



DANONE

Sales in the third quarter and first nine months of 2015

October 19, 2015

**Solid organic growth with third-quarter sales up +4.6%^[1]
Full-year 2015 targets confirmed**

- **Q3 sales^[2] up +4.6% like-for-like^[3] and up +4.2% as reported**
- **Solid figures reflect positive contributions from all Danone businesses, despite variations within emerging countries**
 - **Europe: +5.1%^[1]**
 - **CIS & North America^[4]: +3.2%^[1]**
 - **ALMA^[5]: +4.7%^[1]**
- **Continued progress on building a profitable and sustainable growth model**
- **2015 targets confirmed: organic sales growth^[2] of between +4% and +5%^[1], and a slight rise in trading operating margin^[1]**

[1] Like-for-like, see pages 6 and 7 for details on calculation of financial indicators not defined in IFRS

[2] Net sales

[3] See pages 6 and 7 for details on calculation of financial indicators not defined in IFRS

[4] North America = USA and Canada

[5] ALMA = Asia-Pacific / Latin America / Middle East / Africa

Emmanuel Faber: CEO's comment

"Solid third-quarter organic sales growth of 4.6% confirms our progress towards sustainably anchoring a balanced profitable growth model for Danone. In Europe, while the Fresh Dairy Products division continues its adaptation, with sustained improvements in the performance of key brands such as *Actimel*, *Activia* and *Danette*, other divisions continue to show solid trends, noting particular strength of Waters with *evian* and *Volvic*. In North America, we gradually return to growth in Dairy. In the CIS, we continue to adapt our model, delivering positive results. Finally, in ALMA, the environment remains unstable and performance varies from one country to another. We are actively transitioning our *Mizone* brand in China towards a lower pattern of category growth.

I am fully confident that we have long built unique positions in the best long-term potential food and beverage categories. As we expect to navigate in a persistently volatile world, the priority of the Executive Committee and of all Danone teams will remain to deliver profitable growth while strengthening the resilience of our business model."

Our presentation to analysts and investors, chaired by CFO Cécile Cabanis, will be broadcast live today from 9.00 a.m. (Paris time) at www.finance.danone.com. Related slides will be available on our website from 7.30 a.m. (Paris time).

Sales by business line and geographical area in Q3 and in the first nine months of 2015

€ million except for percentages	Q3 14	Q3 15	Change like-for-like ^[1]	Volume growth like-for-like ^[1]	9M 14	9M 15	Change like-for-like ^[1]	Volume growth like-for-like ^[1]
BY BUSINESS LINE								
Fresh Dairy Products	2,796	2,711	+0.6%	-3.3%	8,436	8,376	-0.1%	-3.7%
Waters	1,169	1,312	+6.8%	+5.7%	3,243	3,815	+8.5%	+5.9%
Early Life Nutrition	1,084	1,217	+10.9%	+3.7%	3,155	3,662	+11.2%	+5.1%
Medical Nutrition	366	400	+6.9%	+5.8%	1,048	1,180	+7.7%	+4.8%
BY GEOGRAPHICAL AREA								
Europe	2,156	2,286	+5.1%	+3.1%	6,417	6,733	+3.2%	+0.7%
CIS & North America ^[2]	1,153	1,102	+3.2%	-3.7%	3,483	3,407	+2.1%	-4.3%
ALMA ^[3]	2,107	2,252	+4.7%	+1.2%	5,983	6,894	+7.3%	+2.9%
Total	5,416	5,641	+4.6%	+0.8%	15,833	17,033	+4.6%	+0.7%

[1] See pages 6 and 7 for details on calculation of financial indicators not defined in IFRS

[2] North America = USA and Canada

[3] ALMA = Asia-Pacific / Latin America / Middle East / Africa

Overview of sales performance—Q3 2015

Consolidated sales rose by +4.2% as reported, totaling €5,641 million. Excluding the impact of changes in the basis for comparison, which includes exchange rates and scope of consolidation, sales were up +4.6%. This organic growth reflects a +0.8% rise in sales volume and a +3.8% rise in value.

The -0.2% exchange-rate effect results from unfavorable trends in currencies, including the Russian ruble and the Brazilian real, as anticipated.

