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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Danone First Quarter 2022 Sales Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your first speaker today, Mathilde Rodie, Head of Investor Relations. Please go ahead.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you. Good morning, everyone. Mathilde Rodie speaking, Head of Investor Relations at Danone. Thank you for being with us this morning for Danone's Q1 sales call. I'm here with our CFO, Juergen Esser, who will go through some prepared remarks before taking your questions in the second step.

And before we start, I draw your attention on the disclaimer on Page 2 related to forward-looking statements and the definition of financial indicators that we'll refer to during the presentation.

And with that, let me hand over to Juergen.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you, Mathilde, and good morning, everyone, and welcome to our Q1 results call also from my side. I hope you are all well and safe.

So only a few weeks ago that we shared our new strategic plan called Renew Danone, and today's Q1 release is very much in line and consistent with what we discussed with you on the 8th of March in Evian, making this year, year 2022, a foundational year for our company. You will see, as I guide you through the details of the Q1 results, that the financial disclosure is now first time adapted to our new organization, and therefore, our reporting structured by geographic macro zone while we are maintaining also the category reporting to provide maximum transparency on our performance.

With that little introduction, let's now get started on Page 2 with the concrete key figures of our Q1 performance. It's great to report that we had a good start into this year 2022. We delivered +7.1% sales growth on a like-for-like basis. It's a contribution from both price but also from volume and mix. As expected, our growth was more price-led, adding as much as +4.9% in this quarter. At the same moment, volume and mix had also a combined positive contribution of +2.2% this quarter, with resilient volumes across geographies and a strong contribution from products as well as from country mix.

Our teams did a remarkable job bringing those Q1 results home, despite a particularly challenging operating environment, first and foremost, with the direct and indirect consequences of the terrible war in Ukraine, but also with the continued supply chain challenges across geographies, and more recently with the impacts of COVID-related city lockdowns in China.

In this complex environment, input cost inflation remains obviously a key point of focus: global commodity indexes have continued to be extremely volatile, with lots of ups and downs over the recent days and weeks - yet, so far, not changing our full year estimates, not changing the guidance on inflation that we shared in Evian just a few weeks ago.

Going deeper into this Q1 performance of +7.1% net sales growth, on Slide #3, you will see that all zones and all categories contributed to this result. Let me remind you that you will find in the appendix of this presentation the full growth matrix of geographies times categories, providing you with a very granular reading of our topline dynamics.

Looking at it through the lens of our macro zones, both Europe as well as North America delivered another quarter of strong mid-single-digit growth, maintaining the solid momentum which they have now shown since many quarters. Our China and North Asia zone delivered an exceptional +15.3% growth in the quarter, driven by another strong competitive performance in Specialized Nutrition in China, something I will come back to in a few minutes. And finally, the Rest of the World zone that grew +7% in the quarter, notably driven by another strong quarter in Latin America and Southeast Asia.

From a category perspective, EDP is consistently delivering quarter-by-quarter, with +3.6% growth in this Q1, with both the Dairy segment as well as the Plant-based segment growing solidly. We can report strong market share performances, especially for some of our star brands like Actimel, YoPRO, Oikos or International Delight. But this quarter has also confirmed that we have clear opportunities to step up competitiveness in other brands, namely with Activia, as we are not yet delivering at its full potential.

Specialized Nutrition grew +9.5%, and it's worth noting that all subcategories were contributing to its growth, from core milk, to Pediatric Specialties, to Adult Nutrition. Market shares are globally well-oriented, notably driven by our platforms in China, but also Indonesia, and particularly by our Aptamil brand which continues to drive strong competitive performances.

And finally, our Waters category, that delivered +15.9% growth this quarter, driven by a further recovery in Europe and accelerated consumption rebounds in Latin America and Indonesia. Our brands are winning in the marketplace, especially in Europe with evian and Volvic, while Mizone confirmed the stabilization of its market shares also in this first quarter of the year.

Moving on to the next slide. In order to address the heavy inflation on our cost of goods sold, we have been activating the full playbook of mitigation actions over the last couple of weeks and months. It starts with revenue growth management and pricing that had a +4.9% positive contribution this quarter. As of today, we have passed price increases across all our categories and all our geographies. In some geographies, we even passed already several subsequent price increases.

