on the top falls down to the EPS. And I think this 8% number is a tribute to that.

So in a nutshell, we, I think, have met our guidance 2015. And I would like to spend some time just reviewing with you the series of the key battles that we've been going after in the course of 2015, not only to share that with you but also because I think they speak by themselves about what 2016 is going to be.

One important one, turning to page 6, if it works, has been the progress in US dairy. As you know, US, the US market for us is a major driver of growth for our dairy division, so it's one of the key engines to reaccelerate the growth of the division. We have said and we shared with you that we probably needed to be a bit more patient in the course of the first quarters of the year till we saw growth coming back fully through the numbers. I think the fourth-quarter numbers speak for that, with 4% top-line growth in fourth quarter of the year.

The category is rebounding in terms of growth. An important element is also that after a plateau on the back of this graph -- on the left part of this graph, of the shelf space that had been growing through the pressure of the push of the Greek for a couple of years, you can see that this growth has started again. So we have more feet in the fresh chilled aisle in the supermarkets in the US available for our growth. And Danone has actually taken more than its fair share last year of this additional growth.

So we end up the year in the US with a market share which is a record high historic, being the co-leader in the Greek segment, half of the market, by far the leader in the traditional segment. I have put here a few examples of some of the important innovations or re-innovations of last year in the US in the Greek segment. Oikos Triple Zero has been growing very fast and recapturing or reigniting growth actually in our Greek category overall and with, I think, lasting effects for 2016.

In the middle you see the example of our Danimals squeezables launch, great success. Puts us, for the first time ever, as the leaders in the US in the kids segment. Never been there before. We intend to stay. And that again is a good and solid base for us to continue our growth.

And on the right part you see what we've called accelerate portability, but it's also, as you know, leverage the super-protein trend in the yogurt category by launching this light and fit protein drinkable yogurt, which has been growing fast and really establishes also both the growth and our leadership in innovation in this area.

So overall it's been a year of steady progress, restoring profitable growth in North America for us in dairy last year.

Of course, another very important engine to get dairy back to profitable growth is Europe. And I'm sure there will be questions about it. A few snapshots of how we are looking at the year in Europe for our fresh dairy. First of all, we've gone through significant renovation of our portfolio, working in particular on the main two active brands that we have, Activia and Actimel. Not on a pan-European basis, but really looking at some key countries to start and try new models overall and new packs, including the ones that you see here, with a significantly broader rollout scheme in the course of 2016 as we are moving forward.

Bottom left of this chart, you have heard also us sharing about the fact that we've consolidated our business model. The revenue growth management model has allowed us to avoid unworthy, from a value standpoint, promotion activities which under the overall macro trends and retail and shopping trends in Europe was a challenge. We've been able to significantly clean our portfolio on this, working too on the portfolio of our brands. And for those of you who were with us at the investor seminar in November, we shared where we are in the revamping on our portfolio and the refocus on the few brands that you see around the Danone name here. And of course, starting a strategy overhaul of the way we procure our milk, short, mid and long-term.

The result on the right is that, first of all, the underlying trend is confirming the direction. I could admit that if you compared 2014 and 2015 you could argue that this is not so obvious from a top-line standpoint quarterly by quarter. The reality is that the underlying trend in volumes is sequentially improving in 2015, in particular because we are now entering into the basis of comparison of the PRGM activities that have come to an end. So there is sequential improvement in volumes behind these numbers.

And probably most critical to it all is the graph on the right bottom part of this chart, which is the structural gross margin improvement. We've highlighted on this graph, excluding the well-discussed and many times discussed positive impact of milk, excluding this impact the gross margin improvement of our European dairy. And you can see where we were back to 2013, where we've been through 2014 and the second half of 2014, as we already said a year ago. And you can see that we've continued to improve our gross margin beyond the gain, which we believe is a short-term gain, on the input prices in particular of milk in Europe.

This is very important because this is what allows us to reinvest. You've heard Cecile many times saying how much we've reinvested. This is very much the case in dairy in many ways in which I will come back soon.

The third important battleground for us has been water. Water, as I said, is one of our three or four businesses delivering more than 7% organic growth this year. This is on the back of a stellar year of growth in the plain water area, our core fortress business, 8% organic growth, all geographies contributing to this growth, including Europe, including France. And that's very good news for the future.

And second, aquadrinks, which outside and excluding Mizone for a minute, have continued to grow as fast as you have seen them to grow and we've seen them grown in the past, about 15% growth outside of China.

In China, as you know, we have hit the point where the secular growth of Mizone of about 20%, 30% growth over the last several years has now come to an end. That's the end of the phase one story of Mizone in China after seven, eight years of very high growth. Mizone has been transitioning through the slowdown of the overall non-alcoholic beverage category in China.

Growth, still growing, of course, but slower growth starting last summer. And we have taken the decision to very actively manage the situation in all the parameters of the business, adjusting our ways of working with our distributors, ensuring they have the right level of stock as we speak after Chinese New Year, which meant a lot of activities and actually pressure on sales, selling to our distributor system, which has continued to be pretty strong negative numbers in the fourth quarter of the year.

So we believe Mizone is now poised for a clean base of growth this year, which of course given the comparison basis will be negative on the first part of the year and gradually coming back to the new normal level of growth in beverages in China, which probably is between 5% and 10%.

Net-net of all of this, and as I said, we've been able to get the beverage business growing 7% this year. And that's a great tribute to the work of the team.

Fourth battle, early life nutrition, where we've continued to polish a model which has already been a model of strong and profitable growth, so delivering close to 10% organic growth this year. Fourth quarter surprisingly high given the basis of comparison. So we are thrilled with the success, continued success of our brands internationally.

You can see that this is not only on the back of the growth of the category, but also very active, competitive attitude from our teams and our brands. Three points of market share gain in two years in total through ups and downs in many geographies and across categories. So we've been strengthening our leadership in the markets in which we operate, with basically both development of our base camp, in particular here in Europe, where we have reinvested to strengthen our brands and our products.

That includes Bledina in France, which has operated in difficult market conditions, fighting back and finding back growth. So Bledina has been growing this year in France, for instance.

And we keep investing and growing in pioneering new markets. And we've just shown two examples of them. One is Brazil that we've shared in the past already. We continue to have a very significant growth in Brazil. Number-two position in the market already after a launch that was only three years ago.

And the US, where Happy Family has been growing three times already its size since the acquisition. So these are jewels for the future that we continue to grow as we speak.

Another important battle, of course, was the construction of our sustainable growth model in China. In a nutshell, China has continued to be and to prove a very attractive category, growing fast, faster even than what we anticipated and what we anticipate in our mid-term plans for growth of this market in China. You've seen here a 10% growth last year versus 2014.

