



DANONE

Sales in the third quarter and first nine months of 2013

October 16, 2013

Organic growth for the first nine months: +5.5%^[1]

**Strong underlying dynamics across all businesses
Impact of false safety alert in Asia**

2013 targets adjusted

- Sales^[2] for Q3 2013 are up +4.2% like-for-like^[1] and steady as reported, despite unfavorable exchange rates and the major impact of the recall affecting selected infant formula products in Asia.
- Figures confirm the strong underlying dynamics observed in the first half: Europe continues to stabilize (-0.9%^[1]), while sales are up +7.8%^[1] in the North America, CIS, Asia-Pacific, Latin America and Africa/Middle East regions.
- Focusing on Asia, the false alert issued by Fonterra concerning certain ingredients supplied to Danone triggered the recall of selected infant formula products and led to significant losses in sales, earnings and cash-flow. Action plans to restore sales are being deployed in affected markets and are generating results effectively but very gradually.
- As a result, the Group has adjusted its 2013 targets: sales^[2] growth between +4.5% and +5%^[1], trading operating margin down -80 bps^[1], free cash-flow between €1.5 and €1.6 billion excluding exceptional items^[3].
- Beyond these short-term developments, the Group is confident in both its ability to recover its positions in affected countries and in the strength of its growth model.

[1] Like-for-like: see page 6 for details on calculation of financial indicators not defined in IFRS

[2] Net sales

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

Chairman's comment

"Our Group's third-quarter performance reflects fallout from the Fonterra affair in Asia, but also strong underlying dynamics in the rest of our operations.

In Fresh Dairy Products, we are building strong momentum: in North America, Dannon is consolidating its number one position with a very strong showing in Greek yogurt; Danone Russia confirms double-digit growth driven by its flagship brand Prostokvashino; and figures for Europe confirm that we are stabilizing our sales and market share. Our Waters division turned in yet another remarkable performance, especially in emerging countries and in aquadrinks, buoyed this quarter by very good weather in Europe. Last but not least, we have continued to invest in our profitable growth drivers and to build new sources of growth.

In the midst of these positive trends, we had to address the false alert issued by Fonterra in early August, triggering the recall of selected infant formula products in eight Asian markets. We are now able to measure fallout from that event clearly, including both the short-term financial impact and the resources and time required to recover our positions.

In the short term, this will weigh on our sales, our operating margin and our cash-flow, which has led us to adjust our full-year 2013 targets. Our priority is to get back on track for strong and sustainable growth in this region as early as possible in 2014."

Our presentation to analysts and investors by Pierre-André Terisse, Chief Financial Officer, will be broadcast live from 9.00 a.m. (Paris time) on Wednesday, October 16, 2013.

Related slides will be available on our website (www.finance.danone.com) from 9.00 a.m. today (Paris time).

Sales by business line and geographical area in Q3 and in the first nine months of 2013

€ million	Q3 12	Q3 13	Change like-for-like ^[1]	Volume growth like-for-like ^[1]	9M 12	9M 13	Change like-for-like ^[1]	Volume growth like-for-like ^[1]
BY BUSINESS LINE								
Fresh Dairy Products	2,910	2,913	+4.6%	+1.7%	8,816	8,936	+2.6%	+1.9%
Waters	962	1,089	+16.9%	+9.4%	2,817	3,080	+12.1%	+7.1%
Baby Nutrition	1,062	924	-8.6%	-7.3%	3,152	3,307	+7.3%	+1.1%
Medical Nutrition	323	333	+5.8%	+7.4%	948	994	+5.6%	+5.7%
BY GEOGRAPHICAL AREA								
Europe excl. CIS	2,089	2,068	-0.9%	-0.4%	6,439	6,228	-3.0%	-1.9%
CIS & North America ^[2]	1,116	1,183	+11.1%	+4.7%	3,317	3,543	+9.9%	+6.1%
ALMA ^[3]	2,052	2,008	+6.0%	+0.9%	5,977	6,546	+12.6%	+5.2%
Total	5,257	5,259	+4.2%	+1.6%	15,733	16,317	+5.5%	+2.9%

^[1] Like-for-like: see page 6 for details on calculation of financial indicators not defined in IFRS

^[2] North America: United States and Canada

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

Overview of sales performance – Q3 2013

In the third quarter of 2013, consolidated sales as reported were steady (+0.0%) at €5,259 million. Excluding the impact of changes in the basis for comparison, which includes exchange rates and scope of consolidation, sales were up +4.2%. This organic growth reflects a +1.6% increase in sales volume and a +2.6% increase due to the price/mix effect.