For Europe, we closed commercial negotiations with most price increases hitting our P&L from the end of Q1 onwards. We are continuously monitoring the situation and are preparing ourselves to possibly go for further pricing rounds, should we need it.

Beyond pricing, we continue to drive product mix to the max, pushing the winners in our portfolio, but we are also rolling out our most promising premium innovations, with speed and discipline. Q1 has clearly demonstrated the opportunity ahead of us, with product mix contributing positively in each of the 3 categories.

And last but not least, we are obviously putting a lot of effort to deliver another year of record high productivity. As we shared a few weeks ago at our Capital Market Event, the ambition is to deliver higher productivity than in year 2021, through the enhancement of product specifications and formulation, through optimization of our route to market and supply chains, as well as by driving more efficiency in sourcing and manufacturing. I'm happy to report that our teams in charge of operations are doing a fantastic job and are delivering on their commitments. It means we are well on track to deliver upon our full year productivity target.

Let's now have a look at the performance of each zone in more details, starting with our largest zone in net sales, Europe, on Slide #5. Europe registered a strong start to the year, reaching +5.7% in Q1 with the contribution from volume and mix, up +3.1% and price up +2.6%.

From a category perspective, this strong performance was led by Specialized Nutrition, which registered high single-digit growth, thanks to an increasing level of demand from customers and consumers, of course, also benefiting from a relatively low base of last year.

The Waters category grew again double digit also in this quarter, confirming its sequential recovery with great market share performances, especially of the evian but also the Volvic brand. EDP delivered a softer Q1 with Plant-based growing low single digit and Dairy in flattish territories on the elevated demand basis of Q1 2020 and 2021 while being exposed to continued supply chain challenges.

From a country perspective, worth noting that France delivered a good quarter, led by double-digit growth in several brands, including Actimel, Alpro and HiPRO, but also by Aptamil and evian, with market share gains across the board.

The U.K. business also posted strong growth in Q1, driven by Aptamil and Fortimel in Specialized Nutrition, but also with strong performances in Activia, Actimel and Volvic.

And finally, the growth dynamic was a bit softer in Spain: good momentum in Specialized Nutrition, Waters and Plant-based was offset by a weaker performance in Dairy in this Q1.

Net-net, a good start of the European zone into the year.

Moving to Slide 6 and to North America. We delivered another strong quarter of growth, with revenues up +5.5% on a like-for-like basis. I would like here to particularly highlight the quality of the growth which the team delivered this quarter: we achieved the +5.5% growth with positive contribution from volumes, mix as well as price.

Our brands and categories are enjoying robust consumer demand, building on the strong deployment of our growth strategy and thanks to a further enhanced excellence in execution - from core brand growth and innovation to revenue growth management and, finally, improved in-store execution.

Yet, especially in North America, we are still facing supply chain challenges, although the situation seems to start stabilizing as service levels have been improving throughout the quarter, bringing us sequentially back to a more competitive situation.

Looking at the growth composition of this Q1, it was driven by all categories. In Yogurt, it was led by Greek with Oikos and Two Good, Probiotics with Activia, and Kids with Danimals. In Plant-based, growth was driven by our adjacencies, like yogurt, creamers and cheese, while on Plant-based beverages, we have seen an improved momentum in both growth and competitiveness: both almond and soy delivered good growth and gained market shares in their respective segments, while oat delivered strong double-digit growth. And finally, creamers, they delivered a particularly strong quarter driven by International Delight.

Let's now move on to Page 7 to discuss the performance of our China and North Asia zone. Like-for-like growth reached here +15.3%, almost entirely driven by volume and mix, that were positive at +13.2%. In China, Infant Milk Nutrition has obviously been a strong contributor to that performance, growing mid-teens, on a low base of year 2021.

When double-clicking on this IMF performance by channel, we have seen following dynamics: first, domestic channels with our China Labels posted again a strong quarter, growing well in the mid-teens range; second, our International Labels sold in controlled cross-border e-commerce platforms delivered again a very strong quarter of growth; and third, the performance of before-mentioned controlled e-commerce platforms, this largely offset the further decline of our uncontrolled indirect sales realized through Daigous and Friends & Family.

