



# LETTER to our SHAREHOLDERS

## Winter 2015/2016



Dear shareholders,

**Danone's development has always been the product of profound transformations, inspired by our dual economic and social commitment.**

In 2014, we marked a turning point, changing the governance structure of your company and announcing our transformational "Danone 2020" plan. And in 2015 we went to work, laying the groundwork for strong, profitable, sustainable growth in 2020.

**In 2015, we also reaffirmed our mission, "bringing health through food to as many people as possible,"** sharing our ideas on what it means and how we want to put it into action. We translated our commitments and convictions into a Manifesto that defines our role with consumers and our relationship with all of Danone's stakeholders. This Manifesto is the core of our transformational "Danone 2020" plan, which focuses on three streams with direct ties to our business:

- **Alimentation:** we want to encourage healthier eating behaviors. Our approach incorporates cultural, emotional and physiological factors, in line with local eating habits, and we have also given careful thought to the demographic, economic, social, environmental and public health issues that will shape the world of tomorrow.

- **Our strategic resources:** we want to strengthen Danone's ability to protect and optimize our essential resources—water, milk and plastic— and secure our license to operate in a cycle-oriented way.

- **Our people and our organization:** we want to tap into the full range of talent at Danone to give our corporate architecture more solidity and more relevance for today's world.

**Our plan to transform Danone is underway,** and it's already paying off, as you can see from our results for the first nine months of the year. In an environment that is still complex, unstable and fragmented, we must continue to strengthen and adapt our model to ensure that Danone will generate strong, profitable, sustainable growth in 2020. The engagement of all our employees and the great things they have achieved in 2015 make me confident that by 2020, Danone will have reached these ambitious goals.

**Sales in the third  
quarter**

**+4.6%**

(like-for-like)

**Europe**

**+5.1%**

**CIS & North America**

**+3.2%**

**ALMA**

**+4.7%**

(like-for-like)

Emmanuel Faber  
CEO

# RESULTS



## 3 Questions for Cécile Cabanis, Chief Financial Officer

### How would you describe Danone's Q3 2015 sales?

We reported sales with organic growth of 4.6%. This performance, in line with our targets, reflects that we are following our roadmap and confirms our progress to anchor a more balanced growth model for Danone.

Thus, the Fresh Dairy Products division is moving in the right direction, driven by the improvement of our European platform and solid performances in the CIS and North America regions. Waters reported a rise in sales of +6.8%\*, reflecting the solidity of our different markets. Early Life Nutrition continued to generate solid growth across all geographies, including China, where we are adapting our business model. Lastly, Medical Nutrition continued to deliver robust growth. Backed by these solid results, Danone has confirmed its annual objectives for 2015.

### Management presented its strategy towards 2020 at an Investor Seminar in November 2015. What were the key messages?

We presented our growth model, our medium-term ambitions and the initiatives in place to achieve them. At Danone, we believe in growth and are convinced that value creation will come from sales growth. At the same time, we need to focus on our efficiency, our productivity and the construction of an optimized cost model. Improving our gross margin is our key focus for sustainable

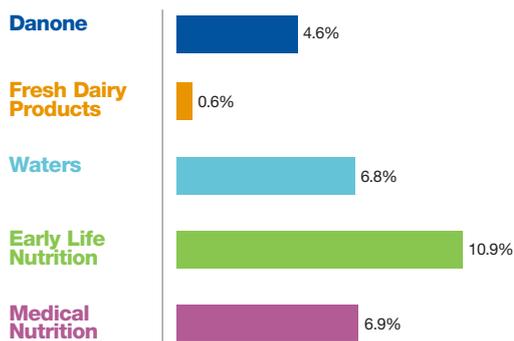
value creation. This will be achieved through perfect execution of our plans and discipline in our investment choices. Rhythm is another major component of our model. It is not a question of speed, but rather finding the right rhythm to make our profitable growth sustainable. For each of our different categories, we have strong levers to support our ambition.

### Danone's ambition is to generate strong, profitable, sustainable growth by 2020. How do you define this, more precisely?