The negative -7.2% exchange-rate effect reflects a marked Q3 decline in certain emerging-market currencies, including the Argentine peso, the Indonesian rupee and the Brazilian real. Changes in the scope of consolidation led to a +3.0% rise in sales, due primarily to full consolidation of Centrale Laitière (Morocco) and the integration of other recent acquisitions including Sirma (Turkey), YoCrunch and Happy Family (USA), and Wockhardt (India).

Fresh Dairy Products

The Fresh Dairy Products division reported sales up +4.6% like-for-like, the highest increase in the past nine quarters. Growth was balanced, with a +1.7% increase in volumes and a positive price/mix effect of +2.9%.

While sales continue to decline, Europe confirmed signs of stabilization observed in the second quarter, with a clear shift in Southern Europe driven by Spain and Portugal.

The CIS / North America^[1] area reported an excellent quarter of double-digit growth, with each of these two regions outperforming the previous quarter once again. In North America, Fresh Dairy Products continued to consolidate its category leadership, building on its vigorous growth in the Greek yogurt segment. Driven by the flagship brand Prostokvashino, growth in CIS markets was well balanced between volume and value, integrating competitive price increases introduced during the quarter in response to a very steep rise in milk prices.

Markets in ALMA^[2] remained buoyant, with continued double-digit growth.

The positive price/mix effect reflects selective and competitive price increases in Russia and other countries in response to strong rises in milk prices.

[1] North America: United States and Canada

[2] Asia-Pacific / Latin America / Middle East / Africa

Waters

The Waters division reported an exceptional +16.9% like-for-like rise in sales, driven by a +9.4% increase in volume.

These figures reflect both a vigorous performance in Europe, amplified by favorable summer weather, and continued strong growth in emerging markets.

The positive price/mix effect was once again due primarily to robust growth in aquadrinks, buoyed this quarter by the good performance of European markets.

Baby Nutrition

The Baby Nutrition division saw a very steep decline in Q3 sales due to the false alert issued by Fonterra, which triggered a recall of selected infant formula products in eight Asian markets. This led to an estimated €170 million in lost sales for the full quarter, with the division showing a -8.6% decline in sales growth and volume down -7.3%.

Action plans to restore sales are being deployed in affected markets and are generating results effectively but very gradually. As a result, Danone estimates that the incident will have a significant impact on its 2013 results, with full-year lost sales estimated at €350 million, lost margin estimated at €280 million including €170 million booked as non-current items, and an estimated €300 million loss in cash-flow.

The negative price/mix effect reflects the adverse impact of events in Asia on the division's product mix.

Medical Nutrition

Medical Nutrition division sales rose +5.8% like-for-like in Q3 2013, with a volume rise of +7.4%.

The division's performance is still affected by overall pressure on healthcare spending.

The United Kingdom, Turkey, the United States, China and Brazil were the main contributors to growth, and the Pediatrics category continued to expand at a robust pace.

2013 Outlook

In February this year, Danone set clear priorities for 2013: first, continuing to adapt its model in Europe by stepping up the pace of updates to its product ranges, while at the same time adapting its structures and costs to achieve €200 million in savings between now and the end of 2014; and second, continuing to expand its product categories and build its brands profitably and sustainably.

In the third quarter, the false alert issued by Fonterra concerning ingredients supplied to Danone triggered the recall of selected infant formula products and led to significant losses in sales, earnings and cash-flow. Action plans to restore sales are being deployed in affected markets and are generating results effectively but very gradually.

As a result, the Group is revising its 2013 targets as follows:

- like-for-like sales growth^[1] of between +4.5% and +5%^[2]
- a -80 bps like-for-like decline in trading operating margin^[2]
- free cash-flow of between €1.5-€1.6 billion excluding exceptional items^[2].

Beyond these short-term developments, the Group is confident in both its ability to recover its positions in affected countries and the strength of its growth model.

[1] Net sales

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

Key financial transactions and events in Q3 2013 (from press releases issued in the past quarter)

On August 9, 2013, Danone announced that it had acquired 100% of the share capital of YoCrunch. Founded in 1985, YoCrunch makes yogurt with crunchy toppings packaged separately, in part through licensing agreements with well-known brands such as M&Ms and Oreo. With net sales of \$110 million and sustained double-digit growth in recent years, the company is now market leader of the “yogurt with toppers” segment.

This acquisition will advance Danone's ambition to further develop yogurt consumption, notably by expanding the various ways in which Americans can enjoy yogurt, and thus will strengthen the Group's offer in the United States by widening its range of products. The move will also enable Danone to benefit from YoCrunch's unique expertise in compartmentalized packaging, developed in the company's plant in Naugatuck, Connecticut.