Importantly, and to sum up, we closed the quarter with another strong market share performance on both China and International Labels, which bodes well for the resilience of our Chinese Infant Milk Nutrition platform moving forward.

Outside Infant Milk formula, the Special Pediatric solutions and Adult Nutrition portfolios delivered a strong quarter of growth, both well into double-digit territory and ahead of the growth numbers of Core Milks.

And finally, Mizone, that closed the quarter slightly negative compared to last year. While market shares and fundamental consumer and distribution KPIs continue to be well-oriented, the growth in this Q1 was impacted by city lockdowns, limiting temporarily our ability to produce and ship our products in some areas of China.

Let's now move on to Slide 8 to the Rest of the World zone that delivered +7.0% like-for-like net sales growth this quarter. I could not start to review the performance of this zone without mentioning the terrible war in Ukraine. Obviously, we operate there in a highly disrupted environment, and we do everything we can to support our colleagues impacted on the ground.

From a business perspective, our platforms in CIS-T-I registered double-digit net sales growth in the quarter, yet this was entirely driven by price, while our volumes are significantly down. More concretely, in Russia, the volume decline is a consequence of the fact that we operate under restricted conditions, as we announced several weeks ago, combined with a very challenging macroeconomic context.

In Asia, Indonesia delivered high single-digit growth this quarter led by the recovery of mobility that benefited our Aqua water brands. Latin America also delivered strong mid-single-digit growth in the quarter, led by Mexico where EDP delivered strong mid-single-digit growth with stable volumes and where Waters grew double digit.

And finally, platforms in Africa and Middle East delivered mid-single-digit growth with a strong contribution from EDP, while Specialized Nutrition registered a soft Q1 on a very high base of last year.

To sum it up, let's now take a look at our Q1 net sales bridge and turning to the next slide, Slide #9. Let's start with the composition of our +7.1% like-for-like growth. As mentioned, growth was led by price, up +4.9% in the context of global pricing initiatives all around the world. At the same time, our volume and mix component remained resilient, with a positive contribution of +2.2%, thanks to a solid contribution from product and country mix, while volumes were slightly negative this quarter.

Outside of the like-for-like, currency and others had a positive impact of +3.4%, mostly driven by +2.2% tailwind from currency effects. This reflects the appreciation of several currencies against the euro, notably in the U.K., in the U.S., in Asia and in Latin America.

Next to the currencies, scope had a slightly negative effect of -0.2%, mainly resulting from the combined effects of the integration of Follow Your Heart and the disposal of the Vega brand. All in all, reported growth stood at +10.2% for the quarter, bringing our quarterly net sales to roughly EUR 6.2 billion, up from EUR 5.7 billion in Q1 last year.

Moving on to the next slide, Slide 10, and looking at the remainder of the year, we continue to expect like-for-like growth within the 3% to 5% range and recurring operating margin to be above 12%.

We have been rather precise on the different moving parts just a few weeks ago at the occasion of our Capital Market Event, and they remain very much the same. We continue to see input cost inflation around mid-teens levels, with broad-based inflation from milk and other ingredients, packaging materials, manufacturing and transportation costs. Against that backdrop, we are preparing ourselves to deliver productivity on our cost of goods sold above last year, above 5%, while aiming to deliver strong pricing contributions ahead of what we saw already in Q4 last year.

And importantly, we are confirming that we are starting our reinvestment journey, aiming to reinvest 100% of the Local First savings, in the spirit of the strategy unveiled at the CME.

I will close my prepared remarks with Chart #11. Our strategic plan with Renew Danone is now in motion, and the whole company is set to making this year 2022 the foundational year it ought to be for Danone, bringing our company back to a sustainable profitable growth model, to sustainable value creation. While we have been starting well into this year, we are focusing with Antoine and the whole Executive Committee on the implementation of our strategic road map, shifting the gears in managing our portfolio in the most value-creative manner: boosting our winners as much as we can, accelerating the core while fixing our underperformers with determination. This is supported by the start of our reinvestment program, thanks to the savings generated by Local First.

We are obviously mindful of the particularly challenging environment we navigate through, but we do also feel very energized by our plans which provide a great North Star to deliver on our targets.

