

Danone

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Unidentified Participant: Good morning, everybody in the audience who are joining us. Thanks for being here. And it's a great pleasure to have today with us Antoine de Saint-Affrique, the CEO of Danone, the very new – exactly one year new CEO, I think. Thanks, Antoine, for joining us today.

Antoine de Saint-Affrique: Pleasure.

Unidentified Participant: So, for the audience, I don't know if you've gotten used to the pigeonhole thing. You should have on your floor plan, your little booklet you have and things, a QR code which you can scan to ask questions during the sessions. At the latter part of the session, I'll be sort of going through them here on my screen. So, please, if you can QR scan, if you want to ask a question, it makes it a lot easier for us to get all the questions together.

Now, back to you, Antoine, with that out of the way. ESG. Let's start straight going in there. You've clearly been on the forefront of it historically. I'm thinking about *Entreprise a Mission*, B Corp, and all of that. But there has been a bit of a backlash against ESG, or at least certain forms of it, and also a realization that it can backfire. I mean, just think about Ben & Jerry's at Unilever being just one recent example.

You also in your root causing at the Capital Markets Day, you did identify issues historically with ESG execution. I think you called it disconnected purpose, saying that historically there was insufficient contribution from purpose to value creation at Danone. And I really would like you to elaborate a little bit deeper on that. And also for the broader audience, what did you learn about ESG, whether it either goes too far, doesn't really deliver what you want? Can you elaborate on that and sort of tell us more about how to think about other companies as well?

Antoine de Saint-Affrique: I mean, I think the way I think about ESG – and I think the way, by the way, the company thinks about ESG and that was in the roots of Danone – is "and." Performance *and* sustainability go hand in hand. I mean, performance without sustainability very clearly has no future. I mean, we know it every day and we see it every day a little more. But sustainability without performance has no impact. So, it's not one or the other. It's the two together.

And so, the name of the game for us – and that's why I said we need to link sustainability and performance – is to really look at sustainability not only as a moral imperative, which it is as well, but as a key strategic stake and as a key feature for performance. If your entire business model is geared on health through food and, therefore, depends on foods, making sure that there is a vibrant agriculture, that there is vibrant nature, that our farmers are making a living is obviously a matter of sustainability. It's a fundamental matter of performance for your company. Making sure that what you sell, the way you sell it, is

socially and environmentally acceptable when you are in consumer goods is not only something that has to do with sustainability but has fundamentally to do with the longer-term performance of your business.

So, if you look five years out, I mean, sustainability is as much a strategic imperative, but you need to make sure it's focused and linked to the heart of your business. And therefore, you focus on where you have either a disproportionate responsibility or disproportionate impact, and you treat it as a strategic stake. The minute you're capable of doing it faster and better than the rest of the competition, number one, you create a competitive advantage; number two, you force the rest of the industry to align on yourself.

So, back to the start of your question, it's not sustainability for the sake of it, even if sustainability is extremely important. It is sustainability for a purpose, to make the business better while also as a business having more impact.

Unidentified Participant: Now, the way you describe sustainability there is quite self-interested in sustainability, because you do it because you can't be successful commercially if you're not sustainable. But then in some of your activities, I struggle with the self-interested element of your (inaudible). So, when I think about B Corp, when I think about *Entreprise à Mission*, and when I read the documents about B Corp, and all of that, it really goes above and beyond about making society a better place, dealing with income inequality, a vast variety of issues.

And so, why – I can totally go about the self-interest in sustainability point of view – but why go above and beyond that? I mean, isn't a B Corp, half a charitable kind of ambition? Because then you have to reallocate the resources of your own company, not just with sustainability, but to achieve other societal goals.

Antoine de Saint-Affrique: I think the reality of B Corp or *Société à Mission*, for that matter is that there is a actually alignment between the self-interest and the moral imperative. It is a flag. It is a fantastic way to attract people. It is a fantastic way to differentiate yourself for the company. It is a great way to measure yourself, as well. So, it's not either/or. Again, it's not either self-interest or impact. It's both at the same time converging and overlapping there.