Changes in the scope of consolidation had a limited impact (-0.2%) and result in large part from the sale of Fresh Dairy Product operations in Indonesia in December 2014.

Fresh Dairy Products

Fresh Dairy Product division sales were up +0.6% like-for-like in the third quarter, reflecting a -3.3% fall in volumes and a +3.9% price/mix effect. There was thus a gradual improvement despite variations from one market to another:

- in Europe, sales trends are confirming a recovery, as seen in the sequential improvement in sales volumes and in positive results for the *Actimel* brand across Europe and for *Activia* and *Danette* in Spain;
- in Russia, sales are holding up despite the persistently unstable environment. As part of its portfolio enhancement drive, the division once again carefully managed sales trends in its various product ranges and reaped the benefits of price increases and a very positive product mix;
- in the United States the category is progressing and Danone continues to move on its agenda to reignite growth. Danone is consolidating its portfolio and continuing to leverage channel dynamics. Recent new products—*Oikos Triple Zero* in the Greek yogurt segment

and *Light & Fit Shake*—are living up to promising launches. Global performance is gradually improving and consolidating its already strong position as market leader;

- the ALMA^[1] zone is continuing to grow despite volatility in some emerging markets. A solid performance in Mexico offset the less favorable trend in Brazil, where the economy is dampening consumption.

[1] ALMA = Asia-Pacific / Latin America / Middle East / Africa

Waters

The Waters division reported a rise in sales of +6.8% like-for-like—a solid performance driven by a strong +5.7% increase in volumes.

These figures reflect both general momentum in European markets, buoyed by favorable weather, and the strong performance of plain water in all regions.

In China's more complex business environment, the non-alcoholic beverage sector has, as anticipated, entered a period of more moderate growth. Danone has thus been transitioning the Mizone brand towards this lower pattern of growth and begun a process of inventory adjustment with distributors. This should continue over the next few quarters without compromising the category's growth potential, especially for *Mizone*.

At the same time, other emerging countries, including Indonesia and Mexico, continue to report above-average growth and remain major growth vectors.

Early Life Nutrition

The Early Life Nutrition division saw sales rise +10.9% like-for-like, in line with previous quarters. This performance reflects +3.7% growth in volume and a +7.2% value increase.

The division turned in solid performances in all of its geographical markets:

- in Europe, double-digit growth was driven by the success of international brands exported to China, including *Aptamil* and *Nutrilon*. Fueled specifically by this demand in China, the trend got off to a strong start in the closing quarter of 2014; it is thus expected to weaken as of Q4, as the basis for comparison shifts;
- in China, *Dumex* sales are down, hit by changes in distribution strategy made in the second quarter. At the same time, Danone is continuing to lay the foundations of its local model based on developing sales through specialized stores and gradually creating a structure for its local internet offering;
- sales in the rest of the world remain buoyant, with double-digit growth in Latin America, the Middle East and North America.

Medical Nutrition

The Medical Nutrition division reported like-for-like growth of +6.9%, with volumes up +5.8% and a price/mix effect of +1.1%. Overall performance is in line with trends observed in the second quarter, underpinned by double-digit growth in Turkey, China and Brazil. More broadly, this strong showing reflects the success of Danone's pediatric and metabolic product ranges in all regions.

2015 outlook (from press release issued on February 20, 2015)

Danone assumes that economic conditions will remain difficult and unstable overall, with fragile or even deflationary consumer trends in Europe, emerging markets undermined by volatile currencies, and difficulties specific to a few major markets, in particular the CIS.

In 2015, Danone also anticipates marked but varied trends in the cost of major strategic raw materials, particularly milk:

- lower prices in Europe and the United States in the first half, with a rebound likely in the second half of the year, and
- gradual price increases in emerging countries all year long.

Altogether, Danone anticipates a moderate rise in the cost of main raw materials and packaging in 2015.

Against this backdrop, Danone will focus on developing its product categories and winning market share. In Europe, the company will continue to strengthen its competitive edge. In growth markets, it will focus on developing its product categories, in particular through strong local brands in the most attractive geographical markets.

After delivering profitable growth in the second half of 2014, Danone will seek to make this equation sustainable, generating organic growth in sales and in operating margin in 2015, while making the investments necessary to ensure this performance is lasting.

