DANONE

2016 Full-Year Results
Press release – February 15, 2017

Significant progress in strengthening growth model in 2016
Danone entering next stage of its transformation in 2017

- **2016 results: combined sales and margin robust performance, leading to very strong recurring EPS growth (+9.3%)**
- **2017 objective : decoupled agenda for growth & efficiency to secure consistent recurring EPS growth above 5%, on a like-for-like basis, excluding any element related to WhiteWave transaction**
- **New organization to create best conditions for growth & efficiency**
- **Launch of a €1bn efficiency program**

2017 objective will be reviewed following the closing of WhiteWave transaction

Any reference to "growth" in the above section is on a like-for-like basis
All references in this document (including 2016 results and FY 2017 objective sections above) to like-for-like changes, recurring operating income, recurring 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 10-13.

CEO EMMANUEL FABER'S COMMENTS

"With the upcoming addition of WhiteWave, we will soon start a whole new and exciting chapter of our alimentation revolution journey. While we delivered a robust performance leading to a very strong recurring EPS growth in 2016, the challenges we faced, including a slower turnaround of dairy in Europe and major market volatility, are a clear case to step up in our ability to seize consumer opportunities and improve our efficiency.
Today's announced changes will drive horizontal collaboration and vertical delegation across our entire organization, making us more agile to grow, closer to consumers, and driving consistency in resource allocation. On one hand, I have decided to address our efficiency agenda in a radically new way, and to launch a comprehensive, company-wide program allowing us to spend better and more sustainably and to work more efficiently. On the other hand, fueled by resources generated from higher efficiency, our new integrated growth and innovation process will gradually bring our brands into an entirely new level of relevance with their communities of consumers, which is the core of the alimentation revolution.
These decoupled mid-term growth and short-term efficiency agendas, linked by our seamless resource allocation process, will allow us to reach both our short and mid-term financial objectives, beyond the benefits of the future WhiteWave acquisition. On behalf of my whole executive team, I would like to share my pride for all Danone teams, working hard everyday to provide great and wholesome products: better for our health, better for our planet."

2016 KEY HIGHLIGHTS

€ million *(unless stated otherwise)*	2015	**2016**	*As reported*	*Like-for-Like*
Sales	22,412	**21,944**	*-2.1%*	***+2.9%***
Recurring operating income	2,892	**3,022**	*+4.5%*	***+8.4%***
Recurring operating margin	*12.91%*	***13.77%***	*+87 bps*	***+70 bps***
Recurring net income — Group share	1,791	**1,911**	*+6.7%*	***+10.4%***
Net income — Group share	1,282	**1,720**	*+34.1%*	***+35.1%***
Recurring EPS *(€)*	2.93	**3.10**	*+5.6%*	***+9.3%***
EPS *(€)*	2.10	**2.79**	*+32.7%*	**-**
Free cash-flow excluding exceptional items	1,529	**1,786**	*+16.8%*	**-**

PART I: FULL-YEAR 2016

FULL-YEAR 2016 SALES

€ million except %	FY 2015	FY 2016	*Sales growth**	*Volume growth**	Q4 2015	Q4 2016	*Sales growth**	*Volume growth**
BY DIVISION								
Fresh Dairy Products	11,057	10,736	***+2.0%***	*-2.6%*	2,682	2,677	***+0.7%***	*-3.9%*
Waters	4,768	4,574	***+2.9%***	*+2.9%*	953	944	***+6.3%***	*-0.4%*
Early Life Nutrition	4,994	5,017	***+3.5%***	*+0.6%*	1,332	1,317	***+0.6%***	*-0.5%*
Medical Nutrition	1,593	1,618	***+7.4%***	*+4.8%*	413	417	***+6.1%***	*+4.0%*
BY GEOGRAPHICAL AREA								
Europe	8,900	8,571	***-1.4%***	*-1.8%*	2,167	2,038	***-2.9%***	*-4.2%*
CIS & North America[1]	4,471	4,486	***+4.6%***	*-2.4%*	1,064	1,155	***+5.7%***	*-1.3%*
ALMA[2]	9,041	8,887	***+6.7%***	*+2.7%*	2,147	2,162	***+5.4%***	*+0.7%*
Total	22,412	21,944	***+2.9%***	*-0.2%*	5,379	5,355	***+2.1%***	*-1.9%*

** Like-for-like*

In 2016, consolidated sales stood at €21,944 million, up +2.9% like-for-like. Reported sales were down -2.1%, including changes in exchange rates (-5.5%) and in the scope of consolidation (+0.6%).