Unidentified Participant: But at which point –? Sorry to keep pushing on that, because I know you weren't that deeply involved. But B Corp goes beyond that, right? It's do good, without necessarily be so beneficial. Thinking about Ben & Jerry's and trying to solve peace in Palestine as a problem. They think, like, is that a self-interested move? So, at which point do you feel does ESG need to come up with – how much self-interest does there need to be before you decide to tackle an issue as a B Corp?

Antoine de Saint-Affrique: I think that's probably a bigger debate. We shouldn't – and that's probably one of the unique features of Danone – oppose sustainability and performance and put them in two different roles. And proving that you can have both and that actually sustainability is contributing to your performance is something that is unique with Danone. It's something which I think, by the way, is the future of companies. Once again, if there is no farmers, if there is no farmland, if there is no rain, there won't be food for the people. So, there is a global responsibility and there is a moral imperative, but there is also an economic self-interest. And it's the two at the same time. It's not one or the other. And it's not one opposed to the other.

I think one of the very unique features of Danone is being a *ble* – and that was the case in the past and hopefully it will be the case in the future – being able to prove that one is not opposed to that and that it is not about a trade-off, but actually one can feed the other and can feed the other from an economic standpoint. If you are better than anybody else at

tackling regenerative agriculture, if you are better than anybody else at tackling the packaging challenges, you do good for the planet, but you also create a competitive advantage. And by the way, in creating a competitive advantage, you do good for the planet because people will align to you.

The other thing is you attract better talents. And I think the passion of the Danoners and the commitment of the Danoners, including in the crisis we went through, is a great example of that.

Unidentified Participant: So, maybe back to the words "a disconnected purpose," which is the words you initially told. So, purpose, but it has to have a connection ultimately to where you want to go.

Antoine de Saint-Affrique: Yes, because you want purpose and impact. It goes back to performance without sustainability has no future, in my view, clearly. And every day is proving that. But sustainability without performance has very limited impact.

Unidentified Participant: So, as we think about the drivers behind ESG, historically people have thought the board, the company, the family was strongly behind that. It was quite a big surprising and rapid move to replace the entire board of Danone and sort of senior leadership. Can you just tell a bit about the importance of that and the role that that kind of whole change at governance how that's part of this and what role that's playing for you at Danone?

Antoine de Saint-Affrique: Well, I mean, as you know, there was a major and a very public governance crisis in Danone, with a publicly very divided board. I think the board made an extremely courageous decision and one that was in the interest of the company, which was to decide to renew itself entirely over a period of about 18 months.

What you have seen is the first wave of renewal, with profiles of people that are people with broad international experience, with real credentials in the field of business and for solving the field of business and sustainability. And I mean, you could expect as we renew the second half of the board that you have the same quality. And we will get – and we're already are – into a place where the board is a real sparring partner on everything and is looking at the way we allocate capital, the way we allocate our resource, through the lens of "how do we create value in a way that is sustainable over the long run."

Unidentified Participant: Now, you're in a turnaround situation. And when investors talk with me, they say it can only work, the Danone turnaround, if you can make yogurt exciting again. And clearly...

Antoine de Saint-Affrique: I find it, by the way, very exciting.

Unidentified Participant: So do I, but it's not showing in the sales numbers just yet, Antoine. And then the question is, obviously, where is the potential for excitement in yogurt? And when I look here in the U.K., and I look at Nielsen data, it's quite obvious that premium yogurt sells fast. I mean, we see premium is doing better in many, many categories, whether it's coffee, chocolate, and many other parts.

Now, your presence in premium isn't very strong, in my view, if I look at your price points, Oikos is getting a little bit in there but seems to be better positioned players. Do you really have –? (A) do you agree that premiumization will be an essential part? And (b) do you really think your current brands have the brand equity to be players on the premium end of yogurt?

Antoine de Saint-Affrique: So, the answer is yes, but let me elaborate on that. I mean, the first thing is if you look at the U.S., which is probably a good example of where we should be going, actually, our

entire yogurt portfolio is doing extremely well both in terms of growth, in terms of market share, with the right mix, by the way, of premiumization, in some cases, but also making sure that the things that are less premium remain extraordinarily relevant. So, it's not a game of premiumization. It's also a game of differentiation at every price point, which in some cases is something that we have forgotten.