As a result, Danone's 2015 targets include:

- organic growth in sales^[1] of between +4% and +5%^[2]
- slight growth in trading operating margin^[2]

Lastly, Danone will continue to work towards lasting gains in free cash-flow without setting a short-term target.

[1] Net sales

[2] See pages 6 to 7 for details on calculation of financial indicators not defined in IFRS

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Financial indicators not defined by IFRS

Due to rounding, the sum of values presented may differ from totals as reported. Such differences are not material. See Methodology note on page 7.

Information published by Danone uses the following financial indicators that are not defined by IFRS:

- like-for-like changes in net sales, trading operating income, trading operating margin, underlying net income and underlying net income per share;
- trading operating income;
- trading operating margin;
- underlying net income
- underlying fully diluted EPS or current net income – Group share, per share, after dilution;
- free cash flow;
- free cash-flow excluding exceptional items;
- net financial debt.

Given severe deterioration in consumer spending in Europe, Danone has set a target for savings and adaptation of its organization to regain its competitive edge. Starting in the first half of 2013, the Company is publishing a free cash-flow indicator excluding cash-flows related to initiatives deployed within the framework of this plan.

Calculation of financial indicators not defined in IFRS and used by Danone is as follows:

Like-for-like changes in net sales, trading operating income, trading operating margin, current net income – Group Share (or underlying net income) and current net income – Group Share per share (or underlying net income per share) reflect Danone's organic performance and essentially exclude the impact of:

- changes in consolidation scope with indicators related to a given fiscal year calculated on the basis of previous-year scope;
- changes in applicable accounting principles;
- changes in exchange rates, (i) with both previous-year and current-year indicators calculated using the same exchange rates (the exchange rate used is a projected annual rate determined by the Company for the current year and applied to both previous and current year), and (ii) correcting differences caused by the exceptional volatility of inflation in countries that are structurally subject to hyperinflation, which would otherwise distort any interpretation of Danone's organic performance.

Since inflation in Argentina—already structurally high—had accelerated further in 2014, in particular following the sharp, steep devaluation of the peso in January, using an identical exchange rate to compare 2014 figures with those for the prior year had not reflected Danone's organic performance in that country accurately. As a result, the Company fine-tuned the definition of like-for-like changes to include in its exchange-rate impact the differences caused by the exceptional volatility in structurally hyperinflationary countries. Danone is applying this methodology starting with the release of 2014 full-year results, where it is applicable only to Argentina. With respect to 2014, adjustment for the full year had been recorded in the fourth quarter. More specifically, this methodology leads to (a) limit the inflation of price and cost of goods sold per kilo to their average level for the past three years and (b) cap trading operating margin at its prior-year level; this methodology has been applied to each division operating in Argentina.

(€ million except %)	Previous period	Impact of changes in scope of consolidation	Impact of fluctuations in exchange rates	of which treatment of over-inflation	of which other impact of fluctuations in exchange rates	Like-for-like growth	Period under review
Sales							
9M 2014	16,318	+0.3%	-6.8%	-	-6.8%	+3.8%	15,883
9M 2015	15,883	-0.4%	+3.0%	+0.4%	+2.6%	+4.6%	17,033

Trading operating income is defined as Danone's operating income excluding Other operating income and expense. Other operating income and expense is defined under Recommendation 2013-03 of the French ANC (format of consolidated financial statements for companies reporting under international reporting standards), and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to its current activities. These mainly include capital gains and losses on disposals of fully consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major external growth transactions, and costs related to major crisis and major litigations. Furthermore, in connection with of IFRS 3 (Revised) and IAS 27 (Revised) relating to business combinations, the Company also classifies in Other operating income and expense (i) acquisition costs related to business combinations, (ii) revaluation profit or loss accounted for following a loss of control, and (iii) changes in earn-outs relating to business combinations and subsequent to acquisition date.

Trading operating margin is defined as the Trading operating income over Net sales ratio.

Underlying net income (or Current net income – Group Share) measures Danone's recurring performance and excludes significant items that, because of their exceptional nature, cannot be viewed as inherent to its current performance. Such non-current income and expense mainly include capital gains and losses on disposals and impairments of Investments in associates and in other non fully-consolidated and tax income, and expense related to non-current income and expense. Such income and expense excluded from Net income – Group Share is defined as Non-current net income and expense.