And with that, let me hand it over back to Mathilde to start the Q&A session.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you. Thank you, Juergen.

QUESTIONS AND ANSWERS

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

So we'll start the Q&A session with Celine Pannuti from JPMorgan.

Celine A.H. Pannuti - *JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst*

So my 2 questions: first of all, I wanted to talk about the EDP and the volume/mix there that was negative. I would like to a bit deconstruct that because it seems that there are some, what I would call, one-offs, so logistics and supply chain, if you could talk about that. But as well, what have you seen in terms of elasticity? And how big was the contribution from Russia on that negative volume/mix?

And I'm sorry, another one is on the mix. Are you starting to see a benefit from your innovation? So yes, if you could help us understand how this has moved in Q1 and what may not be recurrent as we look in the remainder of the year?

And my second question is: let's start with maybe the supply chain as well issue in emerging markets on Specialized Nutrition, which was only flat in the quarter, if you could explain what has been behind that. And again, how should we look at this moving forward?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Celine, yes, so EDP, let's start with that point. First of all, I think we can say that EDP has been delivering a very solid Q1, +3.6%, in consistency with what we have seen over the last couple of quarters. And within EDP, Dairy has been growing low to mid-single digits, while Plant-based grew mid-single digits. So I think a very good performance and I think confirming what we were discussing in terms of perspectives for the future for this category.

When we decompose a bit this performance, North America, it's a bit more than +5%. I think a very strong performance in volume, mix and price, all 3 aspects. And this is why I was saying that we are particularly happy with the quality of that growth in this part of the world. And this is broad-based within Dairy. So it is about Oikos winning again in the marketplace, this is about Activia winning in the marketplace, a very strong performance of Coffee Creamers. And why we have been doing now several rounds of pricing, we see also the volumes holding very robustly, so I think a very good balanced performance in this part of the world.

Rest of the World: very solid dynamics overall, especially driven by Africa and Mexico, where we saw volumes contributing positively. On the other side, of course, there's a number of markets where our pricing initiatives had some impact on volumes, as expected, I would say. And here, we are particularly speaking about markets like Russia, we are speaking about markets like Turkey or Brazil, where the macroeconomic environment is the most complex.

And lastly, Europe, where we had a softer Q1 definitely in volumes and in value in EDP. Clearly, here, we had a number of supply chain challenges, in the moment where we were in the middle of the commercial negotiations with our customers. The situation on the supply chain has been sequentially improving, including in Spain, over the last couple of weeks. So we saw customer service levels coming back. We saw pretty good competitive performance of Actimel here and also of our high-protein ranges in this part of the world, both with a pretty stellar performance.

But on the other side, we continue to be unhappy with a few other elements, including Activia. We know that here, we still have a job to do.

But overall, I would say volumes holding well in Europe and North America. Mix contributing well because we see that benefit-led products in Dairy are pulling the growth, and price delivering across all the geographies in EDP. So very solid performance.

When it comes to Specialized Nutrition and Rest of the World, it's true that we had a slower start of the year, but this is really mostly driven by the very high base of comps from last year. We expect the performance to normalize as of next quarter as our competitiveness remains very strong and as the markets remain to be in growth. So I think here, we can be very positive on the outlook, as we are very positive on the outlook across the other geographies in this category.

Celine A.H. Pannuti - *JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst*

Can I just ask on EDP: is it possible for you to tell us what was the volume impact on Russia?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

So when we maybe talk more about Russia, the volumes have been declining significantly, as I was saying. This has been overcompensated by price and by our decision to ring-fence promotional activities. And so the net-net of this is positive, and it's even double-digit positive. So net sales are growing in double-digit territories in CIS-T-I, but volumes are clearly significantly down.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

The next question is from Guillaume Delmas from UBS.

Guillaume Gerard Vincent Delmas - *UBS Investment Bank, Research Division - Analyst*

Two questions for me. The first one, Juergen, is on your outlook, because you had a very strong start to the year, but you have not changed your like-for-like sales growth guidance for 2022. So my first question is: are you just being conservative, which is probably a good thing given how volatile the environment is? Or does your 3% to 5% guidance signal some, I don't know, expected slowdown in a couple of divisions, I mean, particularly Waters, Early Life Nutrition, as you begin lapping a more normal basis of comparison from Q2 or Q3 in the case of ELN China?