So, I think the first message is we've proven it can work in the U.S. It is work in progress in a part of the other geographies.

I think the second message is about 60% of our portfolio is highly differentiated. I mean, it is about immunity. It is about gut health. So, it is with benefits, which in some places, in some instance, we need to better claim, but benefits that are clearly differentiated and clearly relevant to the consumer and drive in term for a premium in the segments in which they compete.

The third point is, in a number of cases, we haven't done the job properly. I mean, everybody forgets that something that was a proof some years ago, which is a Danone yogurt is not a yogurt; it's a Danone. And it's a Danone because of the uniqueness of the ferments, because what the ferments do in terms of releasing all the power and all the goodness of what's in the milk. And it makes a difference. And by the way, it makes a difference at an affordable price point.

When I was a kid, like most of the French kids, you'd be given a Danone, number one, because it would help calcium; number two, because whenever you are sick it would help restore internal flora. We forgot claiming the goodness of even our more basic products to make sure that at every price points they are differentiated. Which is a job that we are restarting to do and we do it better in some places and not yet in some others. But that's the direction of travel.

And still, by the way, doing very well with innovation and very premium products in yogurt, like what we do with HiPRO or YoPRO, like what we do with Actimel, and in some countries with Activia, but Activia is good in some, not so good in others.

Unidentified Participant: And Oikos, it looks a bit more premium in the U.S. than over here. Are you aiming that to be part of the kind of more premium brand?

Antoine de Saint-Affrique: Well, everything that is around proteins is a fantastic trend, and there we have been a pioneer. We had virtually no business three years ago. It's a business that is more than €400 million today. Extraordinarily differentiated, premium and fast growing. And there, it's back in some ways through the basics of consumer goods. I mean, first thing is there is a protein trend, with younger people that want to build up their muscles, with people my age that want to slow down the decay of their muscle. Number two, the offering on the market was not satisfactory. You buy big pouches of whey that taste horrible.

So, you take a trend. You execute in a way that is easy to take and extremely pleasant. I encourage you to taste the product if you haven't; they are extremely pleasant. And executed it in a totally differentiated way: black packaging, cutting on shelf, with formats that are thought for people that are on the go. And guess what? I mean, then you tap into the trend and you create something that is a real market, marketing but also economical success.

Unidentified Participant: So, you've mentioned the protein space. We've talked about premiumization. Any other sub-segments of yogurt that you think are particularly rich for higher growth?

Antoine de Saint-Affrique: Well, immunity is, and we've seen that with Actimel. It's something that is extremely relevant and where there are still plenty of ways to grow.

Gut health – in different forms, by the way, which can be trendy, which was Activia, can be the balance of your internal flora or it can be digestion – is something that is extremely relevant as well. But at the other end of the spectrum – and we shouldn't forget that – I mean, pleasure is part of health. If I don't have a Danette in my fridge, I've got a riot at home.

So, making sure that you also address segments that are fundamental needs of people, even more so in crisis time, and you do it in a way that offers the best experience at the right value is as fundamental and as differentiating, by the way, as offering health benefits.

Unidentified Participant: Part of your strategy was very much about investing in A&P – you sort of criticized the work done previously – and in innovation. Any highlights of, like, in A&P, has that started? Because you rightly say Europe is not growing as fast as U.S. Is that A&P landing? Where can we see that increased A&P spend today where you most need it?

Antoine de Saint-Affrique: So, I mean, you have seen in the H1 results we started spending absolute money a little more, but it's not only – and we'll keep spending more, by the way, moving forward; and we've said it – but it's not only our spending more, even if spending more is absolutely needed, it's also spending better. So, making sure that the balance between our working media and our non-working media is in a different space than today. Which goes hand in hand, by the way, with stopping the proliferation of sub-scale innovation so that at least you have less things, you support them for longer. And by the way, you use your copies better.

It's also about making our choices on where to invest. In countries where or on some mixes where we are clearly underperforming – so, things that are in the 25% we designed or we showed as underperforming – there, we in some cases need to fix the performance, on the basics of the performance, before putting money. So, you move money from left to right in a much more intentional way.