The exchange-rate effect reflects negative trends in the Argentine peso, the Mexican peso, and the Russian ruble.

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

FRESH DAIRY PRODUCTS

In 2016, the Fresh Dairy Products division reported sales up +2.0% like-for-like, after a +0.6% growth in 2015.

This performance reflects mainly an acceleration in growth in the CIS and North America[1] region, in line with expectations.

- In the **United States**, Danone generated solid growth throughout the year despite a more competitive environment in H2 2016. Successful brand innovation and activation have contributed to reinforcing Danone's leadership and more generally its fundamentals, in the face of a category expected to become more challenging in 2017.
- In **Russia**, Danone demonstrated the resilience of its business model for the third consecutive year, in a difficult economic environment. The enhancement of its brand portfolio's value through mix management and the strength of its brands has offset lower volumes and generated solid sales growth.

In **Europe**, sales trends have been impacted by *Activia*'s performance and aggravated market conditions in Spain in Q4. At this stage, Activia's sales results are below expectations as the relaunch has not delivered the brand's turnaround. Given the ambition of the transformation, this turnaround will take time, local execution plans are being reworked and teams have already started to implement them country by country.

The **ALMA[2] region** generated strong growth in 2016. However in an economic context experiencing high inflation and fragile consumer spending in Latin America, the fall in volumes observed in the first nine months of the year continued into the fourth quarter, particularly in Brazil, and is expected to last in 2017.

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[1] *North America = United States and Canada*
[2] *ALMA = Asia-Pacific / Latin America / Middle East / Africa*

WATERS

In 2016, the Waters division reported sales up 2.9% like-for-like. Excluding China, the division's overall performance was at mid to high single digit, supported by strong category dynamics related to consumers' switch to healthier hydration options and a constant focus on brand innovation and activation.

Europe generated solid growth throughout the year and did particularly well in the fourth quarter, supported by strong sales execution and a successful innovation plan at the end of the year.

The ALMA[1] region (excluding China) also generated a strong performance in 2016, supported by various growth platforms such as Indonesia and Mexico.

In China, *Mizone* sales were down in 2016, impacted by inventory adjustments in a transitioning market. As anticipated, this performance includes positive sales growth in the 4th quarter, driven by a favorable basis of comparison. However, in this weakening consumer environment, transition might last well into 2017. It is thus important that Danone continues to focus on protecting its market share through targeted investments, aimed at securing its future growth while protecting the profitability of *Mizone*.

EARLY LIFE NUTRITION

Early Life Nutrition sales rose by +3.5% in 2016, on a like-for-like basis. This performance includes a decline in 'indirect' sales to China. Excluding these, division growth remained strong at mid-single digit growth.

In **Europe (excluding 'indirect' sales to China)**, sales from domestic demand were flat, reflecting some contrasted performances: solid growth in the United Kingdom, Germany and Benelux and more difficult markets in France, Italy and Turkey.

At the same time, growth in the **ALMA[1] region (excluding China)** remained very strong, benefiting from dynamic markets such as Brazil and Australia.

In China, the transition of the overall indirect channel induced by a fast-changing regulatory environment continued in Q4, leading to further stock adjustments by traders. This transition is likely to continue until the new regulations are fully enforced in 2018, creating volatility. At the same time, Danone is successfully developing its direct distribution model in China. All the initiatives implemented throughout the year to ensure its growing presence and visibility in specialized stores and direct e-commerce have led to another strong rise in Q4 local sales.