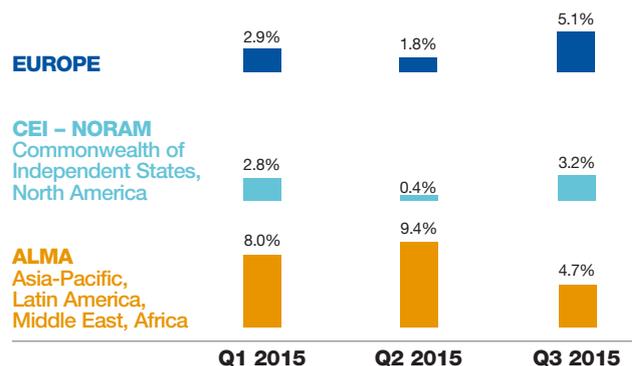
Today, we generate growth between 4%\* and 5%\*, which I would describe as solid. We want to shift from solid growth to strong growth – meaning above 5%\*. This performance will rely on all of our divisions, albeit with different dynamics. One of the main catalysts will be the turnaround of the Fresh Dairy Products division, which will accelerate its growth through a gradual, consistent upturn in Europe. At the same time, our three other divisions are already generating strong growth patterns, so for them, our aim is to maintain growth levels in line with what we are seeing today. Profitability means that we will improve Danone's overall margin, namely involving the structural work that has already begun for Fresh Dairy Products. Lastly, sustainability means that we will consistently deliver profitable growth year after year.

\* Like-for-like.

### Sales growth in the third quarter of 2015 (like-for-like)



### Sales growth per quarter by region (like-for-like)



## FRESH DAIRY PRODUCTS

### A sustainable recovery in Europe



After two years of steadily-decreasing sales in Europe in a deteriorated market environment, a gradual recovery has been confirmed throughout the first nine months of 2015, as seen in the sequential improvement in sales volumes quarter after quarter.

**Determined to restore growth, Danone began in mid-2014 a series of combined actions** designed to renew its ranges and increase brands' competitiveness: an approach that has already brought some first tangible results.

**This in-depth work has also led to significantly improve margin,** thus creating conditions for reinvestment to relaunch, renovate and innovate.

**Danone decided to simplify its complex portfolio,** and focus over the coming years on eight strong brands representing over 80% of its European profit: Actimel, Activia, Danette, Danonino, Oikos, Danio, Taillefine/Vitalinea and the umbrella brand Danone. One after another, all these brands are being relaunched in order to re-establish them as consumers' undisputed favorites – based on products' superiority in terms of recipe, taste and high-quality ingredients – and respond to new consumer needs as well.

**Today, the consumer has changed** and now has a more holistic view of food and the balance between health and pleasure. This new consumer is also ultra-connected, which means for Danone to rethink brands' interaction with him, particularly via social media. Food habits have also significantly changed in less than a decade, particularly through the rapid development of "on-the-go" consumption.

**Danone has thus revised its portfolio to reflect these new trends,** and remains committed to offer unique, outstanding product experiences with each of its brands, in order to establish the right positioning and respond to these different needs. In this respect, recent launches of Activia Fusion in Europe, Danette Le Liégeois in France and Danonino pouch in Poland are highly promising, with positive first results.

The efforts introduced to recover Europe are thus producing a tangible outcome that is extremely encouraging for the future.

## EARLY LIFE NUTRITION

### Danone invests in new Early Life Nutrition production capacities in Europe

**On December 2, 2015, Danone announced a €240 million investment to build a new plant for its Early Life Nutrition business. The project aims to capitalize on strong and growing demand for its international early life nutrition brands, including Aptamil and Nutrilon. This new plant is Danone's largest investment in its European production capabilities.**

**It will be built in Cuijk in the Netherlands,** with production scheduled to begin in late 2017, doubling Danone's capacity in that country. Output will be exported to more than 80 countries worldwide.

**In line with the serie of projects conducted** over the last three years, this investment will support growth of the Early Life Nutrition business. Indeed, in Ireland, Nutricia ELN inaugurated in 2014 a new production and packaging line on its Wexford site. This investment was the culmination of an ambitious program that enabled the development of its infant formula production units in Macroom and Wexford.