So, more money, for sure. Also, money better spent, with clearer choice.

Unidentified Participant: But on a scale of, like, 100%, how far are you in the A&P spend? Or how many years will it take to get to the level where you want to be? Are you at 20% of the ramp-up you want to do? 50%?

Antoine de Saint-Affrique: Well, I think it will take us the duration of the guidance. So, the three years of the guidance. And I wouldn't phase it, for obvious reasons. Which is you need to adapt to also the circumstances of the time. I mean, we've stopped investing in Russia. We've had the discussion in January, I would have had a different view. But the direction of travel is very clear, and the magnitude of commitment is very clear as well.

Unidentified Participant: And similarly, on innovation, where I presume it might be a longer lead time before you get the innovations you want, can you pinpoint examples of where innovation since your new plan is starting to turn performance?

Antoine de Saint-Affrique: Well, the – and I regret to see the wrong brands on the table – but you'd have evian Sparkling, which you can find now in a number of restaurants in the U.K. I mean, it seems obvious. It's very difficult, by the way, to do an evian Sparkling with the tastes of evian. It suddenly opens you a whole new world of premium restaurants and premium waters. So, there are things that you can do in the short term.

But there are things also that will require, I mean, longer investments and longer term. I think one of the most important things that we made, besides reinvesting in R&D, is change the structure of the company by appointing a head of R&D at the Executive Committee, which is the first time I think in the history of the company, with a very, very clear mandate, which is to build not only the short term – more so, the longer-term innovation pipeline – to tap into the unique pockets that we have. I mean, we have knowledge in the field of pre and probiotics that is incredible. We have knowledge in the field of gut health that is incredible. We have a bank of ferments that is incredible. Few people realize – all of you know, but few people realize – that with what we do in medical nutrition, either helping oncology recovery or addressing metabolics, there is a depth of knowledge that is extraordinary.

The name of the game is how do you leverage it across? How do you also plan for the next surge in a way that is much more systematic? And how do we make sure that we move from a flurry of very tactical innovations to the right mix between some tactical innovations – because you will still need tactical innovations – but much more structuring innovations, the likes of what we're doing with our proteins?

Unidentified Participant: Now, one conundrum on Danone for me has always been that in the U.S., your performance is strong – holding up against private label, different price points – but Europe has been much poorer. And this doesn't seem to be just the lower-growth economy. Your relative performance doesn't seem to be as good. Surely, the European colleagues have seen the performance in the U.S. for quite a few years. What is holding them back? So, what explains that performance, that whole difference in Europe versus the U.S.? It's not a new issue. What is holding back a kind of a catch-up between the regions?

Antoine de Saint-Affrique: Well, the first thing is I think over the last two years, the U.S. have done a very, very good job. I mean, they were ahead of the curve in bringing the entire company together. And so, moving from being very focused on restructuring an organization and back into the market. So, there is, I mean, a phasing direction. Let's not forget that Europe – I mean, the company, in general; but Europe, in particular – has been in permanent restructuring for a long time. The last one, which was the biggest one from a magnitude standpoint, taking place last January. So, you need to refocus people on the markets from where they were, which is "which organization do I belong," "what are my reporting lines," and all the rest of it. That's the first dimension.

The second dimension is Europe is not Europe. You have very different degrees of performance in different parts of Europe. And it's a mix of heritage. It's a mix of quality of management, in some cases, or of absence of opportunity and focus. So, there is not one response to Europe.

You have your thoughts of Europe. If I'm looking at my Polish business, I mean, what a great business. Business here in the U.K., actually, is a pretty strong business. You've heard me say very publicly – so, it won't be a surprise to anyone – that we structurally underperformed in Spain, where we had, by the way, a huge rotation of management, both organizations, over the last numbers of years.

So, you're absolutely right. We have underperformed in a large part of Europe, and it shows, on average. Europe is late versus the U.S. in terms of stability, but the direction of travel is very clear now.