And then my second question is going back to EDP, but zooming in on Plant-based products. I mean it seems Q1 2022 was one of the weakest quarters in Plant-based since you acquired WhiteWave. So just wondering if you could shed a little bit more light on this softness. Is it all down to supply chain challenges? Or any other important factors we should be aware of such as a slowdown in category growth, maybe still a few challenging countries from a market share standpoint and maybe some share losses still in the oat?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Guillaume, you are absolutely right when you are saying that we are maintaining our guidance on the top line, 3% to 5%. And I think the good start in the year is confirming this guidance. As you say, very important to keep in mind that Q1 of this year was the last quarter where we were running against a low base, the COVID-impacted base. So from Q2 onwards, the base will be much more demanding and much more comparable, and this is true for all the categories we are playing in.

Entering into the Q2, we see, however, good and robust dynamics across the categories. And so we expect to be in growth also in Q2, and this is true for other categories and other zones. I think key points for the year to go, as you were mentioning, Guillaume, is indeed volume elasticity. We have done a number of pricings in the different geographies. In Europe, we just implemented it, so it's just hitting the shelves. And so it's true that the key point of attention for us is indeed to manage volume elasticities moving forward. So we think that the 3% to 5% guidance makes a lot of sense.

Moving on to Plant-based, I would say a very different picture geography by geography. We saw good, I would say, acceleration in North America where the supply challenges released a little bit. And we immediately saw the benefits of it, the benefits in terms of net sales growth, but also the benefits in terms of competitiveness because we have been growing shares in the different subsegments, so I would say a pretty good picture.

In Europe, it's a more mixed bag. In Europe, we've again constrained by a number of supply chain challenges, which didn't help the performance. It's also true that Q1 2022 is running on a very high base of comparison versus Q1 2021, which makes that the category is also a bit softer than what we used to see in the previous quarter.

And last but not least, when we talk about competitive performance, I think we can be happy in a number of countries with our competitive performance, but there's also still a job to do in others, namely in the U.K. So a mixed bag overall, which does not change what we have been discussing at the Capital Market Event, which is that we are very confident on the perspectives of this category moving forward and that we are believing that we have fantastic assets to capture the growth this category is offering to us.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

The next question is from Jon Cox, Kepler.

Jon Cox - *Kepler Cheuvreux, Research Division - Head of Swiss Equities and Head of European Consumer Equities*

A couple of questions for you. The first one, really, just following on from Celine and what's going on with the volume and trying to strip out the volume impact in Dairy from that situation in the Ukraine and Russia and CIS. If you look at that Rest of the World segment, the volume/mix is down 2.3%. I assume that last year in that segment, CIS would be about 10% of that overall business, maybe slightly lower, but somewhere around there. You seem to be saying it's down substantially the volume. I'm just wondering how much? I guess it will be something like 10% or 12% or even more than that. So then if we strip that out, you could obviously see volume/mix in that segment would be positive, excluding what's happening in the CIS. That's the first question.

Second question is just really on strategy and what you're up to. You're saying, going on with the strategy, but we're not seeing much in terms of portfolio reshaping yet or much to that effect. However, there are quite a few reports in the French press this morning about Lactalis may be interested in parts of the business. I wonder if you can sort of just discuss where you are on strategy on that and in terms of the portfolio review, specifically in the sort of like more commoditized parts of the Dairy segment.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Yes. Jon, first, on the Rest of the World and the volume decline, you are absolutely right that as Russia has significant weight within that zone, and with Russian volumes declining significantly, that's weighing a lot on the total reported numbers. This is why I was mentioning that in the vast majority of our geographies, and this includes the Rest of the World, volumes are holding very well. We have a few exceptions and namely our Russia, Turkey and Brazil, where volumes are going down. But in the vast majority of other countries, we don't see that. We see that volumes are particularly robust. So I think that's a good sign. Still, we are very vigilant monitoring the situation moving forward.