MEDICAL NUTRITION

Medical Nutrition growth was very strong at +7.4% in 2016, on a like-for-like basis and was balanced evenly across the division's geographical areas.

In **Europe,** Danone reported growth above mid-single digit, driven by solid gains in the United Kingdom and Benelux, while the **ALMA[1]** region reported low teens growth, benefiting from further strong expansion in China and Brazil.
All segments helped fuel this overall performance, with pediatric and adult ranges delivering solid growth supported by the contribution of its blockbusters *Néocate*, *Nutrison* and *Fortimel*.

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

2016 RECURRING OPERATING MARGIN : +70 bps *(like-for-like)*

Danone's recurring operating margin stood at 13.77%, up +87 bps as reported, reflecting:

- a +70 bps rise like-for-like,
- a +10 bps rise due to changes in the scope of consolidation that mainly reflected deconsolidation of Dumex in China and full consolidation of Fan Milk group companies,
- a +6 bps rise due to trends in exchange rates (favorable geographical mix).

	2015	2016	Change *(Like-for-Like)*
BY DIVISION			
Fresh Dairy Products	9.95%	10.09%	***+38 bps***
Waters	11.37%	11.38%	***+15 bps***
Early Life Nutrition	19.32%	21.91%	***+167 bps***
Medical Nutrition	17.95%	19.71%	***+93 bps***
BY GEOGRAPHICAL AREA			
Europe	17.26%	17.64%	***+45 bps***
CIS and North America[1]	8.67%	10.26%	***+161 bps***
ALMA[2]	10.71%	11.82%	***+79 bps***
Total	**12.91%**	**13.77%**	***+70 bps***

As part of its 2020 transformation plan, Danone continued to focus in 2016 on building a more resilient and balanced model through disciplined resource allocation, efficiency gains and cost optimization.

Throughout the year, with trends in raw material costs still favorable, Danone pursued structural efforts to enhance the value of its brand portfolio through mix management, to optimize its cost basis and to capture further sources of efficiency from its model.

In parallel, in an even more volatile and complex environment where dynamics in some key emerging markets are changing rapidly, Danone decided last June to prioritize margin improvement and consequently adjust the pace of topline refueling, funding short-, mid- and long-term initiatives appropriately. The company thus remained focused on strategic growth initiatives that create long-term value rather than purely tactical initiatives for the short term.

Lastly, this very strong performance also includes the positive impact of a favorable basis of comparison in Early Life Nutrition. The first half of 2015 was hit by the costs associated with Dumex's adaptation plan and costs linked to a fire in a production plant in the Netherlands.

As a result, the company's margin rose by a very strong +70 bps like-for-like, well above the initial guidance, with a positive contribution from all divisions.

[1] *North America = United States and Canada*
[2] *ALMA = Asia Pacific / Latin America / Middle East / Africa*

2016 RECURRING EPS: +9.3% *(like-for-like)*

€ million (unless stated otherwise)	**2015**	**2016**
Recurring operating income	**2,892**	**3,022**
Other operating income and expenses	(682)	(99)
Operating income	**2,210**	**2,923**
Cost of net debt	(152)	(146)
Other financial income and expenses	(133)	(146)
Income tax	(626)	(804)
Net income from fully consolidated companies	**1,299**	**1,826**
Net income from associates	99	1
Net income	1,398	1,827
Minority interests	115	107
Group share	**1,282**	**1,720**
of which non-recurring net result	(508)	(191)
Recurring net income – Group share	**1,791**	**1,911**
Recurring EPS (€)	**2.93**	**3.10**
EPS (€)	**2.10**	**2.79**

Other operating income and expenses stood at -€99 million, including in particular -€51 million of expenses related to Danone's 2020 transformation plan (notably One Danone) as well as -€57 million of expenses related to the future acquisition of WhiteWave.

The cost of net debt slightly declined in 2016 despite the extra charges related to the financing of the WhiteWave acquisition (i.e. financial charges linked to the new bonds issued in October 25 and 26, 2016). This decline is due in particular to lower interest rates.
Those new bond issuances enabled Danone to extend the average maturity of its debt at favorable market conditions.

