



2018 Third-Quarter Sales
Press release – Paris, October 17, 2018

Strong momentum in Essential Dairy & Plant-Based and Waters offsets Early Life Nutrition contraction in China

- Like-for-like sales growth: **+3.1%** in first-nine months⁽¹⁾, **+1.4%** in third-quarter including **+3.3%** in value
- Consolidated sales of **€6,186m**, -4.4% on a reported basis as a result of emerging currencies devaluation
- Strong growth in Waters and significant acceleration of EDP in all regions
- Specialized Nutrition contraction in China after 12 months of exceptional growth
- **Full-year guidance confirmed**

Emmanuel Faber: Chairman and Chief Executive Officer statement

"In the latest quarter, we have seen an encouraging return to growth in Essential Dairy and Plant-Based, alongside strong momentum in Waters. This demonstrates how Danone is balancing growth across its businesses. Our performance in EDP and Waters compensated for challenging conditions in China where Early Life Nutrition shows changes in market dynamics following a period of exceptional growth. We also have the foundations in place to navigate current emerging market volatility and currency headwinds, which will enable us to continue to deliver sustainable profitable growth. As a result, we have today reaffirmed our guidance for the full-year."

2018 third-quarter sales

€ million except %	Q3 2017	Q3 2018	Reported change	LFL Sales Growth	Volume Growth	9M 2017	9M 2018	Reported change	LFL Sales Growth ⁽¹⁾	Volume Growth
BY REPORTING ENTITY										
EDP International	2,091	1,922	-8.1%	0.0%	-5.9%	6,483	5,968	-7.9%	-0.5%	-5.7%
EDP Noram	1,275	1,293	+1.4%	+2.7%	+3.4%	3,246	3,731	+15.0%	+1.3%	+2.7%
Specialized Nutrition	1,838	1,723	-6.2%	-1.5%	-3.9%	5,288	5,353	+1.2%	+7.5%	+1.8%
Waters	1,268	1,248	-1.5%	+6.4%	+2.2%	3,656	3,527	-3.5%	+5.2%	+2.5%
BY GEOGRAPHICAL AREA										
Europe & Noram	3,523	3,468	-1.6%	-1.0%	-0.5%	9,795	10,231	+4.5%	-1.0%	-0.5%
Rest of the World	2,949	2,719	-7.8%	+4.2%	-2.7%	8,877	8,348	-6.0%	+8.3%	+0.1%
TOTAL	6,472	6,186	-4.4%	+1.4%	-1.9%	18,672	18,579	-0.5%	+3.1%	-0.5%

(1) « Like-for-like New Danone »

- All references in this document to "Like-for-Like (LFL)" and "Like-for-like (LFL) New Danone" changes of Sales, Recurring operating income and margin, Recurring net income, Recurring income tax rate, Recurring EPS, and Yakult Transaction Impact, correspond to financial indicators not defined in IFRS. Their definitions, as well as their reconciliation with financial statements, are listed on pages 4 to 6.
- Q1, Q2, Q3 and 9M 2017 figures presented in this press release have been restated for IFRS 15.
- Q3 2018 financials take into account application of IAS29 to Argentina starting January 1st, 2018 with no cumulative effect whereas Q1 and Q2 2018 do not take into account IAS29 application: please refer to page 4 for further details.

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For the three months ending September 30, 2018, consolidated sales stood at €6.2bn, up +1.4% on a like-for-like basis, with a +3.3% rise in value more than offsetting a -1.9% decline in volume. Excluding Morocco where we continue to face the consequences of a consumer boycott, sales were up +2.2% on a like-for-like basis in the third-quarter and +3.8% for the nine months.

Reported sales were down -4.4% vs. the third quarter 2017, including:

- a negative **currency impact** (-5.2%) driven mainly by the appreciation of the euro against the Argentinian peso, Turkish lira and Brazilian real, which all depreciated by more than 20% in the quarter against last year;
- changes in **scope of consolidation** (-0.5%), resulting entirely from the disposal of Stonyfield in August 2017.