When I say that Q1 is very much in line with the strategy unveiled at the CME, I think that when you look at the growth and the way we have been focusing our resources, I think it's extremely consistent because we have been focusing on boosting the winners, and I think that's playing out very well for us. And it's demonstrated in the fact that the mix is contributing very strongly.

And by the way, when I talk about mix, I speak really about product mix, which has been the main driver. And here, product mix is contributing positive in each of the categories and each of the zones. So this is not only one zone or one category which is pulling product mix. It's really across the board. And this is also I think because we are refocusing our resources where they have the biggest impact.

At the same moment, we are obviously working very actively on fixing the underperformers. We have been discussing that at length a couple of weeks ago. Obviously, we take the necessary time in order to find the right solutions, fixing the business models or finding alternative solutions. And we will update you as soon as there should be something new to say.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Next question is from Warren Ackerman from Barclays.

Warren Ackerman - *Barclays Bank PLC, Research Division - Head of European Consumer Equity Research*

Warren here at Barclays. I also got a couple as well. First one, Juergen, can you talk about inflation on COGS? You say in your slides mid-teens, but can you break that out? I mean Dairy prices have surged in recent weeks. Plastic hedging, I think, has rolled over for you. But you're not changing the mid-teens guidance. So what is compensating? And then related to that, can you discuss the moving parts to margin phasing H1, H2? Because it seems consensus is quite even H1, H2, but I thought it would be more unbalanced in H1 versus H2. Can you help us a little bit on the moving parts?

And then secondly, can we dig into China Infant Nutrition? I mean this is the third consecutive quarter of double-digit growth, which is very impressive. How much of that is due to kind of channel mix benefits moving away from Daigou versus underlying share gains? And you are taking share. Where is that share coming from? And how long can you keep growing double digit in China?

And then if I can just squeeze in a third one quickly, just on supply chain challenges, are you able to say that the issue has troughed in Q1? And what indicators do you have or visibility do you have that is the case?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Let me start with inflation. You are absolutely right that we continue to expect the COGS inflation at mid-teens level. When we were together 3-4 weeks ago in Evian, we said in the corridor between low to mid-teens, but at the higher end of this corridor. And yes, we confirm basically that we are at the higher end of this corridor at mid-13s level.

We have seen a lot of volatility in the market, in global commodity markets, a lot of ups and downs. When you look where the U.S. dollar has been at the moment of the Capital Market Event I think it was more than $120. Today, we are below $110. When you see how the SMPs or mixed corridor prices have evolved, they've been strongly up, spread up, and we have been discussing at the CME, and now they are down exactly to the level of

4 weeks ago. So volatility is extremely high. Yet, net-net, in the moment, we see our expectations are exactly the same as the expectations we had a couple of weeks ago.

Highest pressure continues to come from material costs and here especially from milk, but also from some specific ingredients like starch and, as you say, from packaging of these plastics, but also from aluminum and paper-based packaging. But I would say there's not a lot of news on that front.

When it comes to margin evolution H1, H2, look, we do not guide on the particular H1 margin. From what we know today, there's probably 2 elements which are important. One, we have on one side the tailwind from a positive category mix, and you saw the very strong performance of Specialized Nutrition in Q1, which we have. On the other side, we have a clear headwind with a progressively increasing pricing effect, especially because of Europe where the pricing is just hitting our P&L basically from Q2 onwards. Net-net, operating margin could be a little bit more skewed towards H2 with what we know today. So I think that's where we are today.

On your question on China IMF, I would say, indeed, a very strong performance and a very strong performance in the 2 channels we are focusing on, which is the China Label where we are growing double digits and we are winning in market shares, and very strong continuity to what we have seen in the last couple of quarters. Also, a very good performance in the controlled channels on e-commerce for International Labels, which is, and this is the good news, offsetting the further decline of the informal channels, which is getting to smaller and smaller weight in our total IMF net sales in China. It's now below 20%, and as we have been discussing at several occasions, we would expect that to further decrease. So net-net, we are winning on China Labels, we are winning on International Labels and we are reinvesting to making sure that the Aptamil brand remains one of the key and leading brands in the market.