In Germany, Milupa invested in a new production unit in Fulda in 2013, which was modernized this year. This subsidiary of Danone's Early Life Nutrition business produces infant milk formulas, under the brand names Aptamil and Milulimil, as well as the new range of Profutura Mama products for pregnant and breastfeeding women. Almost 80% of the production is dedicated to export. Between 2010 and 2014, production has doubled each year, rising from 25,000 to 50,000 tons, and is expected to exceed 100,000 tons in 2016.

These three investments are all in line with Danone's 2020 roadmap to deliver strong, sustainable and profitable growth.

## Evian Volvic World: a unique organization serving long-term growth

**E**vian Volvic World (EVW) gathers the four French mineral water brands of Danone's Waters Division, i.e. evian, Volvic, Badoit and La Salvetat. Although the sources are located in France, 60% of EVW's sales are generated abroad. Accordingly, its flagship evian brand is sold in more than 120 countries throughout the world. EVW, with sales up 5%\*, has about 2,900 employees, and is the leading worldwide player in the premium still water market.

EVW owes this strong global positioning to its rather unique organizational model, which has been transformed over the past few years in order to accelerate growth and create value. EVW operates through five clusters of country business units: France/Benelux, United Kingdom/Ireland, United States, Austria/Germany/Switzerland and Evian Volvic International. Several key support functions such as finance and operations have been centralized. At the same time, for the three international brands: evian, Volvic, and Badoit, central marketing teams are responsible for developing brand content, brand communication and innovation for all countries. All that allows having local country business units focused on category, brands and channels activation, as part of a close relationship with consumers and local customers.

In order to accelerate its growth towards 2020, Evian Volvic World has defined four strategic levers of its business transformation: water category valorization, value creation for brands, channel and geographical footprint development and aquadrinks growth acceleration.

### WATER CATEGORY VALORIZATION

This first strategic lever is the fundamental point of EVW's strategy and license to operate. As water comes from nature, protect the source unique ecosystem and more broadly protect nature itself, is a fundamental part of EVW's DNA, and has led to the implementation of a large number of initiatives in the past few years.

Accordingly, since 2008, the entire bottle lifecycle has been redesigned. Bottles' production, recycling, and logistics have been optimized, which have resulted in a 40% reduction in carbon emissions. The program has not yet been completed, since the objective is 50% reduction by 2020. The ambition for evian is even bolder: reaching zero net carbon by 2020.

At the same time, EVW has been involved in planting over 130 million trees in mangroves

– which represents the capture of 10 million CO<sub>2</sub> - equivalent tones – via the Livelihoods Fund initiative, in order to offset the remaining emissions.

In addition to its initiatives aimed at protecting the environment, EVW also committed in promoting healthier hydration among its consumers. Thus, EVW is playing a proactive role among kids and adults, thanks to educational programs and dedicated events, as well as to specific product ranges that are intended to promote water as a source of hydration among the very young (see box opposite).

### VALUE CREATION FOR BRANDS

Another catalyst is our continuous obsession to create value for our water business through strong and meaningful brands, innovation exploration, very disciplined mix



management towards profitable formats and a reinforced proximity with consumers. Over the past four years, all brands have been fully renovated in terms of brand platform, packaging identity, new communications towards more status and relevance for consumers, but also proximity to their various audiences.

Innovation, which now accounts for over 15% of sales, is a key driver of value creation for consumers, retailers, and EVW.

For instance, on evian, innovations are primarily focused on the most profitable individual formats (below 1.5 liter), which currently account for 65% of the brand's total sales. Moreover, Volvic has recently launched a 1 liter bottle to fit new everyday habits (see box opposite).

EVW has also succeeded in creating unique ways to link its brands with its "connected" communities. Investments in social networks have tripled over the past three years. Major celebrations, such as Christmas or Mother's Day, are all occasions to talk to and share with consumers.

In terms of e-commerce, EVW is working hand-in-hand with sector key players, such as TMall in China and Ocado in the United Kingdom. Again in this area, evian has its own water home delivery internet platform, "evian chez vous" (evian at home) in Paris, in order to meet its consumers' requirements as closely as possible.

## CHANNEL AND GEOGRAPHICAL FOOTPRINT DEVELOPMENT

To make full use of its brands' potential, EVW has adjusted its channel strategy to consumers' new needs and to the specific features of the geographical regions where it operates.