Underlying fully diluted EPS (or Current net income – Group Share, per share after dilution) is defined as the Underlying net income over Diluted number of shares ratio.

Free cash-flow represents cash-flows provided or used by operating activities less capital expenditure net of disposals and, in connection with of IFRS 3 (Revised), relating to business combinations, excluding (i) acquisition costs related to business combinations, and (ii) earn-outs related to business combinations and paid subsequently to acquisition date.

Free cash-flow excluding exceptional items represents free cash-flow before cash-flows related to initiatives deployed within the framework of the plan to generate savings and adapt Danone's organization in Europe.

Net financial debt represents the net debt portion bearing interest. It corresponds to current and non-current financial debt (i) excluding Liabilities related to put options granted to non-controlling interests and (ii) net of Cash and cash equivalents, Short term investments and Derivatives – assets.

Methodology

Unless otherwise indicated, amounts are expressed in millions of euros and rounded to the nearest million. In general, figures presented in this press release are rounded to the nearest full unit. As a result, the sum of rounded amounts may show non-material differences with the total as reported. Note that ratios and differences are calculated based on underlying amounts and not on the basis of rounded amounts.

FORWARD-LOOKING STATEMENTS

This press release contains certain forward-looking statements concerning Danone. Although Danone believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. For a detailed description of these risks and uncertainties, please refer to the "Risk Factor" section of Danone's Registration Document (available at www.danone.com).

APPENDIX – Sales by division and by geographical area

	First quarter		Second quarter		Third quarter		First 9 months	
	2014	2015	2014	2015	2014	2015	2014	2015
BY BUSINESS LINE								
Fresh Dairy Products	2,809	2,807	2,831	2,857	2,796	2,711	8,436	8,376
Waters	895	1,065	1,179	1,438	1,169	1,312	3,243	3,815
Early Life Nutrition	1,029	1,220	1,042	1,225	1,084	1,217	3,155	3,662
Medical Nutrition	328	380	354	401	366	400	1,048	1,180
BY GEOGRAPHICAL AREA								
Europe	2,053	2,156	2,208	2,290	2,156	2,286	6,417	6,733
CIS & North America ^[2]	1,154	1,108	1,176	1,197	1,153	1,102	3,483	3,407
ALMA ^[3]	1,854	2,207	2,022	2,434	2,107	2,252	5,983	6,894
Total	5,061	5,471	5,406	5,921	5,416	5,641	15,883	17,033

	First quarter 2015		Second quarter 2015		Third quarter 2015		First 9 months of 2015	
	Reported change	Like-for-like- change ^[1]	Reported change	Like-for-like- change ^[1]	Reported change	Like-for-like- change ^[1]	Reported change	Like-for-like- change ^[1]
BY BUSINESS LINE								
Fresh Dairy Products	-0.1%	+0.2%	+0.9%	-1.1%	-3.0%	+0.6%	-0.7%	-0.1%
Waters	+18.9%	+8.6%	+22.0%	+10.2%	+12.3%	+6.8%	+17.7%	+8.5%
Early Life Nutrition	+18.5%	+11.6%	+17.6%	+11.1%	+12.3%	+10.9%	+16.1%	+11.2%
Medical Nutrition	+15.8%	+9.1%	+13.3%	+7.1%	+9.1%	+6.9%	+12.6%	+7.7%
BY GEOGRAPHICAL AREA								
Europe	+5.0%	+2.9%	+3.7%	+1.8%	+6.1%	+5.1%	+4.9%	+3.2%
CIS & North America ^[2]	-4.0%	+2.8%	+1.8%	+0.4%	-4.4%	+3.2%	-2.2%	+2.1%
ALMA ^[3]	+19.0%	+8.0%	+20.4%	+9.4%	+6.9%	+4.7%	+15.2%	+7.3%
Total	+8.1%	+4.8%	+9.5%	+4.5%	+4.2%	+4.6%	+7.2%	+4.6%

[1] See pages 6 and 7 for details on calculation of financial indicators not defined in IFRS

[2] North America = USA and Canada

[3] ALMA = Asia-Pacific / Latin America / Middle East / Africa