The market dynamics haven't changed from the recent past and what we shared in the third-quarter announcement. So you see mum-and-baby stores, channels growing very fast. E-commerce continues to grow way beyond the average of the market. And modern trade goes down relative to the rest of the market to account only for now about 20%.

Our brands are disproportionately exposed to the growth of e-commerce. We see mum-and-baby stores as a clear opportunity, and we've been growing faster than the market on mum-and-baby stores, though from a low base, as you know. So this is clearly an area of opportunity for us. And on modern trade, we continue to adapt our local brand, Dumex, while we are working on the transition plan of Dumex in its getting together with Yashili, our partner in baby food in China.

So overall it's been a very active year, where China has continued to grow. The demand for our international brands has remained extremely strong. It has actually continued to grow. And we are gradually building a balanced model of delivery through different channels in China to address this demand.

Finally in terms of categories, medical nutrition. 7.5% growth organic this year. So they are fully in their mandate of about 7% growth. Growth has continued to be driven by pediatrics, with Neocate, our core allergy brand, a global leader in its allergy category, growing more than 10%. And metabolics, both actually kids and adults, with here the example of Lophlex LQ, also growing more than 10%. Very dedicated, specific, tailored nutrition products, margin-accretive, lots of research and re-innovation into the product last year, so well poised for future growth, I think.

We've also been growing our adult business. I mention here Souvenaid. We've not been speaking much about Souvenaid for the last 12 months. This is not because it's an important number, but just to say that the slow-burning innovation of Souvenaid continues with about 20% growth last year, in 2015. We will see and share with you the progress of that brand as we move.

We continue to believe that Alzheimer's-related pre or early treatment through nutrition is very relevant in many ways and so we continue to work on this. And our nutrition tube product has been growing, particularly on the back of our emerging countries and China. We continue to hold in China, in Brazil leading positions that have been delivering way beyond average on Q4 and which in total have led the division to its very good delivery overall.

One word on the right to share that Nutricia advanced medical nutrition is also, for us, a very interesting learning platform in terms of community management. You've heard us say that as part of Danone 2020 our go-digital strategy includes our ability to interact with consumers and stakeholders way beyond the traditional A&P that we've all gone through as FMCG companies but in a dialogue and in conversation that it's actually a multi-stakeholder dialogue and conversation.

I think for this we need to be even more consumer-relevant than we are today with our brands. This is part of the story you've heard us say and tell about the new positioning of brands like Actimel, Activia, but also of course Aptamil, Nutrilon. Of course these medical nutrition brands, Evian and many others, Mizone is a good example in China, with a tremendous advance on digital management. And this medical nutrition expertise on community management, including digital, I think is a very interesting model for us to catch and deliver, replicate in many ways in other categories.

Finally, to review the full scope of our business, Africa, you remember a year ago we decided to create a specific Africa division organizationally. This has delivered the ability to prepare a solid growth for the mid/long-term in Africa this year, working in all parameters of the business where we are, strengthening our ability to source locally, which I consider is an absolute must mid/long term in Africa, particularly sub-Saharan Africa. We've been actively revamping and enhancing our industrial setup.

There are currently several important capital expenditure projects as we speak in our sub-Saharan African businesses, learning more and developing very innovative route to markets or locally adapted, I should say, route to markets. We are rediscovering proximity in many ways, a bit like what we did 10, 15 years ago in Asia, when we entered in Indonesia, in Thailand, in other countries over there, and working hard on quality.

This is of course a transversal important task that we've taken on as Danone as a company overall, with the creation of a General Secretary function next to me at the Executive Committee. Quality, food safety are central to what we do in Africa, everywhere else of course, but that's been an important investment for the year.

Just a word to say that we have also completed further our portfolio of businesses, increasing our stake by 5% in Centrale Danone, in Morocco. So we now have 95% of the capital in Centrale Danone. We exercised our call option on the control of Fan Milk, covering Ghana, Nigeria, Ivory Coast, Benin and Togo, effective in February this year. So we came from 49% to 51% with our partner, Abraaj, the private equity group. So we are now managing effectively with Danone management the Fan Milk business in West Africa.

And we just announced this morning the acquisition of Halayeb, which is a very, very popular daily consumption market in Egypt. This company has been created in 1910, so more than 100 years ago. Very good brand equity. A modern factory which will avoid us to build another one, so we'll put our equipment in this factory and use their capital distribution system to push our range but also our range of products today of fresh dairy and desserts down the traditional trade and proximity. So not a big one, but to the Egyptian story of Danone it's a very solid progress.

A word before I finish to share briefly with you that you've heard me many times say that Danone's growth and model is about a balanced economic, social, societal model. We think that being a leader in the alimentation, the food and beverage world in the current world means also working very hard on our social and societal impact, in particular on environment. So I flagged here a few things that we've already shared with you.

Our 2015 CSR achievements are what they should be. We're never satisfied with what they are, but I think they are creating a future that makes more sense for everyone, in particular through the COP21 of the UN in Paris on climate change. We've announced a completely new and breakthrough climate policy that's completely consistent with our strategic cycles, plastics, water and milk organization, looking at the cycle of those as we explained during the Investor Day. And they will translate into a very breakthrough objective, reaching zero net carbon perspective, embarking the whole agricultural sector, and not only our direct scope of responsibility over time.

And one thing which is not here but I can repeat is the commitment that the evian brand will be the first zero-net-carbon brand in its category worldwide, and of course at Danone by 2020. So it's only four years from now.

Let me finish by saying that this year overall has been a year where we have strengthened our model. First of all, in the short term we've been able and relentlessly seeking to optimize our business model, the portfolio management, the cost efficiencies. The beyond-budget allocation process that has now been designed last year and started on January 1 was piloted last year and allowed significant resource allocation as we were working during the year in a very efficient and disciplined manner.

That led us, on the right of this chart, to be able to invest not only for 2015 but also for 2016 innovations to fuel growth. We've put, for example, more money in the middle of the year on Oikos Triple Zero, with very strong results in the US. We've reinvested on some of our brands, including here Volvic Aquadrink that had spectacular growth in Europe and returning good margin.

And some significant projects of capital expenditure, industrial capital expenditure to prepare the future. You've seen for some of you the evian factory completely transforming during our Investor Day in Evian. The new factory will be starting officially in September this year in Evian, the revamped factory. We are now building a couple of very important factories to supply the demand we are not able today to accept on our ELN key worldwide brands. So we're building in the north of Europe, Netherlands and Germany factories as we speak. And all of this has been able to be done smoothly thanks to the reallocation process that we've put together.