ESSENTIAL DAIRY AND PLANT-BASED (EDP) INTERNATIONAL

EDP International registered another quarter of progress in its third quarter performance, with flat sales on a like-for-like basis, including a -5.9% decline in volumes and a +5.9% rise in value. This represents a +2.6% rise excluding Morocco, with growth in all regions having improved.

Europe delivered an important step towards stabilization with an improving sales profile. While growth continued to be solid in Northern Europe, Southern Europe showed good signs of improvement. *Activia*'s recovery is on track, returning to growth in many countries. *Alpro*, our second largest EDP brand in Europe, continued to grow at a double-digit rate and started to expand into Eastern Europe. **CIS** delivered another quarter of strong sales growth, in a category driven by valorized yogurts. **Latin America** posted mid-single-digit sales growth, showing progress in the Brazilian turnaround while volumes deteriorated in Argentina. Sales continued to decline in **Morocco**, around -35%, affected by the consequences of a consumer boycott.

ESSENTIAL DAIRY AND PLANT-BASED (EDP) NORAM

EDP Noram delivered its fifth consecutive quarter of meaningful growth acceleration with sales up +2.7% on a like-for-like basis (+3.5% excluding Fresh Foods), including +3.4% increase in volume and -0.7% decline in value.

Yogurt delivered solid sales growth and reinforced Danone's leadership in the fastest-growing segment and dynamic growth in emerging segments, notably probiotics, kids and plant-based. In **Plant-based** foods and beverages, *Silk* and *So Delicious* posted strong growth, benefitting from buoyant demand for nut-based beverages and successful expansion in adjacent segments (e.g. mousses and ice creams) and formats. **Coffee Creamers** also posted strong growth. Trends in **Premium Dairy** improved, posting slightly decreasing sales but positive volumes in the third quarter. In **Fresh Foods**, where sales declined for the quarter, the company remains focused on the business turnaround.

SPECIALIZED NUTRITION

After 12 months of exceptional growth in China (more than 40% in H1 2018 compared to H1 2017), **Specialized Nutrition** posted a sales decline of -1.5% in the third-quarter on a like-for-like basis, including a -3.9% decline in volume and a +2.4% rise in value.

Advanced Medical Nutrition delivered solid sales growth in the third quarter, driven by both pediatrics and adult care segments, while continuing to deliver a solid pipeline of patient-centered innovations. **Early Life Nutrition** posted negative growth in the third quarter, as sales in China contracted by around -20%, reversing several quarters of exceptional growth, against an unfavorable year-on-year comparison and amid signs of changes in market dynamics in China. Danone's strong growth and year-on-year market share gains in direct channels, notably through Aptamil Platinum ultra-premium offering, did not fully offset the decline in the indirect channel. Outside China, Early Life Nutrition posted solid quarterly growth, especially in Indonesia, Africa and the United States, while Europe was affected by adverse publicity in the UK following formula upgrade introduction.

WATERS

Waters delivered a strong broad-based sales growth of +6.4%, driven by volume (+2.2%) and a significant rise in value contribution (+4.2%), reflecting positive mix effects resulting from accelerated innovations and targeted price increases.

Europe registered strong sales growth momentum, supported by successful aquadrinks innovations and benefitted from a hot summer season. **North America** posted steep double-digit growth driven by expanded distribution of *evian* and a new marketing campaign supported by important influencers in the US. **Asia** reported strong growth despite a weak season in China, with strong growth for *Aqua* in Indonesia. **Latin America** posted positive growth, including moderate growth in Mexico and more challenging conditions in Argentina.

2018 OUTLOOK

(From press release issued on February 16, April 18, and July 27, 2018)

In the current year, Danone will make further progress towards its 2020 ambition through its focuses on both mid-term growth and short-term efficiency. It will continue rolling out the 'Protein' efficiency program and capture the synergies from the WhiteWave acquisition. These activities will underpin its ability to deliver sustainable growth in sales and profits.