Unidentified Participant: Now, from a macroeconomic point of view, everybody is worried about down-trading Quarter One and Quarter Two, everybody relieved of how good price elasticities were

including in Danone. Looking at the last few months of Nielsen data, private label is making more inroads, particularly in the Danone categories, specifically in Europe, but even the U.S. has started to change. How do you think about down-trading? Do you recognize, first of all, those patterns we see in Nielsen? And also, how will you respond to those? Is it all about keeping market share and rolling back your price increases? And – the obvious knock-on – could a delay of sort on your margin commitments you've done for the year? I know there's a lot in there.

Antoine de Saint-Affrique: I mean, the first thing is you don't see something uniform. So, you see relatively low price elasticity in the U.S. You see huge price elasticity in places like Russia. And you see very different patterns in Europe, and those patterns are a mix of things. It's a mix of the strengths of your brand and, therefore, how differentiated is your brand. And also, the mix of channels and the strength of such type of retailers. So, the picture, you cannot even average the picture at European level. You need to look one step down.

On to Nielsen, I would go to the same place, which is look one step down. In some places, you see either discounters or – taking Spain, as I was talking Spain – Mercadona are doing very well. But outside Mercadona, you don't see so much more elasticity.

In some places – and Nielsen doesn't capture it directly, but it shows as an indirect, you have conflict with distributors. So, you're out of shelf for a couple of weeks. So, obviously, you see the private label of all the players going up. Is it elasticity? Probably not. It's just your presence in the shelf.

So, I would just take – I mean, the answer is there is no one answer. It's really country by country. And I would take Nielsen with a pinch of salt, because you need to go one or two levels down through to analyze.

Then, the question is how do you get at this. You don't translate inflation only into price. I mean, you really work on the full keyboard, and you obviously work on your productivity. You obviously work SKU by SKU on all the options you have at your disposal. You do really revenue growth management. There are some SKUs that were structurally underpriced, or where you have the muscles, and where you have the consumer relevance. You might play the price higher there. Some SKUs that are less strong, either because they are less differentiated or less relevant, you increase them less. You play on the degree of promotion next to the degree of price. So, you play the very, very sophisticated way at a very, very granular level.

The other thing that you do – and in some ways, the crisis is good to that extent – is it is one more opportunity to simplify. So, making sure that less innovations of better quality. Making sure that your weaker SKUs, you cut. Making sure also that you will look at what's relevant to the consumer. And you double down on what's relevant, but you trim out what is not relevant.

So, we have a great example in Germany, where we've realized that the plastic add-on that you put on the top of the pot of yogurt – it has been there for historical reason; nobody has questioned – brings zero value. Actually, the consumer thinks that – back to the very first question – it's not sustainable. So, you get the end at end. You remove it. I mean, you do productivity. You can preserve your margin. It is better for the consumer.

So, there are many ways of tackling the problem.

Unidentified Participant: If I summarize the beginning part of the answer, you don't see any material change in what everybody has reported at Quarter One and Quarter Two of good resilience.

Antoine de Saint-Affrique: As I said, we see different resilience in different countries, but as the trends we have seen at the end of the first quarter – so, one month ago – are, more or less, the same, yes.

Unidentified Participant: Now, beyond down-trading, the other big question obviously is commodity prices and their increases. Well published which ones are going down and which ones don't go down. Now, you have one particular commodity – dairy – which is very different from many other ones. It has a longer life cycle because cows need feedstock and feedstock depends on fertilizer. So, there's a kind of a thought out there that, while most of the commodities are coming down, dairy could be in for a much longer cycle of pain because of the time it takes for these costs to feed through. Do you recognize that? Do you see indeed a longer curve of dairy inflation? Or not?

Antoine de Saint-Affrique: Well, there is obviously an impact of the current crisis on dairy. And this is where, by the way, what you do from a sustainability standpoint also makes a difference. I mean, if you are engaged through long-term contracts with your farmers, you guarantee a different security of supply. Obviously, translated into the price, which you have the availability and the consistency of your supply. If you are good at managing the various components of the milk because you're treating lots of milk, you manage some of the dimensions on it.