Longer term, we have been building significantly our model through the implementation of the strategic resources organization that I spoke briefly about but you know of. The One Danone organization project, we started that and the design of it a year ago. As we speak, the first countries have gone live on One Danone. By the end of this year, 80% of our business will be covered by One Danone. And probably as we speak, a year from now, it will be over and done.

So the 30 clusters of mutualized governance functions and support functions of HR, finance, general secretary and IT will be done in a year's time at Danone. And I think this is a very important but also very positive infrastructure and backbone for the development of a sustainable profitable growth in all of these geographies.

And finally, I spoke about Africa. No need to come back to that at this stage. I will simply like to say what you see on the right bottom part, and that's my final comment for this introduction, is also one probably of the most important things at Danone. The level of engagement of our teams in the future of Danone, our Manifesto for Alimentation, the transformation plan of 2020, this Alimentation tree that we've shared with you and we will come back to that with you in the future is really engaging. It gives and brings a lot of meaning for people working at Danone. And I think the financial numbers that we're discussing this morning for 2015, which I'm very proud of, very confident that they're building the future for us too, are a tribute to the incredible work of 100,000 of Danoners.

They're also a tribute to the new leadership team a year ago that I have assembled to take the transition and the heritage. And finally I would simply like to say also it's a tribute to the way Franck, myself have been transitioning in this Danone work towards this new era of development for Danone.

So thank you very much to be with us and keep with us. Thank you.

Cecile Cabanis - *Danone SA - CFO*

Thank you, Emmanuel. Good morning to everyone and thanks a lot for being with us this morning for the results presentation. Maybe before I go into more details and as a transition to the last chart of Emmanuel, I think it's important that we reposition 2015 on our journey. You remember that we have defined our journey as a consistent delivery of profitable growth until we reach a mid-term destination that we have fixed for 2020 and that we have already defined and shared with you.

So now if we go back to 2015, I think it really marks a very important step of this journey, first because it's a year of important delivery where we have been able to restore profitable growth. The growth has been profitable for the first time since 2011. And I think it's also an important year of transformation. Emmanuel just mentioned that, where we have entered into a big transformation project for Danone around One Danone, Beyond budget and Danone 2020. And as well it's the year of preparation because we have reinvested significantly behind all our platforms and brands to continue to support and to nourish our growth for the future.

If we look at 2015, basically we could say that we have driven the year around three main elements. The first one is really and start of rebalancing our growth model consistently with our agenda towards a strong, profitable and sustainable growth. The second one is, and I'm back to the introduction of Emmanuel, that we have done progresses in all our key priorities alongside with this agenda. And the third one is that we have also managed a certain number of specific contexts. And the results show that we have been able to really balance our risk and opportunities in order to make sure that we both deliver good results and as well we are building for the future.

Maybe going into more technical, I'm on page 19 and I will start with the sales bridge. So, on a full-year basis we are reporting sales growth of 6%, with still a favorable currency impact. You remember that in H1 we had a strong favorable impact on currencies, mainly linked to dollars and Chinese renminbi. This has been reversed in the second part of the year, mainly driven by the evolution of the ruble and the evolution of the Brazilian reais.

When we look at scope, it's a slight negative effect and it's the impact of the decision that we took in 2014 on our dairy operation, on China on one side to partner with Mengniu, and on Indonesia on the other side to sell our business.

Coming to the like-for-like, 4.4% growth, which is made of both a positive volume of 0.9% and a value part of 3.5%. The value part and the volume part reflects different dynamics when it comes to our geographies and categories. But overall it shows our ability to constantly deliver on growth.

Let me now go into geographies. And I will spend a bit of time to comment our three main regions, starting with Europe. Europe Q4 still confirming a return to positive trends. And it's basically around all our categories, starting with water, which has had a resilient growth throughout the year. Second, it's our progresses around our European dairy agenda, as Emmanuel commented. And finally, it's also about the success of our brands in early life nutrition, international brands, to the destination of the Chinese market. So, overall Europe, quarter after quarter, has been able to confirm a return to positive trends.

If we go to NORAM and CIS, we can see on this chart, when we look at the sequence, the acceleration that we have been able to manage in the US given the level of investment and animation behind the category and confirming our strong leadership. And also it reflects a very solid resilience of our CIS business given the fact that we've been having a fragile context all year long.

Then going to ALMA. In ALMA we have decelerated, but it's basically very solid platforms everywhere. And then you have the effect of the active transition management that we are doing into adjusting the stock on Mizone, and I will come back to that. But overall ALMA has been delivering a strong around 7% growth for the full year.

Going now into the categories, I will start with fresh dairy products. And on fresh dairy products we have been consistently working throughout the year on our fundamentals to make sure that we drive a safe and sustainable return to profitable growth. And 2015 to that extent is an important year of progresses.

If we start with Europe, as you know, we are rebuilding our brand platforms. We are taking the opportunity of all the work that we have done beyond value and efficiency in order to reinvest behind these brands and ensure that we continue to gradually improve our trend and that we do it by taking the right time in order to make it sustainable. So here it's not about going for quick fix; it's really about fundamental work behind the brands and taking the time we will need to take in order to restore profitable growth. We still ambition that we stabilize sales by the end of this year.

Going to the US, we have been accelerated, confirming our strong leadership, as I was saying, thanks to reinvestment, animation behind the category and innovation. So we will continue to drive this journey. And in CIS, in a context that remained complex and we discussed it every quarter of last year, we have been working hard into making sure that we have a resilient platform. We have been able to protect margins through working on both our mix in an important manner and our cost efficiencies. And I think we can say that the platform has resisted and is ready to reaccelerate when the context will be easier.

Going to margin, if we look at margin, we have a 24-basis-point like-for-like improvement and a 49-basis-point improvement if we take into account the scope and we maintain constant rates. This is reflecting a significant gross margin improvement on the back of a favorable context overall in milk, but mainly also all the work we've been doing structurally in order to improve our gross margin.

Remember that we said profitable growth will come from our ability to improve gross margin in order to be able to reinvest. This is exactly what we have been doing. And we have worked around PRGM, you remember, this portfolio revenue growth management program to improve our value in fresh dairy and also on our operating cost to really make sure we adapt and we optimize our model on a consistent manner.

So this has enabled us to reinvest significantly, more than 100 basis points. It's mostly in A&P, but it's also in working on our product formulation and packaging, making sure that we always offer superior experience to our consumer.

So basically on fresh dairy, I said that we are fully on track with our agenda. And we need to continue to work in a manner that we restore gradually and safely a profitable growth, being disciplined and being perfect in the way we execute our top line and efficiency plans.

Moving to waters, water division continued to deliver a very solid model of growth. We have a full year at 7% and we have a 7% despite the impact of the transition that we have actively managed on Mizone starting the second half, on which I will come back in a minute.