Since consumption methods have changed, EVW has adjusted to on-the-go eating habits, by boosting its presence in take-away sales outlets. This presence contributes to build the equity and visibility of the brands, and is consolidating consistent double-digit growth, now reaching three times modern trade sales.

Furthermore, export business and the US market are two key sources of growth, asking

## Volvic reshapes its packaging to encourage hydration throughout the day

**With a new bottle design and the launch of licensed *Star Wars* packaging, Volvic is pursuing its ambition of encouraging hydration and satisfying consumers' expectations and needs as closely as possible.**

**Since June 2015, Volvic has launched in France a new 1 liter bottle that is better aligned with consumers' daily routines and that encourages healthier hydration. The bottle, with its convenient handle and new cap - result of lengthy design and ergonomic researches- makes it easier to open and grip. The bottles are sold in new**

**four-packs that are more functional and simple to transport every day.**

**Another initiative introduced by the brand is a new collaboration with Disney and Lucasfilm. After the movies *Lego* and *Asterix: The Land of the Gods*, Volvic created a range of *Star Wars*-branded collectable, limited-edition mineral water bottles. While the human body is 60% water, 72% of children between the ages of 4 and 13 ingest fewer liquids than guidelines recommended by the European Food Safety Authority (EFSA). In addressing the issue of hydration through a fun and family-friendly**



**licensing, Volvic and Disney hopes to encourage families to drink more water each day, using formats adapted to each of them.**

for a specific distribution strategy. EVW targets key identified cities, "premium" markets, as well as premium channels such as hotels and restaurants.

## AQUADRINKS GROWTH ACCELERATION

Evian Volvic World also owes its growth to a unique category, aquadrinks, which are water-based drinks that are flavored, or enhanced with natural fruit extracts or fruit juices. Aquadrinks account for 20% of EVW global sales, and show significant growth potential in the future. These drinks offer a healthy alternative to sodas. Aquadrinks capitalize on the success of EVW's mineral water brands, and share the same packaging identity. As an illustration of this success, the Volvic Juicy range represents 40% of total brand sales in Europe.

The strategies determined in this way have already enabled, and will continue to enable EVW to capture growth opportunities in this booming market. EVW's new organization, which is both unique and global, is helping to collectively achieve our 2020 ambition to deliver strong, sustainable, and profitable growth.

\* Like-for-like.

### Food safety: Danone and Mérieux NutriSciences enter into a global partnership

**Danone and Mérieux NutriSciences, a subsidiary of Institut Mérieux, signed a worldwide food safety partnership agreement in Beijing on November 2, by which Mérieux NutriSciences became Danone's privileged partner for routine food safety testing worldwide.**

In addition, its research and food safety expert teams will provide support and services to better anticipate and manage specific or unexpected food safety situations.

Food safety in the 21<sup>st</sup> century demands impeccable risk assessment and control throughout the product lifecycle, from design to consumption, and is one of the foundations of Danone's mission of "bringing health through food to as many people as possible". In order to meet and set the highest standards in every region where it operates, the company already deploys an extensive system of governance, including rigorous sourcing and manufacturing procedures, scientific tests on ingredients and finished products, and the consultation

and support of international experts. Emmanuel Faber, Chief Executive Officer of Danone, said, "Our consumers rely on us to tolerate no compromise whatsoever when it comes to food safety, and we strive to bring the very highest level of scientific and management expertise to bear at all times." With almost 50 years of experience in food safety and quality, an extensive global footprint, a leadership position in its expertise areas and an already existing support to Danone for decade, Mérieux NutriSciences was exceptionally well positioned to meet the evolving needs of the company.

#### Supporting China's food safety governance

The agreement between Danone and Mérieux NutriSciences notably covers the launch of a series of collaborative projects in China. The partners will be working together to strengthen cooperation with local organizations, sponsor certified training courses on food safety basics in China, as well as establish qualification



norms and a validation process for Chinese standards related to Danone products. Challenges are numerous in this country. China has moreover undertaken major reforms in this field, involving a series of legislative and governance-related changes that are already under way: development of new quality standards, enhanced laboratory expertise, more advanced control processes. Danone has offered its assistance to Chinese authorities in this respect, putting its expertise and skills in the interest of improving food safety in the country.

