



## 2016 Third-Quarter Sales

Press release – Paris, October 18, 2016

### **Continued solid progress on key priorities** **Transition in China**

#### **2016 first nine months:**

- Like-for-like sales growth: +3.2%
- Reported sales growth: -2.6% reflecting a negative currency impact of -6.3%

#### **2016 Third-Quarter:**

- Like-for-like sales growth: +2.1%
- Reported sales growth: -1.8% reflecting a negative currency impact of -4.1%

#### **Full-year guidance confirmed**

All references in this document (including Q3 2016 and FY 2016 targets sections above) to like-for-like changes, trading operating income, trading operating margin, recurring net income, recurring income tax rate, recurring EPS, free cash-flow, free cash-flow excluding exceptional items, and net financial debt, correspond to financial indicators not defined by IFRS that are used by Danone. Their definitions, as well as their reconciliation with financial statements, are listed on pages 5 and 6.

### CEO EMMANUEL FABER'S COMMENTS

*"Within a volatile context, in Q3 we continued to prioritize the transformation of our business model towards sustainable profitable growth, and to increase its resilience, through disciplined resource allocation. We remained focused on strategic growth opportunities, avoiding tactical allocations of resources, and working on increased efficiencies and cost optimization.*

*We continue to balance the short, mid and long-term agenda of our transformation. While China is transitioning, creating short-term volatility and negatively impacting our sales growth in Q3, we have continued to build a solid growth agenda, leveraging the fundamentals of our unique business portfolio, and the growth potential of our brands in each of our categories.*

*I would like to take this opportunity to warmly thank all our teams for their full engagement and commitment in executing this agenda and supporting our company's mission."*

*The presentation to analysts and investors, chaired by CFO Cécile Cabanis, will be broadcast live today from **9.00 a.m.** (Paris time) on Danone's website ([www.danone.com](http://www.danone.com)).*

*Related slides will also be available on the website, in the Investors section.*

## 2016 THIRD-QUARTER SALES

€ million except for %	Q3 2015	Q3 2016	Reported change	Like-for-like	Volume Growth
<b>BY DIVISION</b>					
Fresh Dairy Products	2,711	2,682	-1.1%	<b>+2.2%</b>	-2.3%
Waters	1,312	1,237	-5.7%	<b>-0.1%</b>	0.0%
Early Life Nutrition	1,217	1,204	-1.1%	<b>+1.7%</b>	-0.4%
Medical Nutrition	400	414	+3.6%	<b>+9.7%</b>	+6.0%
<b>BY GEOGRAPHICAL AREA</b>					
Europe	2,286	2,165	-5.3%	<b>-2.7%</b>	-2.6%
CIS & North America <sup>1</sup>	1,102	1,115	+1.2%	<b>+2.8%</b>	-2.8%
ALMA <sup>2</sup>	2,252	2,258	+0.2%	<b>+6.8%</b>	+2.1%
<b>Total</b>	<b>5,641</b>	<b>5,537</b>	<b>-1.8%</b>	<b>+2.1%</b>	<b>-0.7%</b>

Consolidated sales stood at € 5,537 million, up +2.1% like-for-like. Growth reflects a slight -0.7% decline in volume and a +2.8% rise in value.

Reported sales were down -1.8%, including changes in exchange rates (-4.1%) and in the scope of consolidation (+0.2%).

The exchange-rate effect reflects negative trends in currencies including the Argentine peso, the British pound, the Mexican peso and the Chinese renminbi.

Changes in the scope of consolidation result primarily from full consolidation of Fan Milk Group companies since December 2015.

### Fresh Dairy Products

The Fresh Dairy Products division reported sales up +2.2% like-for-like, including a -2.3% decline in volume still driven by the CIS and the Latam region, and a +4.5% rise in value.

In Europe, Danone continued to progress in its transformation. After the relaunch of its *Danonino* and *Actimel* brands in the second quarter, the Company has continued its major renovation plan with a new identity, positioning and packaging for the *Activia* brand in mid-September. This is a key step to reach the objective of a stabilization of sales.

In the CIS & North America<sup>1</sup> region, Danone generated solid growth. In the United States, despite a more competitive environment, total market share continued to rise, reaching a record high of 35.8%. In Russia, where the business environment remains difficult, Danone offset a decline in volume by enhancing its brand portfolio with an improved product mix.