On the overall model and out of China, we have a growth that is double-digit, which is a reflection of all the work that has been done around healthier hydration, behind both plain waters and aquadrinks. There is still positive traction on aquadrinks. It's a division where innovation is key to our agenda in order to activate, animate and recruit consumers and kids to the category. And on that we have been successful as well. So we will continue to drive this solid platform for growth in the future.

When we talk about China, basically Mizone, we have done three things. The first one is that we have started an active stock management and adjustment in order to prepare Mizone to what we said will be a more normalized pattern of growth.

Second, we have continued to build the brand equity, the innovation dynamics because there is still growth potential and Mizone has a potential to continue to grow.

And third, we have worked around our cost base in order to make sure that the overall equation is fully adapted to this new pattern.

Obviously on Mizone we will continue to adjust. So probably H1 we still work on adjusting the stock level and then we will gradually improve the trend in H2. And we should be, by the end of the year, on Mizone to the more normal trend that we define as being between 5% to 10%, as Emmanuel mentioned.

On margin, basically the slowdown of Mizone has created an unfavorable mix impact. And excluding this element of transition in China, the rest of the division is slightly up in margin and continued to be driven to make sure we deliver a solid and balanced model of profitable growth.

So in 2016, as I said, the division will be driven around two axes, continue to develop healthier hydration option in all regions, focusing on the development of both plain waters and aquadrinks, and complete the transition of Mizone, which should be done by the end of this year, with an H1 which will be still impacted by the adjustment of stock and a progressive return to growth in H2.

As a consequence, 2016 will have an unbalanced profile of growth which will be the reverse of the one that we had in 2015 because it will be impacted with the basis of comparison of China on the H1 until it returns to a more normalized profile of growth in H2.

Early life nutrition, very strong results with 2015 at around 10% growth, with a very strong margin improvement of 142 basis points like-for-like. Basically we have strong dynamics in all regions. And we continue to have a growth that is balanced between volume and value, all regions being positive trends.

The division also continued to benefit from the success of our international brands towards the Chinese market. And we continued to work, as we shared with you every quarter, on making sure that this growth is getting more controlled and more sustainable.

We are confident because today we have brand equity and brand success which will enable us to convert and to capture this opportunity of growth. And we will continue to work to make sure that this is built in a sustainable and more sustainable manner.

In 2016 we will continue to maintain the direction of building this sustainable condition of growth for all regions. We should have a profile of growth that will be more normalized for ELN. Remember that we have been rebuilding China since the Fonterra crisis. And we will obviously also be faced with high comps in H1, so probably a slower start of the year.

If we move to advanced medical nutrition, we are very pleased that this is another strong year of growth for medical, with 7.5%, consistent volume and value contribution all along the year. It's driven also by the success of pediatric segment and in particular the Neocate brand.

In terms of margin, the margin is flat. However, as you know, because of the level of margin, it means that medical nutrition is strongly supporting the agenda of sustainable profitable growth of Danone and as a consequence is fully part on our value creation agenda now and for the future.

So that's it for the category dynamics. I think in a nutshell we can say that the top line in 2015 is solid and profitable as expected. It reflects our ability to balance our risk and opportunities and to continue to invest behind growth, making sure that we prepare in the right way our future and our destination.

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So I will go now into the rest of the P&L, and especially I will start with commenting the margin. So we have improved the margin by 32 basis points. We have both a currency effect that is favorable, 9 bps, and a scope effect that is favorable, 6 basis points, which leads me to commenting the like-for-like margin improvement of 17 basis points. And basically it's made of three blocks, and it's the same three blocks that the one that we had commented in H1. So it's very consistent with our H1.

If I start with the first one, which is margin from operation, we have a significant improvement of 233 basis points. We've been having a favorable context, especially on milk and, to a lesser extent, of PET. This overall has helped us of a bit less than half of the improvement that you see on this box. The rest is obviously linked to our growth and all the work we have done on our portfolio and mix, and finally, all the work that we have conducted behind optimizing our cost and efficiencies.

This great improvement has enabled us to reinvest strongly behind our brand and categories, with 134 basis points reinvestment. This is mostly A&P, but this is also everything we do in order to improve our products, both in formulation and in packaging, to make sure that we always offer better experience. So it's more R&D as well.

And finally, we have the box "others", which is here again the same elements that the one we shared in H1, meaning for the major part it's still the impact of Dumex's performance. You remember in H1 we have the performance of Dumex plus some one-off cost that we were incurring to adapt the model. So this is a reflection of that on the full year.

It includes also the impact of the fire that we had in our Cuijk factory in February. And finally, it includes the restructuring cost that we are investing in in order to make sure we build efficiencies and we reduce cost. It's especially in Russia.

If we stop for one second on Dumex, we are planning today to close our merger with Yashili somewhere in H1. And as a consequence you should have a positive scope impact of Dumex in 2016 of around 20 basis points.

The margin bridge I think that I describe is really the reflect of both the delivery of our commitments, 233 basis points improvement in margin from operations; the fact that we are preparing the future, 134 basis points of reinvestment, in order to guarantee that we can consistently deliver a profitable growth.

I think it's really fully in line with the keywords that were on the last chart of Emmanuel, optimize, invest, build and nurture. And it's really what we focus on every day.

If I go to the EPS, I'm on page 28, so the EPS, I will be talking about recurring EPS, which is growing 12% on a reported basis and 8.4% at constant exchange rate. This has some positive scope effect of 1.9% and currency effect of 3.5%. But I will focus on the left part of the bridge, which is the like-for-like growth, 6.5%, because I think it totally reflects our model of rebalancing profitable growth and our delivery of profitable growth in 2015, and as such, our commitment to deliver in a consistent manner EPS growth flowing from our profitable growth model.

The other elements that you see, the positive 2.6%, is basically a positive impact in associates. It's the new entry of scope in Yashili and Brookside, as well as an increase in net results from other associates. It's a positive impact on financial charges because of good market conditions. And then you have a negative impact in tax, which is really the reflection of the one that we commented in H1, given the fact that we have written off some deferred tax assets related to Dumex.

So anyway, I think what is important to remember on that is the consistent EPS growth delivery in line with our profitable growth model that we will continue to focus on.

Moving to cash, cash improvement. We have increased cash by 9%. It's basically reflecting our [operating] increase on the back again of our top-line and margin improvement.

In terms of CapEx, we have spent 4.2%. We have, as a range, 4% to 5% as being the continued good level of investment to nurture growth behind our model. So we've been and we will continue to evolve within that range. And then we continue to have a strong negative level of working capital and we will continue to work on that so that cash remains a strong commitment. Cash is really important for us in order to invest behind our future. And we will continue to make sure that we deliver it in a consistent manner.