Macroeconomic outlook

Danone assumes that market volatility will continue.

In 2018, Danone expects further cost-inflation with a mid-single digit rise in the costs of raw and packaging materials, including:

- milk price inflation of low to mid-single digit overall,
- a double-digit increase of PET pricing driven by the crude oil price rebound and,
- inflationary conditions in other raw materials, including sugar and fruits.

Danone also expects an ongoing impact from currency volatility, particularly the UK pound.

2018 guidance

Danone's focus will remain on accelerating growth and maximizing efficiencies, including the first year of delivery of its Protein program's savings. In 2018, the Company will progress towards its 2020 ambition through further sales growth acceleration and an improved recurring operating margin.

As a result, Danone is targeting double-digit recurring EPS growth at constant exchange rate for 2018, excluding Yakult Transaction Impact.

It is specified that full-year guidance does not take into account the application of hyperinflation accounting in Argentina from July 1st, 2018 and therefore excludes any impact from the IAS29 application on recurring EPS growth at constant exchange rate (see details page 4).

IAS 29: Adoption of hyperinflationary accounting in Argentina from July 1st, 2018 with effect from January 1st, 2018

After a period of normalization in the economic and monetary environment in Argentina, Danone ended last year the special treatment of over-inflation that it has used since 2014. A consensus has been recently reached that all necessary conditions (3-year cumulative rate of inflation for consumer prices and wholesale prices exceeding the 100% threshold being the last one reached during the first half 2018) are in place to now consider Argentina as "hyperinflationary" as defined by IFRS rules and therefore that IAS 29 rule related to Financial Reporting in Hyperinflationary Economies becomes applicable to the country.

Consequently, Danone is applying IAS 29 in Argentina from July 1st, 2018 with effect from January 1st, 2018. Adoption of IAS 29 in this hyperinflationary country requires its non-monetary assets and liabilities and its income statement to be restated to reflect the changes in the general pricing power of its functional currency, leading to a gain or loss on the net monetary position included in the net income. Moreover, its financial statements are converted into euro using the closing exchange rate of the relevant period.

Impact on reported data:

- from July 1st, 2018: Danone is applying IAS 29 in Argentina with effect from January 1st, 2018;
- regarding Q3 2018 sales: reported data incorporates the IAS29 hyperinflation adjustment over the sales of the quarter with no cumulative effect;
- Q1 to Q4 2017 and Q1 to Q2 2018: reported data is presented as previously published (ie not restated to reflect IAS29 adjustments);
- Cumulated 9 months 2018: reported data incorporates IAS29 with effect from January 1st, 2018.

Impact on "like-for-like"

Since Argentina is now considered as hyperinflationary, Danone will exclude from its "like-for-like" definition the contribution of its Argentinian entities starting from January 1st, 2019.

However, as "Like-for-like" current definition already excludes the effects from changes in applicable accounting principles during the year, IAS29 in Argentina has no impact on like-for-like sales growth and margin improvement in 2018. For reference, Argentina represented 2.1% of Danone's net sales in Q3 2018 and contributed to the sales growth by around 10 bps in Q3 2018 and around 30 bps in first-nine months.

In the third quarter 2018, application of IAS 29 had a negative impact on reported sales growth of -0.1%.

IFRS 15: restatement starting January 1, 2018

Danone applies IFRS 15 on Revenues from contracts with customers starting January 1, 2018 and elected to restate the comparative financial statements (see Note 1.3 of the Notes to the Consolidated Financial Statements for the six-month period closed on June 30, 2018).

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.

Additional indicator of like-for-like changes: "like-for-like New Danone" changes

Since the completion of the WhiteWave acquisition, WhiteWave and Danone's activities have been combined and are generating synergies. Separate reporting of WhiteWave and Danone in their pre-acquisition forms thus no longer reflects their real performance. This being the case, Danone decided to monitor and then report its performance by integrating the contribution of WhiteWave as a whole into its organic growth from the time of the acquisition by using an additional indicator - **"like-for-like New Danone"** changes.