I was actually discussing – it will seem very far away, but I'll bring it back in a minute. We have been pioneering in regenerative agriculture and, in particular, in regenerative dairy farming, for obvious reasons, and back to what I was saying at the very beginning. One of the things that you get out of that is by feeding the cows better, which means, by the way, in some cases, less but with better quality, you get more milk of better quality. So, you progressively change the mix and the value equation for the farmers. With two impacts. You see our farmers; so, you'll have people that are moving away from big farming. And the second thing is it's more profitable for them. So, there is less elasticity in terms of your impact. So, sorry for that segue.

But do we see an impact on milk price? Yes, we do. Yes, we do see it. Is everything that we are doing or does everything that we are doing also from a sustainability have a direct impact on the way we handle it? Yes, that's why, getting back to your first question, it makes also a difference.

Unidentified Participant: You talked about your relationship with farmers. Am I right that the material part is cost-plus kind of contracts because you have long-term contracts with these farmers?

Antoine de Saint-Affrique: So, we have a mix of – I mean, we play with big players, and we play with small farmers. There are about 58,000, I think, small farmers. There, yes, we have essentially cost-plus.

Unidentified Participant: And the big ones is spot pricing? Contract pricing? How does that work?

Antoine de Saint-Affrique: It depends on the big ones, and it depends on the way we handle it.

Unidentified Participant: Okay. Try again. These 58,000 farmers. Are they half of your trade, the 58,000 that have cost-plus contracts?

Antoine de Saint-Affrique: Well, listen, a large part of our sourcing is local sourcing and it's linked to local farmers, yes.

Unidentified Participant: Okay. Now, moving on to plant-based, of which you have a strong position. Now, part of plant-based are losing their luster, whether it's Beyond Meat kind of examples in the U.S. Even your own plant-based targets have come down. So, to what extent do you still have

the confidence that this is a major driver of growth? Or does plant-based need to reinvent itself?

Antoine de Saint-Affrique: I think that we are on a very long-term consumer trend. I think the consumer trend, by the way, is not – I mean, the world is not going vegan; the world is going flexitarian.

And the good news in that is we are the largest flexitarian company in the world. I mean, we play on both. And both are extremely useful, needed, taken at all stages of life. So, you need more the high protein in the form of yogurt when you are in your young age. At some point, you tend to go more plant-based. You don't choose one and the other for the same. And if you go in the fridge of most people, you generally have both. So, being the leader in both is a good point where to start.

We do believe that plant-based will keep growing. It is obviously normalizing after COVID. Also, because of the balance of in-home and out-of-home. It's still growing at around mid-single digits in most geographies.

The way we look at our own portfolio of plant-based is probably in three – I don't know if it's three layers or three horizons. Plant-based was launched and started as drinks ingredient-driven. Okay? That's where we started. That's where the market is. There, the name of the game is to have the right competitiveness at the right level of profitability. So, making sure that our products are better than competition, both in their taste, also in their convenience, while delivering a profitable business model, which is important. Not everybody is capable of doing that.

There is a second dimension, which is beyond being ingredient-driven, it starts to be benefit-driven. And you've probably seen what we've done in a lot of countries with Not Milk, which is about offering a milk alternative that is not milk. So, it has the taste of milk. It has the color of milk. It's purely out of plant-based.

And there is a third dimension, which is in each of the categories where it is relevant and where we are playing, offering a plant-based alternative to something that is dairy-based. But playing by the rules of the category. So, when you sell a dessert, just saying it's plant-based is not going to make it. It needs to be a superb and exciting dessert. So, when you have the Alpro coconut-based, it is, first, a fantastic coconut dessert. It happens to be plant-based and meets the needs of the plant-based consumer, but in a way that doesn't compromise. And that's the name of the game.

So, we see plenty of spaces to grow at those three levels. We are disciplined, by the way, in doing it in a profitable way.

Unidentified Participant: Where do the fermentation-based approaches sit? I know you've recently announced some, I think, a activity. In a way, it seems even more sustainable. It's not really plant-based, but it has the potential to be cow-free dairy? Where do you see that? It supersedes plant-based? Part of plant-based? An alternative? How do you think about the potential there?