Going to net debt, page 30, so basically the net debt is stable. It's made on one side of the financing of the acquisition that we've made around Yashili mainly, and on the other side of the repurchase of minority interest that held put options. And it's basically 15% of Danone Spain that had been repurchased, and we mentioned it already in H1, and 40% of minority shareholders from our Danone CIS platform.

The dividend, EUR0.4b, was very comparable to the previous year because we offered the option of a payment in shares. So overall a net debt that is stable.

Balance sheet, not much to say. The balance sheet remains very solid. Just maybe one comment on the other asset line, which is increasing given the investment in Yashili and given the fact that we have reclassified some assets of Dumex that are ready and held for sales. But overall a solid balance sheet.

That leads me to the dividend. The Board has decided to propose to the next General Assembly a dividend of EUR1.60 per share, an increase of 6.7%, fully consistent with everything I said about profitable growth and EPS growth. I think it's a strong sign of our confidence in the way we are managing our journey to the future and of course recognition and rewarding the confidence and loyalty of our shareholders.

That's it for 2015. Let me now go back to our journey and move one year, leaving 2015 and going into 2016. And basically I will repeat myself in the sense that 2016 will be another step, another step for us to deliver growth that is profitable, in a consistent manner with the agenda we want to take towards 2020. And our attention in 2016 will really be placed into taking the step to ensure that our Company continues to have the relevant initiatives and take the right steps towards this mid-term destination.

This is page 34. This is a rich slide but I think it's an important one. It's an important one because it is important to read our 2016 agenda. I will start on the top of the chart with the environment and I will give you absolutely no news on it, meaning that we know we are in a VUCA world. We know it will continue. It's volatile, it's unstable and it's complex.

I think therefore the priority that we have set ourselves in rebalancing our model is really a key one because having a stronger and more resilient model will be what will help us to absorb this volatility. So if I comment on the model, in the middle of the chart, and it's something we shared with those of you who were at the investor seminar, I think today we are really focused on rebalancing our model. We have started to do so in 2015. And balancing how our model means two things.

First, growth, because we are a growth company and we continue to focus on growth. And for that we need to make sure that we are agile and we grasp all the growth opportunities that would make a good growth profitable for the future. And on the other side, to make sure that our journey is safe and secured, we have to continue to work on optimization, on efficiencies and on constantly delivering an improvement in terms of margin to make sure that what we do in terms of growth is profitable and sustainable.

On the bottom of the chart you have all our strategic levers that Emmanuel commented. I will not comment them on that now, but they are really what supports us and what makes us confident that we are on track with our journey.

So I'm back to the journey and to our agenda. And before going into 2016 guidance elements, I would like to re-insist on the fact that this journey is not about speed. It's not about reaching as quickly as possible our mid-term destination. It's about pace. It's about pace of investment. It's about pace of efficiency. And it's about being able to find the right pace in order to deliver year after year in a consistent manner profitable growth.

This will help us to also consistently deliver EPS growth. As you know and as I mentioned, we will have a start of the year that will be impacted by a high basis of comparison in water given the Mizone transition and in ELN. However, the underlying trends of all our categories remain very solid and set for growth.

So when I take into account the comment I made on the environment, when I take into account the high comps of the beginning of the year, and especially when I take into account the way we want to drive our agenda so that growth is solid and profitable, we have defined our objective as being for sales growth within a range of 3% to 5%. And for trading operating margin we have set an objective of solid improvement. Remember, 2015 was slightly up. 2016 is a solid improvement.

We are confident that this is the right base and the right balance and that it reflects our active management of the way we want to manage our profitable equation and make sure we have a safe journey going forward for Danone.

That's it for the presentation. Thank you for your attention. And we will take questions.

QUESTIONS AND ANSWERS

Regis Massuyeau - *Danone SA - IR Director*

Yes. Thanks for the mic. So we have a long list of people queuing on the phone for questions. I will ask first within the room if there is anybody -- one for the first question. Pierre?

Pierre Tegner - *Natixis Securities - Analyst*

Good morning. It's Pierre from Natixis. I have a lot of questions, but I will go on the most important one. You say that the guidance for 2015 was slightly up. Were you expecting last year 17 bps? So, just to understand, what do you mean by slightly up versus solid? That's the first question.

And the second question, are we to understand that the 20 bps margin improvement coming through the deconsolidation of Yashili will go on top of the guidance in like-for-like, in terms of margin improvement?

And the third question is on Mizone. You have explained a lot of things around the mix effect on Mizone, but we understand that in every geography, excluding China, you have the margin flattish or slightly up. Have we to understand that we have also a flat, roughly flat margin on Mizone? In that case that will be only pure mix effect, negatively impacting the water margins, or is there a slight margin decline, or a strong margin decline on Mizone? Thank you.

Cecile Cabanis - *Danone SA - CFO*

So, I guess I'll take those. First, you remember when we defined our guidance for 2015 we said the margin improvement will be slightly up, because we want to keep the flexibility in order to invest as we feel is necessary and the right rhythm into building the future. So our commitment was that we make sure that we return into a rhythm of profitable growth, which we have done for the first time since 2011, but keeping the flexibility of the level of investment, and you've seen that we have reinvested significantly 134 basis points. So, that's basically what was the overarching principle of the 2015 guidance, and yes, we say, 17 basis points, we are rightly in what we said.

When we move to 2016, solid is obviously more than slightly up. Now, I will not try to be more precise because once again I think I repeated several times that we need to make sure we take the right pace and rhythm in order to make sure we are consistently delivering profitable growth and building the future to have a safe journey to our 2020. So the only thing I will say is that solid is more than slightly up, and that we want to keep the ability to continue for this year to reinvest behind our brands and categories.

In terms of the question on Dumex's 20 basis points impact, it's a scope impact. It's a scope impact taking into account that we would deconsolidate and close the transaction during H1. When I talk about solid margin improvement I'm really about our agenda to restock profitable growth like-for-like. So this is really two things that are different.

On your last question, Pierre, regarding Mizone, we have in the margin of water both an impact of mix and an effect that the Mizone margin has declined, given the adaptation and the inventory adjustment that we did. We have worked on the cost in order to make sure that we adapt the cost base, but on H2 the margin had suffered a decline.

Regis Massuyeau - *Danone SA - IR Director*

Thank you. I think we have question now from London. So if we can go for the first question please? From Warren. Warren, you're still there?

(Multiple speakers).