The recurring tax rate stood at 31.1% in 2016, stable compared with 2015.

Net income from associates was down at €1 million due to non-recurring items, relating primarily to the €98 million impairment of Danone's 25% interest in Yashili. Excluding non-recurring items, net income from associates stood at €129 million in 2016, up +4.5% from 2015.

Recurring net income – Group Share stood at €1,911 million in 2016, up +10.4% like-for-like, and up +6.7% as reported compared with 2015.

Recurring EPS stood at €3.10, up +9.3% like-for-like and up +5.6% as reported compared with 2015, reflecting key progress in strengthening and rebalancing Danone's growth model.

EPS stood at €2.79, up +32.7% as reported.

2016 CASH-FLOW AND DEBT

Free cash-flow stood at €1,760 million in 2016, including €26 million[1] in outlays related to the company's cost-reduction and organizational adaptation plan in Europe. These costs had been incurred or provisioned in 2015 and were paid in 2016.

Free cash-flow excluding exceptional items thus came to €1,786 million (8.1% of sales), up +16.8% from 2015, supported by the strong rise in recurring operating margin, and by a sound control of working capital. This will fund Danone's roadmap for growth. Capital expenditure for 2016 thus came to €925 million, or 4.2% of sales.

Danone's net debt decreased by €327 million from December 31, 2015 and stood at €7,472 million on December 31, 2016. This includes €699 million in put options granted to minority shareholders, down €163 million from December 31, 2015.

REDUCTION OF CARBON FOOTPRINT IN 2016

Danone products depend on natural ecosystems. It is therefore key for Danone to actively contribute to the preservation of the environment in which it operates.

Since carbon footprint is a global indicator that reflects a wide range of environmental criteria, for the past several years, Danone has been committed to significantly reducing the carbon intensity[2] of its products. As a result of its efforts to this end, the company effectively decoupled business growth and CO2 emissions by reducing its carbon intensity by -50%[3] from 2008 to 2016, based on operations under its direct responsibility.

In November 2015, as part of the COP21 of the United Nations, Danone decided to take these efforts even further by adopting a new climate policy that targets "zero net carbon" emissions within its full scope, thus including areas where it shares responsibility with other parties, especially in agriculture. This new climate policy aims at achieving zero net carbon emissions by 2050, starting with a 50% reduction in carbon intensity between 2015 and 2030, and to accelerate Danone's carbon positive initiatives. The company has also committed to starting to reduce its full scope emissions in absolute terms before 2025. Within the framework of this commitment, the *evian* brand will be the first to achieve zero net carbon in 2020.

DIVIDEND

At the Annual General Meeting on April 27, 2017, Danone's Board of Directors will ask shareholders to approve the distribution of a **€1.70** dividend per share in respect of the 2016 fiscal year, up +6.3% from 2015. This dividend reflects the confidence of both the Board and management in the company's agenda towards strong profitable and sustainable growth.

Shareholders will be asked to opt for full payment of their dividend in either cash or in Danone shares. New shares would be issued at a price set at 90% of the average opening Danone share price on Euronext over the twenty trading days prior to the General Meeting on April 27, 2017 less the amount of the dividend.

Assuming this proposal is approved, the ex-dividend date will be May 5, 2017. The period during which shareholders may opt to receive dividends in cash or in shares will begin on May 5 and run through May 19. Dividends will be payable in cash or in shares on June 1, 2017.

[1] *Net of tax*
[2] *Grams of CO2 equivalent per kilo of product sold*
[3] *Based on constant scope of consolidation, constant methodology and on emissions under the direct responsibility scope of Danone (packaging, industrial activities, logistics and end-of-life)*

PART II : NEW PHASE IN THE TRANSFORMATION OF DANONE

A NEW ORGANIZATION TO CREATE BEST CONDITIONS FOR GROWTH & EFFICIENCY

Since 2014, Danone has achieved a series of deep transformation to balance its growth model. The Company has adopted a new way of managing its strategic resources as cycles, rolled out its "One Danone" organizational change and replaced its annual budget with an ongoing quarterly reallocation process ("Beyond Budget" project).