<sup>1</sup> North America = USA and Canada

<sup>2</sup> ALMA = Asia Pacific / Latin America / Middle East / Africa

## Waters

The Waters division reported sales down -0.1% like-for-like, including flat volume and a -0.1% decline in value. This is mostly due to an unfavorable sales trend in China. China excluded, the division's overall performance is at mid-single digits supported by strong category dynamics and a constant focus on brand innovation and activation.

In Europe, sales were positive despite a high basis of comparison and poor weather in July.

The ALMA<sup>1</sup> region (excluding China) reported a strong increase, supported by robust growth from *Hayat* in Turkey, *Aqua* in Indonesia and *Bonafont* in Mexico.

In China, in a transitioning NABs<sup>2</sup> category, *Mizone* third quarter sales were impacted by the continued high basis of comparison and by floods that created some disruptions in the sector. In this weakening consumer environment, the transition will last and it is important that Danone remain focused on protecting *Mizone*'s market share and stay disciplined in fueling growth initiatives at the right pace for *Mizone*.

## Early Life Nutrition

The Early Life Nutrition division reported a +1.7% like-for-like rise in sales, resulting from a -0.4% decline in volume and a +2.1% improvement in price-mix. It mostly reflected a decline in so-called 'indirect' sales to China. When these are excluded, division growth comes in at a mid-single digit.

In China, the transition of the 'indirect' channel, induced by a fast-changing regulatory environment, is creating short-term volatility via active destocking by traders. In a category marked by rapid distribution channel shifts and stock adjustments, the impact of the 'indirect' channel's transition will continue until the new regulations are fully enforced.

In such a context, Danone is making significant progress in building a sustainable growth model in China, increasing its direct distribution through specialized stores and direct e-commerce offerings. Consequently, growth in local sales picked up sharply in Q3.

## Medical Nutrition

The Medical Nutrition division reported sales growth of +9.7% like-for-like—achieved through volume growth of +6.0% and a price-mix impact of +3.7%.

Growth was generated across all geographical areas, with a strong rise in Europe and rapid growth in emerging markets such as China and Brazil. All product categories helped fuel this overall performance, with a stronger contribution from pediatric nutrition and adult enteral nutrition brands like *Neocate* and *Nutrison*.

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<sup>1</sup> ALMA = Asia Pacific / Latin America / Middle East / Africa

<sup>2</sup> Non Alcoholic Beverage

## 2016 OUTLOOK

*(From press release issued June 14, 2016)*

After delivering profitable growth in 2015, Danone set clear priorities for 2016 and is pursuing its journey to meet its ambition for 2020, which calls for strong, profitable and sustainable growth.

Danone still assumes that economic conditions will remain volatile and uncertain 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, China and Brazil.

In this context, Danone continues to strengthen its balanced growth model and anchor profitable growth in a sustainable manner. To do so, it is relying more than ever on disciplined resource allocation, favoring solid execution of its growth plan and appropriate and efficient funding of short-, mid- and long-term initiatives.

Last June, with fast evolving dynamics in some emerging markets, notably China, Danone adjusted the pace of topline refueling for 2016 in these specific geographies.

As a result, the company has raised its 2016 recurring operating margin<sup>1</sup> target from "solid improvement<sup>2</sup>" to a range of +50bps to +60bps<sup>2</sup>, while confirming its sales growth<sup>2</sup> guidance within a range of +3% to +5%.

Danone will also focus on increasing free cash-flow, without setting a short-term target.

## MAJOR FINANCIAL TRANSACTIONS AND DEVELOPMENTS SINCE JULY 7, 2016

The acquisition process of The WhiteWave Foods Company (NYSE: WWAV) ("WhiteWave"), announced on July 7, 2016, is on track as foreseen.

- On October 4, 2016, WhiteWave announced that, during a special stockholder meeting, the stockholders of the company approved the merger agreement under which Danone will acquire all of the outstanding shares of WhiteWave.
- The closing of the transaction remains subject to the satisfaction of customary conditions, including the receipt of required regulatory approvals from antitrust authorities in the United States and in the European Union. Both WhiteWave and Danone have been working with the United States Department of Justice ("DOJ") and the European Commission in order to obtain such regulatory approvals, including by providing information requested in the DOJ's "second request".
- WhiteWave and Danone continue to target closing the transaction by the end of 2016; however, there can be no assurance regarding timing of receipt of regulatory approvals, which would delay timing of the closing.