Operator

Warren Ackerman, Societe Generale

Warren Ackerman - *Societe Generale - Analyst*

Good morning, guys, it's Warren Ackerman here at Soc Gen in London, a couple of questions. The first one is can we dig a bit more into the performance of European dairy by country? I think you previously said Germany, Italy and Spain were ahead of schedule but France and the UK were behind. Where are we now on that score? And then, related to that, the one parameter we didn't hear about at the investor seminar was Activia. Can you update us on what your plans are to turn that brand around in 2016? That's the first question.

And then the second question, just back on this margin point, very impressive performance in margin from operations in 2015. Cecile, my question is can you discuss your thoughts on margins by division and geography in 2016? Any phasing between H1 and H2, like you did for the top line, can you do that for the margin? And the related to that, from the investor seminar it sounded to me like there was a lot of savings coming from Danone on indirects on the One Danone project. It would be quite useful to understand and maybe quantify what the total cost savings you think Danone has in 2016, before reinvestment. That would be quite useful. Thank you.

Emmanuel Faber - *Danone SA - CEO*

Thank you, Warren, for your pretty complete scope of interest through those questions. First of all, on EU dairy, and I'll let Cecile comment, as you requested, on the margin side. We indeed had a number of improvements from a country-to-country basis. I would characterize indeed the fact that Germany is one of the countries in which we think that we have found the portfolio adjustments and the positioning of our products that will shape the future of profitable growth.

The same could be said to what we shared in the Investor Day for Italy or for Poland. These three countries though, and in particular, Germany and Poland, are facing discussions with customers on pricing that are not allowing us to fully deliver what we would like to deliver in terms of both volume and actually pricing and mix. So we're having discussions with the trade, and I think this comment could be generalized to probably the whole of Europe, on this, and this is very much on the back of the fact that in Western Europe there is a significant deflation on the price of milk.

The French market has been declining, last year, by about 2%. Our innovations have stuck pretty well. Gervais, the launch, the relaunch of the Danonino, coming from Petit Gervais to Danonino, the Danette Liegeois, which we launched in 2014, has continued to do very well this year. Danio has completed its leadership in the snacking segment here in France, in the dairy aisle.

So we're seeing innovations that work. We still have a lot to transform in France in particular, because we continue to depend too much on multipacks, this is related to our revenue growth management program -- are not delivering enough value to either our retailers, customers or to ourselves, and so we are adjusting this. So France is very much a work in progress.

Spain, as you know, has been gradually stabilizing. In total, by the way, I should say that, consistent with what we shared earlier, Activia in Europe has been clearly moving from the higher teens decline 18 months ago to a mid-single digit decline on the full-year basis last year in Europe, and Actimel started on the same basis in 2013, high teens decline, and has been stabilized last year.

What you see through the numbers that I shared in the presentation about Europe is, I repeat, a sequential improvement in volumes, which will secure our ability as Cecile shared, to stabilize sales by the end of this year, 2016, in Europe.

In terms of the big brands update, we have a rollout, a gradual rollout of the Actimel new "Stay strong" campaign positioning and product packaging in Europe in the course of 2016. And there is a bigger bang relaunch of Activia, which will take place in the late Q3, or in the course of Q3, but late Q3, in a number of countries in Europe, which we are actively preparing on the basis of the successful few experiences that we've seen on this mix.

Cecile, on the margin?

Cecile Cabanis - *Danone SA - CFO*

Yes, so on the margin, Warren, I will disappoint you a bit, because I will not guide on division and geographies. But I could add a few elements to what I shared earlier, which is obviously, if we take the deli division, we continue to be fully committed on our agenda to improve margin, towards what we shared in the investor seminar, which is an improvement, a cumulative improvement towards 2020. So we continue to be focused on that.

Second, as I said, and as you know, there will be, obviously, on water division an unbalanced profile of growth and margin, when in the first half we will have the impact of the adjustment of Mizone, and then, progressively in H2, come back to a more normalized profile of both growth and margin for water. So that would be maybe the two elements that might help you in terms of being a bit more precise.

Then, when it comes to the three boxes and how they will be in 2016, basically we will continue to have a significant but a lower improvement in margin from operations. And we will continue, as well, to reinvest behind the brands. When it comes to One Danone we have just started the deployment, so obviously, 2016 is really a year where we are focusing on putting it in place and making sure that the quality and the sustainability of what we put in place is secured. And then we have also, and we will start in 2016, what we said around milk technology, and here we will be able to have some results already in 2016.

But overall, all the initiatives that we have will be here to continue to structurally improve our margin of operations and make sure we can both reinvest and deliver profitable growth. So that's really how we will manage the overall equation of the year, taking into account as well that in terms of resource allocation the new system that we put in place, where we really, in a dynamic and very agile manner, we are looking at our resources and redeploying them every quarter, is something that helps us to well manage our investments, our optimization and our risk and our ops in order to secure that growth is profitable.

Regis Massuyeau - *Danone SA - IR Director*

Thank you. I think we have Eileen on line two, for second question from London.

Operator

Eileen Khoo, Morgan Stanley.

Eileen Khoo - *Morgan Stanley - Analyst*

Good morning, everyone. It's Eileen Khoo here, from Morgan Stanley. Thanks for taking my questions. I have two questions. The first one is for China ELN. A slight turn, I'm sorry if I missed this, but you have said 10% category growth. Is that on a compound basis? And what gives you the confidence on the growth outlook for this category?

And also, can you comment also on the pricing and promotional environment in China? I understand that you've taken cuts to your list prices yesterday, if I'm not mistaken, and could you just clarify that?

And then, secondly, at your investor seminar last November you talked about change management services. Can you just give us an update on this? So what are you thinking and where do you get (technical difficulty).

Regis Massuyeau - *Danone SA - IR Director*

Sorry, Eileen, I don't know if it's coming from the quality of the call, but could you repeat, very briefly, the three points in your question? I'm not sure we captured them properly. So, the first one was on China ELN?

Eileen Khoo - *Morgan Stanley - Analyst*

Is that any better? On China, I wanted to understand, in slide 10, where you have the 10% category growth for China ELN, is that on a compound basis? And what gives you the confidence of this strong outlook in this market? And thereafter can you comment on the pricing and promotional environment in general. I understand that you price cuts yesterday, and also why do you think that H1 will be a tougher comp? And also, just comment on the potential regulatory changes as well in China.

And then the second question was on changes to management incentives, just an update on where we are.

Regis Massuyeau - *Danone SA - IR Director*

Sorry, I did not get for this one? Changes in management incentives?

Regis Massuyeau - *Danone SA - IR Director*

Eileen, sorry, I did not capture the second point.

Eileen Khoo - *Morgan Stanley - Analyst*

My second question was on management incentives, your plans to change incentives. Can you give us an update on this?