### Climate: Zero net carbon emissions target

**Within the context of COP 21 and in line with its historical engagement, Danone committed, on November 9, 2015, to an ambitious new climate policy.**

Danone, today, goes a step further and commits on all areas where the company shares responsibility, especially in agriculture, which represents 65% of total emissions and aims to achieve zero net carbon emissions in the long term. This new climate policy will enable Danone to strengthen the resilience of its global food chain and pave the way for sustainable business growth. To achieve it, Danone started with the commitment to reduce by 50% its carbon intensity between 2015 and 2030 and also to reduce emissions in absolute terms before 2025. To reach these targets, the company has adopted a global view of the food chain and has defined five priorities. In particular, this will involve reducing Danone's full scope carbon emissions, but also developing "carbon positive" initiatives to capture

carbon in natural ecosystems such as forests, mangroves and soils, as the company is already doing it with Livelihoods Fund projects. Danone has also committed to fully eliminate deforestation impacts from its supply chain by 2020 and to continue to reduce risks weighting on water cycle, in partnership with farmers. Lastly, Danone wants to offer preferred and healthier diet options produced in a resource-efficient way, using sustainably-sourced ingredients. This approach demands continuous improvement to spark innovation, but above all, to co-create solutions with all of Danone's stakeholders: suppliers, consumers, NGOs and public authorities, in conjunction with the local communities that are directly concerned. This innovation will also be technological. For example, Danone has already developed a state-of-the-art integrated module to measure performance that will be rolled out in all Danone subsidiaries by 2020.

## Danone Ecosystem Fund celebrates its 5 years Anniversary

**On October 8 and 9, 2015, the Danone Ecosystem Fund celebrated five years of existence with 300 partners together (local business units, NGOs, academics, small local players, public authorities, and more) and thank them for the work they do every day to move closer to a more inclusive economy. It was also a time to review the Fund's past achievements and lessons learned, as well as the remaining challenges.**

Since its creation by Franck Riboud in 2009, the Danone Ecosystem Fund aims to achieve a more inclusive economy through an endowment fund. Its purpose? Support job creation, skills development, access to micro-businesses, and women's autonomy all along Danone's value chain all around the world. Over the past five years, the public service fund has invested more than €55 million to co-create more than 60 projects in partnership with 48 NGOs which have particularly contributed to the socio-professional development of more than 34,000 people and improved the living conditions of 2.2 million others. The fund is a real innovation incubator that has



fostered the creation of new models that reconcile the long-term development of both Danone and its smaller economic partners. Today, experiences and lessons learnt from the Ecosystem Fund, in the form of challenges and success stories, constitute a strong knowledge that will feed into and participate to Danone's transformation in the long-term. "The mobilization of some 40 local Danone business units, and as many NGOs, to help reinforcing jobs linked to Danone, has been a success," states Emmanuel Faber. "This success must be at the heart of the transformation that we want to implement for our resources cycles, the company's mission, and the definition of its role in relation to alimentation, as part of the Danone 2020 initiative that we are in the process of launching." This reinforced ecosystem benefits Danone's business units, for which it provides a competitive advantage. This advantage comes in the form of new subsidiaries to supply key raw materials (milk, fruit and plastic), new sales channels for our products, and the development of complementary services, namely related to early life nutrition and medical nutrition.



## Morocco hosts the 16<sup>th</sup> Danone Nations Cup World Final

**More than 500 young players from 32 countries participated to the final of the biggest football tournament for children between the ages of 10 and 12, held from October 22 to 25, 2015, in Marrakech. The event provided another illustration of the strong relationships between Danone and Morocco.**

With a presence in this country since 1953, Danone now owns

95% of the local subsidiary, Centrale Danone. As the leader of the fresh dairy products market with market share above 60%, Centrale Danone is the company's historical bastion in Africa. For Danone, 2015 has been the Year of Africa with the creation of a new Africa division within the company. As it was stressed by Danone's management in Morocco, "We need to 'learn' Africa and to develop here."

Inventing new dietary and nutritional models in Africa and, taking the continent's potential for development and exchanges into account, are part of the messages delivered at the Danone Nations Cup, which brought journalists, politicians, children, parents, professional soccer players and soccer fans, all together in the Grand Stade of Marrakech.