Danone is now entering into a new chapter of its journey towards its 2020 ambition. In a fast-evolving context, and with regards to the upcoming WhiteWave transaction, Danone will create the best conditions to reinforce its capacity to capture growth opportunities and tackle costs for a more efficient and effective growth model.

Danone has therefore decided to adapt the Company's organization to become more agile at managing fast-moving trends and markets and bring relevant decision-making closer to local markets and consumers.

The Three main organization principles are:

- **One Danone 30 clusters implementation**
- **A newly-empowered regional business leadership team** that will be the best point of leverage to make decisions as close as possible to consumers. This will be composed of all the Regional business Vice Presidents, who are currently in charge of executing the businesses' regional agendas and are accountable for results in their region. By delegating extended responsibility to RVPs, Danone will ensure its new Executive Committee is completely focused on strategic topics.
- **A tighter, more integrated Executive Committee team**, extending the accountability of each of the executive members.

The changes to the structure of the Executive Committee are set out below, with each member having a larger scope, combining business and/or functional role.

- Creation of a Strategic Business Unit for North America, gathering the Dairy business and North America WhiteWave, after the closing of the pending WhiteWave transaction. **Lorna Davis** will be appointed CEO of the expected new entity of over $6bn of revenues. In this perspective, following the closing of the WhiteWave acquisition, the current WhiteWave businesses in Europe, Latin America, and China and in other geographies will also join forces with the Danone Dairy Division under the overall leadership of Gustavo Valle.

- Creation of a Growth and Innovation Officer role at Company level to fuel the growth, by placing the consumer at the heart of the Company's innovation and activation. This new team will bring together Research & Development, Quality, Innovation, Digital, Marketing and Customers' relationship, thus accelerating decision-making by fostering seamless collaboration. **Francisco Camacho** besides his current responsibility for the Waters category will take the leadership of this integrated team.

- Creation of a Resources Efficiency function to support Danone's strong move to ensure the Company accelerates on cost efficiencies and protects and gets the most from its essential resources. In addition to his Dairy business responsibility, excluding Noram, and his leadership for the Dairy category worldwide, **Gustavo Valle** will take charge of Danone Cycles management and Operations, Sourcing and Efficiencies. He will manage the efficiency program ("Protein").

- **Bridgette Heller**, already EVP for Early Life Nutrition, will also have responsibility for the Advanced Medical Nutrition category after mid-2017 to foster synergies and accelerate momentum for both businesses.

- **Pierre-André Térisse**, aside from his current responsibility as EVP for the Africa Strategic Business Unit, will additionally lead all of Danone's businesses in India. Pierre-André will also design and implement Danone's strategy of accessibility through sustainable business solutions (including danone.communities).

- **Bertrand Austruy**, besides his current role as EVP General Secretary, is also appointed EVP, Human Resources.

- **Cécile Cabanis**, besides her current responsibility as EVP Chief Financial Officer, will take leadership for Information Systems and Information Technology (IS/IT), as well as the responsibility for Danone Business Services (One Danone).

PROTEIN : LAUNCH OF A €1BN EFFICIENCY PROGRAM

In an increasingly volatile and complex environment, Danone has decided to address its efficiency agenda in a radically new way.

Danone is therefore launching a comprehensive program of efficiency on its Selling General & Administrative (SG&A) Expenses, called "Protein", designed to deliver €1 billion savings by 2020.

The objective of Protein is to enhance Danone's competitiveness by amplifying its efficiencies. It consists in creating the best conditions to spend better, buy better and work more efficiently in a sustainable manner. Danone will consider how best to re-invest part of those savings into relevant growth projects to fuel its strategy and mission.

2017 OUTLOOK

In 2017, Danone assumes that economic conditions will remain particularly volatile and uncertain overall, with persistently fragile or even deflationary consumer trends in Europe, and specific contextual difficulties in a few major markets, including the CIS, China and Brazil.