Regis Massuyeau - *Danone SA - IR Director*

Okay. Thanks.

Emmanuel Faber - *Danone SA - CEO*

Thank you, Eileen. Sorry to get you to repeat the questions. On China ELN, so I understand there is a question on the confidence we have and the growth of the category and the e-commerce part of the business on which we rely significantly, and also a question on pricing and promotion and competitive activities.

So, on the first one, there is, I think, a pretty broad consensus on the fact that the Chinese baby food market is expected to grow around 7% and possibly more, by 2020. These predictions have been made and reconfirmed before and after the slowdown and landing of the macro in China. So, we don't have today any reason to adjust them, and these are basically the numbers that we're using in our forecast for demand overall on the category of infant milk formula, follow-ons and growing up milks for the Chinese market.

We continue to see faster growth in the international brands over all for this market. There are like 2,000 Chinese or related domestic Chinese brands, which have tactically and pragmatically entered this profitable market, and which, as you know, the Chinese government is eager to consolidate and Yashili is part of the eight Chinese champions that the government has chosen for the future consolidation on the domestic side of the market.

When it comes to our business and letting alone the Dumex business, we are entirely relying on importing brands. The image and brand of consideration of choice of our international portfolio continues to be superior, way superior to the average of international brands, in the consumer's perception, and the image. Actually, individually superior to most, if not all of our competitors, and that continues to drive superior demand for our, in particular European brands, and the ones imported from Australia and New Zealand, where we also are number one on the market.

So, this leadership of our brands in markets that are known, or have been known for being very safe from a quality and safety standpoint, and I let aside the Fonterra catastrophe, has clearly been driving the mums' choice for brands, in particular after this event.

So, we are poised for superior growth. Now, as I said, and you referred to this chart, e-commerce is growing fast. It's organized and unorganized. A lot of it is going through indirect, so through traders, which is unorganized and which the Chinese government wants to rein in. And they are clearly favoring, tolerating today and probably gradually structuring direct sales systems, and this is where we are gradually moving our business, where actually most international competitors are going, which is that we will sell directly on e-commerce platforms in a much more controlled supplied manner, avoiding all the risks that are inherent to the existing consumer-to-consumer model, which is still a big part of this e-commerce business.

Absent the question of how fast and how big is this transition, it's very clear that the demand for international brands is here to stay. So I'm not saying this is going to be consistently 10% growth and us growing even faster, but there is no reason why we should requestion today the 7%-ish number that we're using on the growth of the market in China, in total, for baby food.

Coming to pricing, you're right to say that there have been a number of promotional and pricing activities to reflect the fact that the price of milk powder has gone down significantly in China, and actually, outside of China, in a number of geographies. That has led to severe competition on the front of price. And the fact that e-commerce has been structuring gradually has also created a benchmark for the regular imported brands, which are sold offline, including in mum and baby stores.

And so, I would say, overall, competition has been moving prices down in the offline channels, to get them to a level where they're now comfortable in terms of price premium to the competitive offers of those imported version of brands on e-commerce. So I think most of the adjustment that needed to take place between the offline and the online pricing is behind us. That may continue. It's been done using tactically the hedge of the milk powder pricing, but I think this is more or less done, but yes, you're right. A lot of pricing and promotion activity is taking place.

On the incentives system, as we have moved now, into the full scope and full usage of our Beyond budget management planning and performance monitoring of the company overall, since January 1, there is no budget 2016 at Danone. There is a quarterly reallocation of resources, based on a strategic plan that gives us the big lines and the mandate of where we want to go, and they include everything that Cecile has shared about the strong profitable growth model, looking at 2020, and paving the road to that.

So, we have adjusted our incentive programs, short-term incentive programs, and we will work this year on the mid- and long-term incentive programs of our executives and directors, in order to ensure that this is aligned with this new way of managing our business.

So this has been done, and one aspect of it is that we have also enhanced, on average, the collective and solidarity of these incentives, keeping still a lot of individual incentives, because Danone is all about people and the autonomy of people and their willingness to have and be able to measure their impact, but in the same time, it has to come with discipline and reallocation.

And this means that we also have to have our people, part of the team objective, and as I think we shared, at the executive committee level we've decided that 50% of our objectives would be totally shared. So the executive team and myself have -- executive committee team, sorry, and myself, the leadership team of the Company, as half of our economic and financial incentives being just one and single. So allowing a flow, a seamless reallocation process, where are needed going to be this year.

Regis Massuyeau - *Danone SA - IR Director*

Thank you. We go for another question on line. I think we have David. David, your turn. And we go for a question in the room then.

David Hayes - *Nomura International plc - Analyst*

Good morning, all. Can you hear me?

Regis Massuyeau - *Danone SA - IR Director*

Yes, so far it's okay.

David Hayes - *Nomura International plc - Analyst*

Yes, hello. So, just two from me, just firstly, a detailed question, I guess, in terms of FX outlook, both in terms of sales and I guess, in some ways more importantly, in terms of margin impact, based on current rates as they stand. I wonder if you can give us a view on what that looks like for 2016 now.

And then secondly, obviously a nice step-up in the US business in dairy, which contributed to that sequential improvement in the division. We've seen some rather, as I understand, spurious advertising campaigns and so on from some of the competition in that marketplace. I just want to check in, I guess, in the beginning of 2016 whether those trends in the US have continued, and check in that there's been no disruption to the dairy perception in the marketplace, with some of that messaging. Thank you very much.

Regis Massuyeau - *Danone SA - IR Director*

Thanks, David. All clear.

Cecile Cabanis - *Danone SA - CFO*

So I get the FX question. So when we look at current trends basically we foresee an FX impact on sales that would be negative mid-single-digit. When it comes to margin we foresee a very slight positive impact and then in EPS a negative impact, but, as you remember, that is the impact of the scope, favorable from Dumex that would help mitigating this at EPS level.

Emmanuel Faber - *Danone SA - CEO*

On the US business, David, I think there are two things. One, to calm any concern you may have, there is no disruption. Growth continues. I think the recent market shares, the latest market shares show clearly that what I just shared about the Q4 continues to be absolutely true in the first, very early part of this year. All the competitive dynamics remain the same.

We were lucky, or whatever, last year, to elect on our NFL partnership the quarterback that's been elected the best of the whole NFL season, going to the Super Bowl final, working for the, or playing for the Carolina Panthers. Unfortunately, they lost in the final, but whatever. So, Oikos Triple Zero has been sponsored by a great guy, lots of buzz created on this, and that gives further traction.

You're pointing to an interesting point, which is that one of our competitors, indeed, launched two advertising copies against other competitors, including ourselves. We got an injunction relief that they should stop that because that wasn't something that was felt as being compliant with regulations, so that stopped, after less than a week on air.