## Neocate Footsteps full support for patients with food allergies

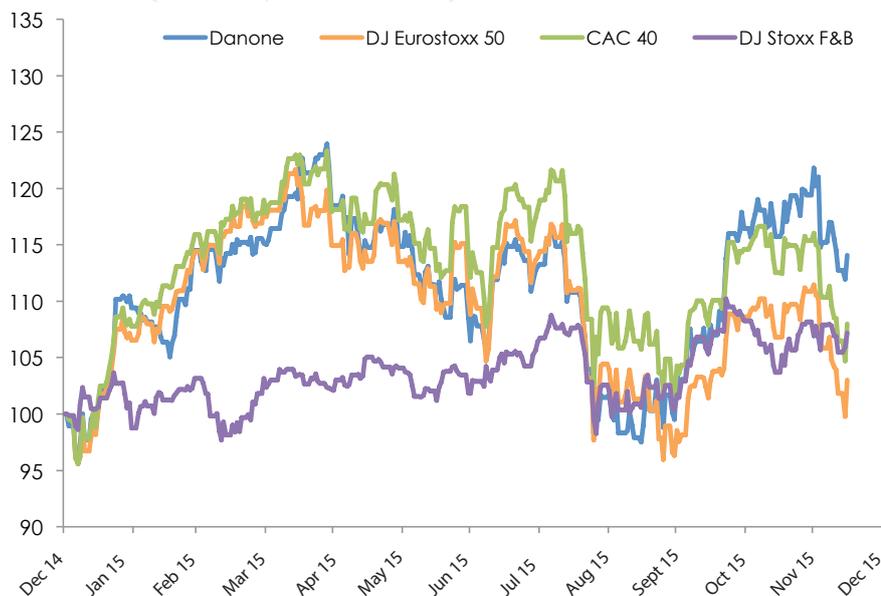
**In the United States, about 5% of all children suffer from cow's milk allergy. Thus Neocate – which offers the broadest range of Medical Nutrition products for children with food allergies – has just launched Neocate Footsteps on this market. This digital platform, designed for use by parents and doctors alike, offers an array of services to support, answer and inspire at each milestone of babies' and parents' journey: expert-written resources, informational videos and allergy-friendly recipes. Neocate Footsteps also offers on-call reimbursement experts who go above and beyond to give families the best possible access to insurance coverage.**



# SHAREHOLDER INFORMATIONS

## Danone share price compared with international indices

December 31, 2014 to December 15, 2015 (Base 100 at 31/12/2014)



## Danone shares

> **NUMBER OF SHARES ON JULY 23, 2015:** 654 951 200

> **NOMINAL VALUE:** 0,25 euro per action

> **QUOTED STOCK MARKETS:**

company shares are quoted on the NYSE Euronext Paris, on the Swiss Stock Exchange and are quoted under the American Depository Shares/Receipts (ADS/ADR) on the Over-the-Counter (OTC) market in the United States with the ratio: 1 current share = 5 ADS.

## News flash:

### Successful bond issue

**On November 23, 2015, Danone successfully launched a €750 million bond issue.** Contributing to the financing of Danone and its development, this issue enables the company to extend the maturity of its debt in a market favorable to quality bond issues. The bond will pay a coupon of 1.25% and was widely subscribed by a diversified investor base.

## Important dates

> **February 23, 2016:**

2015 Full-Year Results

> **April 19, 2016:**

2016 First-Quarter Sales

> **April 28, 2016:**

Shareholders' Meeting

## Contacts

Please register on [finance.danone.com](http://finance.danone.com) to receive financial information and meeting notifications and to get alerts as soon as they are published.

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## Further information:

Available at [www.danone.com](http://www.danone.com)

2014 Economic and Social Report,  
Sustainability Report and  
Registration Document

LETTER TO THE SHAREHOLDERS is a Danone publication, Corporate Communication Department and Investor Relations Department, 15, rue du Helder, 75009 Paris. Design and production: Photo credit: Danone/Volvic/Neocate, Eric Flogny, Stéphan Gladieu, Thomas Haley (réf. LAAC415)