In addition, Danone anticipates a year-on-year mid-single digit rise in the cost of its strategic raw materials. In this context, the Company will continue to strengthen the resilience of its model through a range of initiatives aimed at offsetting inflation and limiting its exposure to volatility in some raw materials while ensuring the competitiveness of its products.

More specifically, Danone anticipates a steep rise in milk prices over the year, with variations from one geographical area to the next:

- A low to mid-single digit increase in Europe and the United States, and
- a strong rise in emerging countries such as the CIS and Latin America.

Regarding other raw materials, including plastics, sugar and fruits, Danone also anticipates inflationary conditions overall.

In this context, Danone will continue to give priority this year to improving margins and strengthen its growth model. It will rely on successful execution of its growth plans, optimization of its business model reinforced by the "Protein" program, and disciplined resource allocations that promote strategic growth opportunities over short term tactical allocations.

As a result, Danone targets to deliver a recurring EPS growth[1] above 5% for 2017, excluding any element related to WhiteWave transaction. Danone will also continue to focus on increasing its free cash flow.

Lastly, Danone indicates that, following the closing of the WhiteWave transaction, it will review its annual targets to include the accretive impact of WhiteWave in its financial objectives for 2017.

[1] *Like-for-like*

PART III : OTHERS

GOVERNANCE

At its meeting on February 14, 2017, Danone's Board of Directors approved draft resolutions that will be submitted to the Annual General Meeting on April 27.

Acting on the recommendation of the Nomination and Compensation Committee, the Board will ask shareholders to renew the appointments of Board members Gaëlle Olivier, Isabelle Seillier, Jean-Michel Severino and Lionel Zinsou-Derlin, who are reaching the end of their term.

The Board acknowledged that Bruno Bonnell, who has served as a director for 15 years, does not wish his appointment to be renewed. [On behalf of the entire Board, Franck Riboud thanked Mr. Bonnell for his active, constructive contribution to the work of the Board and the Social Responsibility Committee.]

As announced, the Board will ask shareholders to name Gregg Engles, a 59-year-old US national, as a director, following the closing of the WhiteWave acquisition. Gregg Engles is currently serving as Chairman and CEO of WhiteWave. His appointment reflects the cooperative nature of the pending acquisition, and the Board will benefit from his entrepreneurial vision and deep understanding of markets and emerging consumer trends—in the US and around the world. Gregg Engles served as Chairman and Chief Executive Officer of one of the leading food and beverage companies in the US, Dean Foods Company, until WhiteWave was spun off from Dean Foods in 2012, at which time he became Chairman and Chief Executive Officer of WhiteWave. This U.S Company is the global leader in organic food, plant-based milks and related products.

The Board noted that these renewals and this new appointment reflect its commitment, made to shareholders several years ago, to improve its governance, especially in terms of the expertise and diversity of its members.

MAJOR FINANCIAL TRANSACTIONS AND DEVELOPMENTS OVER Q4 2016

(Summary of press releases issued in the last quarter of 2016)

- On October 25, 2016, Danone announced the successful launch of a €6.2 billion multi-tranche bond issue. The 6.2 billion euros raised will enable Danone to finance part of the acquisition of WhiteWave and to reduce the amount of the bridge loan that was contracted in July 2016 from its main banks.

- On October 26, 2016, Danone announced the successful launch of a $5.5 billion bond issue, in 4 tranches of 3 to 10 years. Together with the €6.2 billion bond issue under the EMTN program announced on October 25, 2016, this $5.5 billion private placement will enable Danone to completely refinance the acquisition of WhiteWave.

- On December, 19, 2016, Danone adjusted its 2016 guidance, expecting its sales growth to be slightly below its target range (from +3% to +5%) while upgrading its recurring operating margin improvement target from +50bps to +60bps[1].

WHITEWAVE ACQUISITION

- On December 16, 2016, the European Commission cleared the pending acquisition of WhiteWave by Danone, under the condition that Danone divest part of its "growing-up milk" business in Belgium (less than €10 million in sales).