Antoine de Saint-Affrique: Well, there are plenty of things happening actually for number of years in everything that is either precision fermentation or controlled fermentation. I mean, in my past life, in cocoa, fermentation was also a big topic. So, there are plenty and plenty of things. Which are not necessarily, by the way, about replacing this or that. But we try for a large part about releasing more out of this or that. So, I mean, bringing new ingredients or new elements, bringing new benefits, to the surface.

The start of the story – and I'll go back to one of the founders of the company, Isaac Carasso. Isaac Carasso was a gentleman living in Barcelona. He discovered – he was from Bulgarian origin – he discovered that by fermenting milk with a specific set of ferments, he was enabling whole kinds of possibilities in terms of digestion, in terms of availability of calcium, in terms of what's happened to pre and probiotics. There are still plenty of things that can be done in that field, next to what you do through precision fermentation in plant-based or as milk or as dairy alternatives or dairy enhancers.

So, it's a very rich field, which, by the way, speaks back to what I just said in terms of research and development. That is certainly a place where we have lots of expertise, and that's a place where we'll keep pushing.

Unidentified Participant: I'll soon go over to the investor questions. So, please, if you want to enter your question, the QR code is there.

My last question is on China. I always think things are too good to be true, given how well it's doing, but well done there. I'm focusing on the new regulation that I think that starts February next year. Everybody has to be recertified. Can you just discuss the balancing risk and opportunities? The opportunity seems obvious: you might gain market share from many small ones going out of the market. How sizable is that? But what about the associated risk that the government could use the quality cleanup of the recipes to impose maximum profits, reduced pricing, in China like they've done in other categories?

Antoine de Saint-Affrique: So, listen, I'm not going to speculate on what the Chinese government may or may not do. One thing is clear is, I mean, we are progressing according to plan together with the Chinese government on certification. So, so far, so good.

I think the important thing as well is in China, we keep driving different types of businesses. So, our infant milk business is doing very well, in a market that is, as we predicted, by the way, declining. But there, it's the strength of being a Chinese-born business; in some way, a digitally driven business; a business with lots of relevance because we launched our best products in China, because we have research that is based in China.

But what is important is next to that. We have also a medical nutrition business. It is going extremely nicely. And I mean, we disclosed in the CMD that our medical nutrition business accounts for about 40%, give or take, of our total SN business; slightly less in China but, I mean, not massively different. And obviously, we are in the process of fixing Mizone, which is a very profitable brand. So, it is about keeping doing the good job in IMF. Also, making sure that we build our structural resilience by building on different types of businesses.

Unidentified Participant: Over to the investor questions. The most popular question is on the same topic: "Danone's profit pool in China IMF is about 20% of group EBIT. It is a significant burden, given the infant population is set to decline by almost half in the next couple of years." How do you address this?

Antoine de Saint-Affrique: Well, you address it, as I just said, in a number of different ways. One is you keep driving added value in China. So, you bring things that make a real difference, that are relevant to the consumer. You try to do a good job in the way you manage your distribution; and there, we are pretty good. And in the value you add to the consumer. I mean, what we are doing through artificial intelligence and data or through apps that are dedicated to consumers, through DNA testing is really impressive. And you keep building an edge in your core category.

Next to that, you make sure that you have other businesses that are and profitable and growing, which is why we keep driving our medical nutrition, which is why we're focusing on fixing Mizone.

And next to that, you want to make sure that you keep growing your other businesses. I mean, IMF in Europe is growing and doing nicely. We keep expanding it into the places that are relevant.

So, it's not stopping one to go the other, but it's trying to build a more structural resilience.

Unidentified Participant: The next question is Danone's sales are structured toward breakfast spend. Do you need to buy or create new products to capture more day-part consumer spend?"

Antoine de Saint-Affrique: Well, actually, it's interesting because the perception is that we are geared toward on breakfast. The reality is slightly different. I mean, water has nothing to do with breakfast. Everything that is Specialized Nutrition has nothing to do with breakfast. And then, when you take EDP, a large part of our plant-based business is actually things that you put in your coffee. So, you can take coffee for breakfast, but you do that during the day, you do that in bars, etc. And, well, everything this is YoPro, you take actually at the moment or around the sports moments.