I think, though, that it's interesting, because it tells something about the US market these days, because the basic of what I think that advertising campaign was trying to convey was the importance of naturality for US consumers. And that's clearly something that we see growing. When we look overall at how the premier mineral water market is growing in the US, 17% growth in the water market premium, that says something about this naturality and of course Evian is part of that, and should be even more part of that, as we said.

The same would apply to the baby food. You heard me say in here already how thrilled we are with the progress of Happy Family. Three times the sales of where we found it three years ago when we acquired the business. And also, the speed at which the shelf has changed in the US baby food market. Nearly 30% of the shelves now is organic, from, literally, 5% not even 10 years ago, so, a huge shift, including getting the incumbent big leader to change paradigm and launch their own version of organic.

And so that calls, again, for something that's happening in the US. And I think you'll see, and we will see more of this. Stonyfield is growing great. Our organic business in dairy is still maintaining and strengthening its leadership. Our Brown Cow business, which is a non-GMO yogurt business, is also growing fast, next to Stonyfield. And we see a lot of customers, big customers, moving into more naturality and going organic, where, frankly, we didn't see them a couple of years ago.

So I think, and I'm sorry to be so long, but as you know, we pay a lot of attention to what happens in the US, because it tells a lot, and it's an important market for us. I think this naturality trend is here to stay. And no doubt that we will look at it carefully.

Regis Massuyeau - *Danone SA - IR Director*

Thank you.

David Hayes - *Nomura International plc - Analyst*

Okay, thank you. Thank you.

Regis Massuyeau - *Danone SA - IR Director*

I don't know if here in Paris we have a question? Yes. One question. And then we go for a question on the line.

Vincent Baron - *Oddo - Analyst*

Vincent Baron, Oddo. Just one question about the margin in Europe. You said there is a price deflation in some countries. What is your assumption regarding the milk price? If there is any milk price increase in 2016, what will be the consequence for your margin? Will you be able to pass on your customers the price increase? In Europe? As you said, there is some discussions nowadays. And, in China, do you see any development in private brands on imported product, especially in the e-commerce, for ELN? Thank you.

Regis Massuyeau - *Danone SA - IR Director*

Private label, you mean?

Vincent Baron - *Oddo - Analyst*

Private as -- I mean, the products made by Chinese, but they bought abroad, asking for people to build ELN for them, in order to have their own labels, especially on the e-commerce side.

Emmanuel Faber - *Danone SA - CEO*

On the last one, there's nothing more I think that I can add. If any, there is today a shift from the consumer-to-consumer e-commerce to direct selling on internet platforms, which is going to limit any willingness of entrepreneurs to develop the kind of business that you're describing, because they would have to go, and they currently go, still a vast portion of e-commerce, as I said, is through systems like Taobao, which are consumer-to-consumer, basically, and therefore private individuals moving the goods from one side of the border to the other.

So I think that what you just described is part of what the government wants to regulate, and rein in. And of course there has been a lot of development like this in the past several years, but that's precisely the kind of thing that we see gradually eroding and converted into for the bigger brands and the bigger companies, a more structured and protectional approach of importing products on e-commerce in China.

Cecile, do you want to comment on margin?

Cecile Cabanis - *Danone SA - CFO*

So, on the milk, what we see as far as Europe is concerned is that we continue to have a favorable milk environment. But we are still expecting that someday there will be a rebound, linked to what we had previously, a chance to comment on the Russian environment that might one day change, and also on the Chinese demand that had slowed down and will come back one day.

So, overall, when it comes to price we are very much focused, and it is everything we've been doing since the end of 2014 on profitable growth revenue management. We are really building our portfolio on value, on mix. We do not see today a price adjustment across Europe. We do not see that. We continue to invest behind our brands, because also, the growth is coming through brands that are innovating and proposing value.

So there might be some adjustment in price here and there, and we will manage those. But overall, our agenda is very clear about continuing to work, as we have been doing, in 2015.

Emmanuel Faber - *Danone SA - CEO*

If I may just add one thing on this important topic, Cecile's answer is fully consistent with what I shared in my introduction about the fact that in dairy we have, in Europe, we have improved our gross margin, way beyond the improvement or the short-term gain of milk. Because we consider, we continue to consider, that milk is going to be a rare resource of which the price of which is going to grow over time. There's been no change in our overall macro on this.

How fast is this going to come back, we don't know, but we don't want to rely on this short-term opportunity, and this is why we've been working hard on making sure that our gross margin was improving beyond this in 2015. And that will be the case in 2016 too.

Regis Massuyeau - *Danone SA - IR Director*

Thank you. I think we go for the last question. We have Adam online. Adam, we go for one question, to conclude.

Adam Spielman - *Citi - Analyst*

Thank you very much. In fact, most of my questions have already been answered, but I just want to expand on it. This difference between unorganized and organized e-commerce in China, the impression I have is that this is changing much more slowly than you may have expected a year ago. And there's still not much development there, and yes, the government wants to close, or reduce unorganized, but it's all happening more slowly than perhaps one might have thought. Is that correct?

Emmanuel Faber - *Danone SA - CEO*

Well, what I think has happened, in terms of timing, is we have seen, and we are still not yet, today, clear, and I would say clear enough, on what the endgame, from a regulation standpoint, will be, nor when the regulation that will be overarching to the management of this big e-commerce business will be regulated in a coordinated, fully coordinated, consistent manner, by the Chinese authorities.

You heard us say, for several quarters now, that we are working on this. We're cooperating with the regulatory bodies and authorities in China, and the big internet platforms, of course, to design, feel, discuss, where this is all going to land, in terms of very specific processes of the whole system. And this, we are not clear, enough.

What is pretty clear is the shift that I described and that you can see in the relative growth within this big e-commerce market, from the unorganized C2C, and the more organized, but yet not finally organized, I think, directly selling on internet platforms, with shops being opened by the big brands themselves.

So this is a transition period. And that transition is happening without yet a clear visibility of what and when the endgame will be clarified. I think that's where we are in China, and that's why I would say we will continue to be as focused on this topic as we have been focused for the last 18 months or so. This is an important part of our agenda.

Regis Massuyeau - *Danone SA - IR Director*

Thank you.

Adam Spielman - *Citi - Analyst*

I have another question. I'll ask you offline. Thank you very much.

Regis Massuyeau - *Danone SA - IR Director*

Thanks, Adam. Thanks to all of you. I think we're going to stop now. Thanks for your attention this morning, for this presentation.

Emmanuel Faber - *Danone SA - CEO*

Thank you.

Cecile Cabanis - *Danone SA - CFO*

Thank you.