- The closing of the transaction remains subject to the completion by the US antitrust authorities of their review of the transaction. Both WhiteWave and Danone have been working with the United States Department of Justice ("DOJ") and target to close the transaction in Q1 2017. However, there can be no assurance regarding the timing of the completion of the regulatory process.

[1] *Like-for-like*

ADDITIONAL INFORMATION

At its meeting on February 14, 2017, the Board of Directors closed statutory and consolidated financial statements for the 2016 fiscal year. As regards the audit process, the statutory auditors have substantially completed their examination of accounts as of today.

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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 13.

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 the 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 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, which is applicable only to Argentina, starting with the release of 2014 full-year results. More specifically, this methodology leads to (a) limiting the inflation of price and cost of goods sold per kilo to their average level for the past three years and (b) capping 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
Sales *(€ million except %)*							
2015	21,144	-0.4%	+2.0%	+0.3%	+1.7%	**+4.4%**	22,412
2016	22,412	+0.5%	-5.5%	+0.2%	-5.7%	**+2.9%**	21,944
Recurring operating margin							
2015	12.59%	+6 bps	+9 bps	-1 bps	+10 bps	**+17 bps**	12.91%
2016	12.91%	+10 bps	+6 bps	-17 bps	+23 bps	**+70 bps**	13.77%
Recurring EPS *(€ except %)*							
2015	2.62	+1.9%	+3.5%	+0.3%	+3.2%	**+6.5%**	2.93
2016	2.93	+1.5%	-5.2%	-1.3%	-3.9%	**+9.3%**	3.10

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.

Non-recurring results from associates include significant items that, because of their exceptional nature, cannot be viewed as inherent to the recurring activity of those companies and distort the reading of their performance. They include primarily (i) capital gains and losses on disposal and impairment of Investments in associates, and (ii) when material, non-recurring items as defined by Danone included in the net income from associates.

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 other income and expenses, non-recurring results from associates, capital gains and losses on disposals and impairments of 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. 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.

(€ million except %)	Recurring	Non-recurring	2015 Total	Recurring	Non-recurring	2016 Total
Recurring operating income	**2,892**		**2,892**	**3,022**		**3,022**
Other operating income and expense		(682)	(682)		(99)	(99)
Operating income	**2,892**	**(682)**	**2,210**	**3,022**	**(99)**	**2,923**
Cost of net debt	(152)		(152)	(146)		(146)
Other financial income and expense	(129)	(4)	(133)	(134)	(13)	(146)
Income before taxes	**2,611**	**(686)**	**1,925**	**2,742**	**(112)**	**2,630**
Income tax	(818)	193	(626)	(852)	48	(804)
Effective tax rate	31.3%		32.5%	31.1%		30.6%
Net income from fully consolidated companies	**1,792**	**(493)**	**1,299**	**1,890**	**(64)**	**1,826**
Net income from associates	123	(25)	99	129	(128)	1
Net income	**1,915**	**(518)**	**1,398**	**2,019**	**(191)**	**1,827**
• Group share	1,791	(508)	1,282	1,911	(191)	1,720
• Non-controlling interests	125	(9)	115	108	(0)	107

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

	Recurring	2015 **Total**	**Recurring**	2016 **Total**
Net income-Group share *(€ million)*	1,791	1,282	1,911	1,720
Number of shares				
• Before dilution	609,647,527	609,647,527	616,442,041	616,442,041
• After dilution	610,155,241	610,155,241	616,700,618	616,700,618
EPS *(€)*				
• Before dilution	2.94	2.10	3.10	2.79
• After dilution	2.93	2.10	3.10	2.79

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.

(€ million)	**2015**	**2016**
Cash-flow from operating activities	**2,369**	**2,652**
Capital expenditure	(937)	(925)
Disposal of tangible assets	31	27
Transaction fees related to business combinations[1]	5	6
Earn-outs related to business combinations[2]	-	-
Free cash-flow	**1,468**	**1,760**
Cash-flows related to plan to generate savings and adapt organization in Europe[3]	61	26
Free cash-flow excluding exceptional items	**1,529**	**1,786**

[1] *Represents acquisition costs related to business combinations paid during the period*
[2] *Represents earn-outs related to business combinations and paid subsequently to acquisition date and over the period*
[3] *Net of tax*

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.