When it comes to your last point, which is on the supply chain challenges, look, that's something where the recent weeks have been going better. And when I mean going better, I think that we are back to a more competitive situation, especially in North America. However, the situation remains extremely tense, which is true on some availability of materials, but also on transport. The recent city lockdowns in China may not have neither the global supply chain, so we are monitoring that with a lot of care. And I would expect that the next couple of weeks will stay with a number of ups and downs.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

The next question is from Bruno Monteyne from Bernstein.

Bruno Monteyne - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

My first one, Juergen and Mathilde, is about the sort of pricing in Europe, which is still much below the other ones at 2.6%, well below where you'd expect it to be. Now clearly, commodity started rising a year ago in March last year. And so somehow your ability to pass through pricing in Europe seems to be well delayed, and no pricing contracts are different in Europe. But still, we're now already sort of April 2022, more than a year behind the commodity increases.

Is it simply that something changed in Europe, that simply makes it so slow to pass-through pricing? Is there a change to what it would have been years ago? Are they simply refusing more because there's more private label and better discounts in Europe? Can you sort of comment a bit more whether the level of delay in pass-through price in Europe, what is causing that and what has changed over time?

My second question is: I think you did say somewhat during your prepared remarks that EDP Europe is off to a good start, obviously, around 0% organic growth. I wonder what a bad start would have been. And so given where the U.S. is versus EDP in Europe, what would be the time line you think you would need for your innovation, your restructuring plan to work to get Europe sort of out of the 0% organic growth despite having all the inflationary potential tailwinds in there?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Yes. Bruno, let's start with your first question on pricing in Europe. It's true that in Europe, we materialized pricing of 2.5% for Q1. The reality being that this does not yet really reflect the price increases we implemented in the course of this quarter. As I said, most of the price increases will just hit the P&L from Q2 onwards. And to that extent, it's not a surprise that we are below what we see in other geographies and that we are, for example, below what we see in North America because in North America, we implemented our price increases already at the back end of the last quarter. So I would say we are very much in line with our internal expectation of price increase in Europe.

What is, I think, important to note, on top of the price increase, that we are making very good progress on driving the mix in the right direction, and this is what we are seeing in all the categories in Europe. And as we are investing into our winners, we see also market shares evolving in the right direction. So I think there's a number of elements which go in the right direction. Yes, there are still a lot of elements to do, and we are obviously very careful and mindful of the competition from private label.

When you look at the year-to-date performance of private label, interestingly, private label is not winning in the market, neither in most of the European markets nor in North America, as much as inflation is a topic for the industry, is a topic for private label. And as private label is usually running at very tiny margins, they have even more need of increasing their prices than branded product manufacturers.

On your second question on EDP Europe, I said, indeed, we are off to a good start in Europe, but not in EDP Europe. I would not dare to say that with a flattish performance in Dairy. So here, I think it's really a mixed bag. This is what I was mentioning. I think there's a number of good elements. We are making good progress on boosting a number of our winners, including Actimel and including especially our high-protein products, which are really delivering, again, a stellar performance. But at the same moment, we still have homework to do, and this is not surprising. This is what we discussed at the CME on our indulgence platforms and on Activia. And here, we are reworking the mixes in order to make sure that we can accelerate as we go through the year.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

The next question is from James Edwardes Jones from RBC.

James Edwardes Jones - *RBC Capital Markets, Research Division - MD & Analyst*

Juergen, how do you assess the reputational risk that you're running by continuing to do business in Russia? And secondly, can you quantify the mix, give us some idea of the contribution of mix in Q1 and how that compares with recent years? And actually, if I can just slip in a third one, cheeky. Were you surprised of the strength of Q1's performance, especially the volume performance?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

James, first, I think that we are going in the reverse order. On Q1 volumes, I think it's confirming, especially for Europe and North America, that we have very strong brands and categories, which are relevant to the consumer also at that moment. As we are increasing the price, it's very important that we are reinvesting into our brand. So this is what we have started in Q1 in order to make sure that we maintain and we get to a product superiority and that we are supporting our brands and categories in this very inflationary environment. So I think, indeed, a good start into the year also from a volume standpoint.