So, we have a breakfast dimension, which is historically important, but it's not only breakfast, by a distance.

Unidentified Participant: Having joined Danone almost exactly 12 months ago, what have been the biggest positive and negative surprises in your tenure compared to what you expected before joining?

Antoine de Saint-Affrique: So, I think – and I said it; I think I've said it very consistently – the most impressive thing I found when I came in, in Danone, were the commitment, the resilience, and the motivation of the people. You take a company that had been through an extraordinarily public governance crisis, a company where a very charismatic leader had been asked to leave, a company that was in the midst of a giant restructuring, and see people that were going the extra mile, people that were passionate about the company, people that really wanted to do the right thing. And I mean, that speaks, by the way, to the purpose of Danone, to the culture of Danone, it speaks obviously to the people. And that was, I think, not really a surprise, but really, really impressive.

I think the thing that was obviously also not totally a surprise but was negative – and I said it at the Capital Market Day – is the disconnect between the categories that are growing – categories that have been growing 3% to 4% per year over the last numbers of years – and the company that wasn't. I mean, there was a disconnect between our growth and our category growth. And as a result, an underinvestment, or as a cause, it's a vicious circle, an underinvestment in our brands, and a lack of consistency.

So, that's what we are trying to address with Renew Danone, which was – and that's what we said, actually, with Renew Danone, which is moving from underperform to perform. It is putting back some consistency in the way we execute. Putting back some passion in our categories, and our categories are good categories, and deliver.

Unidentified Participant: I know not everybody is using this system to put their questions in. Does anybody in the audience have an urgent question they want to ask before I continue on this medium? Anybody who wants to speak up in case you're not using the pigeonhole?

In which case, I'll keep doing the pigeonhole.

Now, with changes in marketing efficiencies, spending changes from network TV to more personalized direct messaging offerings. How is Danone's position with your current spending? So, what is the weighting of old versus new channels today?

Antoine de Saint-Affrique: So, we are probably at par with the industry but not amongst the best, would be the answer, with vastly different degrees of execution country by country. I was talking about China. China is, for us, the most advanced place from a digital media, from a retail media standpoint. There are some places where we are not at the level where I want us to be. Once we say that, we have plenty and plenty of opportunities. We talk about our first-party consumer data. When you deliver water to hundreds and thousands of people every month, which we do in places like Indonesia or Mexico, you have a huge opportunity.

So, part of the thing that we are in the process of doing is making sure that when we are very good somewhere, we take the learnings and we expand it everywhere, which is why you heard me say more than once, "local first doesn't mean local only." You need to have the resilience and the speed to markets in given markets, but we also need to use our muscles and leverage across the company in a much more disciplined and systematic way.

Unidentified Participant: So, there are a few questions around inflation which I'll try to combine. The first part was, "Are you beginning to see commodities ease off? And what does it mean for future pricing?" And a second one, "Any comments around inflation and how it's being managed?"

Antoine de Saint-Affrique: On the easing of commodities, we see some – I mean, we all have seen, I mean, the oil starting to go down. We see a bit of relaxing on some things. I think the feature that I would see – and we discussed this a minute ago – I think the feature that we see and we keep seeing is extreme volatility. I mean, I'm not sure that gas two days ago and gas yesterday after the explosion is the same. So, we will keep seeing volatility, and we'll keep seeing some forms of volatility linked to also the geopolitical uncertainties and some of the climate events.

Which brings me to what I said earlier on the way you manage inflation. You manage it by playing on your full keyboard, and there is not one way of managing inflation. You manage it by trying to be better every time at productivity. You increase your productivity levels. And the more you look, the more you find. You, by the way, keep investing behind your brands, because differentiation of your brands justifies their premiums. So, you don't run away from the market. You don't run away from innovation. You actually focus on making your brands and products even more relevant. And then, you play on the entire price of formats, individual SKUs, and all the rest of it.

Unidentified Participant: I think we've come to the end of the session. Antoine, thank you very much for being here. And to the audience, thank you very much for participating.

Thank you.

Antoine de Saint-Affrique: Thanks a lot.