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<sup>1</sup> Formerly known as "Trading operating margin" (respectively as "Trading operating income") – definitions remain unchanged  
<sup>2</sup> Like-for-like

## FINANCIAL INDICATORS NOT DEFINED IN 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 6.

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

- like-for-like changes in sales, recurring operating income, recurring operating margin, recurring net income and recurring EPS;
- recurring operating income (formerly known as trading operating income);
- recurring operating margin (formerly known as trading operating margin);
- recurring net income;
- recurring income tax rate;
- recurring EPS;
- 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 has published 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 Sales, Recurring operating income, Recurring operating margin, Recurring net income and recurring EPS 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—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 did not accurately reflect Danone's organic performance in that country. 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, which is only applicable to Argentina, starting with the release of 2014 full-year results. 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 recurring operating margin at its prior-year level; this methodology has been applied to each division operating in Argentina. With respect to 2014, adjustment for the full year had been recorded in the fourth quarter of 2014.

	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
<b>Sales</b> (€ million except %)							
<b>Q3 2015</b>	5,416	-0.2%	-0.2%	+0.3%	-0.5%	<b>+4.6%</b>	5,641
<b>Q3 2016</b>	5,641	+0.2%	-4.1%	+0.1%	-4.2%	<b>+2.1%</b>	5,537

**Recurring operating income** is defined as Danone's operating income excluding Other operating income and expenses. Other operating income and expenses is defined under Recommendation 2013-03 of the French CNC (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 recurring 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 expenses (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.

**Recurring operating margin** is defined as Recurring operating income over Net sales ratio.

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

**Recurring income tax rate** measures the income tax rate related to Danone's recurring performance and corresponds to the ratio Tax income and expenses related to recurring income and expenses over Total Recurring net income.

**Recurring EPS** (or Recurring net income – Group Share, per share after dilution) is defined as Recurring 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 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 note

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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](http://www.danone.com)).*

## APPENDIX – Sales by division and by geographical area

	First quarter		Second quarter		Third quarter		First 9 months	
	2015	2016	2015	2016	2015	2016	2015	2016
<b>BY DIVISION</b>								
Fresh Dairy Products	2,807	2,676	2,857	2,701	2,711	2,682	8,376	8,058
Waters	1,065	1,020	1,438	1,373	1,312	1,237	3,815	3,630
Early Life Nutrition	1,220	1,226	1,225	1,269	1,217	1,204	3,662	3,700
Medical Nutrition	380	384	401	403	400	414	1,180	1,201
<b>BY GEOGRAPHICAL AREA</b>								
Europe	2,156	2,127	2,290	2,241	2,286	2,165	6,733	6,533
CIS & North America <sup>1</sup>	1,108	1,096	1,197	1,120	1,102	1,115	3,407	3,331
ALMA <sup>2</sup>	2,207	2,082	2,434	2,385	2,252	2,258	6,894	6,724
<b>Total</b>	<b>5,471</b>	<b>5,306</b>	<b>5,921</b>	<b>5,746</b>	<b>5,641</b>	<b>5,537</b>	<b>17,033</b>	<b>16,589</b>

	First quarter 2016		Second quarter 2016		Third quarter 2016		First 9 months 2016	
	Reported change	Like-for-like change	Reported change	Like-for-like change	Reported change	Like-for-like change	Reported change	Like-for-like change
<b>BY DIVISION</b>								
Fresh Dairy Products	-4.7%	+2.3%	-5.5%	+3.0%	-1.1%	+2.2%	-3.8%	+2.5%
Waters	-4.2%	+3.9%	-4.5%	+2.7%	-5.7%	-0.1%	-4.8%	+2.0%
Early Life Nutrition	+0.5%	+4.8%	+3.6%	+7.2%	-1.1%	+1.7%	+1.0%	+4.5%
Medical Nutrition	+1.2%	+6.6%	+0.4%	+7.1%	+3.6%	+9.7%	+1.7%	+7.8%
<b>BY GEOGRAPHICAL AREA</b>								
Europe	-1.3%	+0.0%	-2.1%	-0.2%	-5.3%	-2.7%	-3.0%	-1.0%
CIS & North America <sup>1</sup>	-1.1%	+5.1%	-6.4%	+4.8%	+1.2%	+2.8%	-2.2%	+4.2%
ALMA <sup>2</sup>	-5.6%	+6.3%	-2.0%	+8.0%	+0.2%	+6.8%	-2.5%	+7.0%
<b>Total</b>	<b>-3.0%</b>	<b>+3.5%</b>	<b>-3.0%</b>	<b>+4.1%</b>	<b>-1.8%</b>	<b>+2.1%</b>	<b>-2.6%</b>	<b>+3.2%</b>

<sup>1</sup> North America = USA and Canada

<sup>2</sup> ALMA = Asia-Pacific / Latin America / Middle East / Africa