When it comes to mix, when we are saying that volume/mix as a total was up by 2.2% in Q1, this volume is overall slightly down. The biggest mix contributor was product mix, and I think that's indeed an element which is delivering well as we speak. And while in the past, it was more country-centric and a lot about China and IMF, I think the good element of Q1 is that we see mix coming really broad-based in all categories and all zones: in Specialized Nutrition, a lot from the Special Pediatrics, I would say, in Dairy, a lot through benefit-led products like Actimel, and in Waters, a lot through the recovery of small formats. So it's really a broad-based mix contribution, and this is also what we want to focus on as we travel through the remainder of the year by reinvesting in our winners and reinvesting into our scalable premium innovations.

When it comes to Russia, there is not a lot to say on top of what we stated already over the last few weeks. Above all, this is a tragedy and something we would hope would never happen again in Europe. And we are very clear that we strongly condemn the invasion of Ukraine by Russia with no ambiguity. Our position is unchanged vis-a-vis what you have seen. And today in the press release, we are also confirming that. And I think you have also seen that we have decided to significantly adapt our operations in Russia. Obviously, we monitor the situation very closely, and we'll let you know as soon as there is something new to say.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

The next question is from Pascal Boll, Stifel.

Pascal Boll - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Juergen, elaborate slightly more on the volume/mix effect in Plant-based. Obviously, in EDP, it was down -1.8%. But how does this apply to Plant-based overall? And what is your strategy? Because in my understanding, it's a quite competitive market. And do you try to win more market share? Or are you aggressively here on pricing? What's your stance?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Yes. Pascal, on Plant-based, we are pursuing the strategy which we discussed at the Capital Market Event, which is really going for premium innovations, benefit-led innovations in that category as much as not only driving our Plant-based mix, but also the adjacencies, adjacencies in yogurt, in creamers, in ice cream. And this is starting to work in North America. As soon as here, the supply chain challenges were released over the last few weeks, we were able to activate in-store our premium innovations, especially what we did with Next Milk on Silk, but also activating our restage propositions on oat. And we saw good consumer feedback. We saw market shares going into the right direction. We saw oat growing double digits.

In Europe, on Alpro, as I mentioned, it's a more mixed bag, but also because here, we were under more supply chain challenges in Q1. But here, we are going for the same strategy, which is differentiation and leveraging the power of our brands. So I believe we are on a good track. But still, there is a lot of things to do to really capture the growth the market is offering to us.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

And the last question is from Jeremy Fialko from HSBC.

Jeremy David Fialko - *HSBC, Research Division - Head of Consumer Staples Research of Europe*

I've just got one follow-up question. Could you give us a little bit more detail on the outlook for the business in China Infant Formula? So just to give a sense of to what degree benefited from the low base in Q1. And I guess, how do you think of some of the moving parts going forward in terms of, I guess, sort of pricing, mix, market share gains and then also the effects of the lower birth rate? So just to give a bit more color on what you see for that business over the balance in Q2 and over the balance of the year.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Jeremy, you are absolutely right to say that Q1, as much as the last quarters of 2021, we have been benefiting from a relatively low base. And so this is why also we were in double-digit growth in the last quarter. What is very important is that we are not only technically benefiting from a low base, but that also competitiveness remains very strong. And I was mentioning that we are winning share in the 2 channels we are focusing on, China Label and the controlled international e-commerce label.

From Q2 onwards, we would expect a more, let's say, progressive normalization of the base of comparison, you're absolutely right. And hence, probably also net sales trend for us that we get sequentially closer to the category momentum. And this is what we discussed also in Evian a few weeks back that from a category standpoint, and here, there's absolutely no change in the view we see the category, and the category probably this year will be having a rather flattish momentum.

For us, what is the focus is to drive the Aptamil brand, and this is across different channels, but not only on the core mix, which today looks very well for us, but also on the Adult Nutrition and Special Pediatrics. In Q1, these 2 elements, Adult and Special Pediatrics, grew faster than our core mix. And we believe that this is something we can also achieve as we move through the year. So overall, an outlook for the market which has not changed; overall, a comparison base which will be more demanding; but also overall, a market where we feel that we have a strong asset and where we are going to invest as we travel through the next quarters.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you. So with that, I think we end the Q&A session. Thank you, everyone, for your question and your presence today on that call.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you very much, everybody. Have a good day. Talk to you soon.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.