On August 30, 2013, Danone announced that it welcomed the findings of the New Zealand authorities' investigation of Fonterra, which concluded that all ingredients used by Danone were in full compliance with the highest standards of quality.

Following a statement by the New Zealand government and Fonterra on August 2 warning that batches of ingredients supplied by Fonterra to four Danone plants in Asia-Pacific might be contaminated with *Clostridium botulinum* bacteria, the Group recalled selected infant formula products from sale in eight markets^[1] in the region as a precautionary measure. The warning was lifted on August 28 when New Zealand's Ministry for Primary Industries (MPI) concluded after several weeks of tests that there was no *Clostridium botulinum* in any of the batches concerned. None of the many tests conducted by the Group, both before and after this critical period, showed any contamination whatsoever of its products with *Clostridium botulinum*.

[1] New Zealand, Singapore, Malaysia, China, Hong Kong, Vietnam, Cambodia and Thailand

o o O o o

Financial indicators not defined in IFRS

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 fully diluted EPS
- Trading operating income
- Trading operating margin
- Free cash-flow
- Free cash-flow excluding exceptional items

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, Danone has published a free cash-flow indicator excluding cash-flows related to initiatives deployed within the framework of this plan. In 2012, free cash-flow excluding exceptional items was equal to free cash-flow and totaled €2,088 million.

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

Like-for-like changes in net sales, trading operating income, trading operating margin, net income - Group share and underlying fully diluted EPS essentially exclude the impact of: (i) changes in exchange rates, 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 Group for the current year), and (ii) changes in consolidation scope, with indicators for the current year calculated on the basis of previous-year scope.

Trading operating income is defined as the Group operating income excluding other operating income and expense. Other operating income and expense is defined under Recommendation 2009-R.03 of the French CNC, and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to 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 (recorded or estimated) related to major litigation. Since application of IFRS 3 (Revised), they have also included acquisition fees related to business combinations.

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

Free cash-flow represents cash-flows provided or used by operating activities less capital expenditure net of disposals and excluding acquisition costs related to business combinations (since the application of IFRS 3 (Revised)).

Free cash-flow excluding exceptional items represents free cash-flow before cash-flows related to initiatives that may be taken by the Group to deploy the plan to generate savings and adapt organization in Europe.

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 Factors" section of Danone's Annual Report (available on www.danone.com).

APPENDIX – Sales by division and by region

€ million	First quarter		Second quarter		Third quarter		First nine months	
	2012	2013	2012	2013	2012	2013	2012	2013
BY BUSINESS LINE								
Fresh Dairy Products	2,960	2,952	2,946	3,071	2,910	2,913	8,816	8,936
Waters	841	887	1,014	1,104	962	1,089	2,817	3,080
Baby Nutrition	1,014	1,177	1,076	1,206	1,062	924	3,152	3,307
Medical Nutrition	302	322	323	339	323	333	948	994
BY GEOGRAPHICAL AREA								
Europe excluding CIS	2,116	2,005	2,233	2,155	2,089	2,068	6,439	6,228
CIS & North America ^[2]	1,084	1,163	1,118	1,197	1,116	1,183	3,317	3,543
ALMA ^[3]	1,917	2,170	2,008	2,368	2,052	2,008	5,977	6,546
Group	5,117	5,338	5,359	5,720	5,257	5,259	15,733	16,317

€ million	First quarter 2013		Second quarter 2013		Third quarter 2013		First nine months of 2013	
	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	-0.3%	+0.7%	+4.2%	+2.6%	+0.1%	+4.6%	+1.4%	+2.6%
Waters	+5.5%	+8.6%	+8.9%	+10.5%	+13.2%	+16.9%	+9.4%	+12.1%
Baby Nutrition	+16.1%	+17.1%	+12.1%	+13.5%	-13.0%	-8.6%	+4.9%	+7.3%
Medical Nutrition	+6.4%	+6.3%	+5.1%	+4.7%	+3.3%	+5.8%	+4.9%	+5.6%
BY GEOGRAPHICAL AREA								
Europe excluding CIS	-5.3%	-5.1%	-3.5%	-3.0%	-1.0%	-0.9%	-3.3%	-3.0%
CIS & North America ^[2]	+7.4%	+8.5%	+7.1%	+10.2%	+6.0%	+11.1%	+6.8%	+9.9%
ALMA ^[3]	+13.2%	+16.6%	+17.9%	+15.3%	-2.1%	+6.0%	+9.5%	+12.6%
Group	+4.3%	+5.6%	+6.7%	+6.5%	+0.0%	+4.2%	+3.7%	+5.5%

[1] Like-for-like: see page 6 for details on calculation of financial indicators not defined in IFRS - 2] North America: United States and Canada

3] Asia-Pacific / Latin America / Middle East / Africa