(€ million)	**At December 31, 2015**	**At December 31, 2016**
Non-current financial debt[1]	8,087	18,771
Current financial debt	2,991	2,510
Short-term investments	(2,514)	(13,063)
Cash and cash equivalents	(519)	(557)
Derivatives — non-current assets	(125)	(148)
Derivatives — current-assets	(120)	(42)
Net debt	**7,799**	**7,472**
• Liabilities related to put options granted to non-controlling interests — non current	(248)	(315)
• Liabilities related to put options granted to non-controlling interests — current	(614)	(384)
Net financial debt	**6,937**	**6,773**

[1] *Including Derivatives – liabilities*

Methodology note

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).

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

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

APPENDIX – Sales by division and by geographical area

	First quarter 2015	First quarter 2016	Second quarter 2015	Second quarter 2016	Third quarter 2015	Third quarter 2016	Fourth quarter 2015	Fourth quarter 2016	FY 2016 2015	FY 2016 2016
BY DIVISION										
Fresh Dairy Products	2,807	2,676	2,857	2,701	2,711	2,682	2,682	2,677	11,057	10,736
Waters	1,065	1,020	1,438	1,373	1,312	1,237	953	944	4,768	4,574
Early Life Nutrition	1,220	1,226	1,225	1,269	1,217	1,204	1,332	1,317	4,994	5,017
Medical Nutrition	380	384	401	403	400	414	413	417	1,593	1,618
BY GEOGRAPHICAL AREA										
Europe	2,156	2,127	2,290	2,241	2,286	2,165	2,167	2,038	8,900	8,571
CIS & North America [1]	1,108	1,096	1,197	1,120	1,102	1,115	1,064	1,155	4,471	4,486
ALMA[2]	2,207	2,082	2,434	2,385	2,252	2,258	2,147	2,162	9,041	8,887
Total	**5,471**	**5,306**	**5,921**	**5,746**	**5,641**	**5,537**	**5,379**	**5,355**	**22,412**	**21,944**

	First quarter 2016		Second quarter 2016		Third quarter 2016		Fourth quarter 2016		Full Year 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*	*Reported change*	*Like-for-like change*
BY DIVISION										
Fresh Dairy Products	-4.7%	+2.3%	-5.5%	+3.0%	-1.1%	+2.2%	-0.2%	+0.7%	-2.9%	+2.0%
Waters	-4.2%	+3.9%	-4.5%	+2.7%	-5.7%	-0.1%	-1.0%	+6.3%	-4.1%	+2.9%
Early Life Nutrition	+0.5%	+4.8%	+3.6%	+7.2%	-1.1%	+1.7%	-1.1%	+0.6%	+0.5%	+3.5%
Medical Nutrition	+1.2%	+6.6%	+0.4%	+7.1%	+3.6%	+9.7%	+0.9%	+6.1%	+1.5%	+7.4%
BY GEOGRAPHICAL AREA										
Europe	-1.3%	+0.0%	-2.1%	-0.2%	-5.3%	-2.7%	-6.0%	-2.9%	-3.7%	-1.4%
CIS & North America [1]	-1.1%	+5.1%	-6.4%	+4.8%	+1.2%	+2.8%	+8.5%	+5.7%	+0.3%	+4.6%
ALMA[2]	-5.6%	+6.3%	-2.0%	+8.0%	+0.2%	+6.8%	+0.7%	+5.4%	-1.7%	+6.7%
Total	**-3.0%**	**+3.5%**	**-3.0%**	**+4.1%**	**-1.8%**	**+2.1%**	**-0.5%**	**+2.1%**	**-2.1%**	**+2.9%**

[1] North America = USA and Canada
[2] ALMA = Asia-Pacific / Latin America / Middle East / Africa