This indicator is a variation on the "like-for-like" changes indicator used by Danone which integrates WhiteWave's performance starting at the date of acquisition:

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- for periods in previous years compared, and
- based on WhiteWave reported data after restatement to allow comparison with Danone data.

This indicator is used starting with the second quarter of 2017 and running through the end of 2018. Danone does not publish *like-for-like New Danone* changes for prior periods given the way they are computed. Finally, Danone does not monitor internally nor publish like-for-like changes and will not do so until year-end 2018. Indeed like-for-like changes would not reflect accurately the Company's real performance, which is reflected in *like-for-like New Danone* changes and, by extension, the difference between like-for-like changes and *like-for-like New Danone* changes would not accurately reflect the contribution to this real performance of WhiteWave and its companies.

Financial indicators not defined in IFRS

These indicators are calculated as follows:

Like-for-like changes in sales and recurring operating margin 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 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 Danone for the current year and applied to both previous and current year).

"Like-for-like New Danone" changes (or "Like-for-like including WhiteWave starting in April 2017" changes) in sales and operating margin reflect the organic performance of Danone and WhiteWave combined. This indicator corresponds to like-for-like changes for Danone and WhiteWave combined, considering the activity of WhiteWave as a whole by integrating its companies during the fiscal years prior to and following their acquisition in April 2017:

- from April 1 to December 31 for periods compared until 2017 included;
- from January 1 to December 31 for periods compared in 2018.

For Q3 2018, like-for-like New Danone changes equal like-for-like changes as WhiteWave was fully consolidated during the same period of 2017.

Bridge from reported data to like-for-like data

(€ million except %)	Q3 2017 ¹	Impact of other changes in scope of consolidation	Impact of changes in exchange rates	Impact of IAS 29	Like-for-like growth ³	Q3 2018
Sales	6,472	-0.5%	-5.2%	-0.1%	+1.4%	6,186

¹ Consolidated data as reported by Danone after restatement for IFRS15

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, (iii) changes in earn-outs relating to business combinations and subsequent to acquisition date.

Recurring operating margin is defined as Recurring operating income over Sales ratio.

Other non-recurring financial income and expense corresponds to capital gains or losses on disposal and impairment of non-consolidated interests as well as significant financial income and expense items that, in view of their exceptional nature, cannot be considered as inherent to Danone's recurring financial management.

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Non-recurring income tax corresponds to income tax on non-recurring items as well as significant tax income and expense items that, in view of their exceptional nature, cannot be considered as inherent to Danone's recurring performance.

Recurring effective tax rate measures the effective tax rate of Danone's recurring performance and is computed as the ratio income tax related to recurring items over recurring net income before tax.

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 of the consolidated recurring net income. The 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 operating income and expense, other non-recurring financial income and expense, non-recurring tax, and non-recurring income from associates. Such income and expenses excluded from Net income are defined as Non-recurring net income and expenses.

Recurring EPS (or Recurring net income – Group Share, per share after dilution) is defined as the ratio of Recurring net income adjusted for hybrid financing over Diluted number of shares. In compliance with IFRS, income used to calculate EPS is adjusted for the coupon related to the hybrid financing accrued for the period and presented net of tax.

Yakult Transaction Impact corresponds to the amount to deduct from Danone's 2017 recurring net income to reflect an interest in Yakult in 2017 identical to the interest prevailing in 2018 following the completion of the partial disposal finalized at the end of Q1 2018. It is computed as the difference between Danone's interest in Yakult after the transaction (6.61%) and 21.29% applied, prorata temporis, to 2017 profit from Yakult as estimated by Danone for its 2017 consolidated financial statements. Yakult Transaction Impact amounts to -0.6% of H1 2017 recurring EPS and -1.5% of FY 2017 recurring EPS.

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. In some cases, you can identify these forward-looking statements by forward-looking words, such as “estimate,” “expect,” “anticipate,” “project,” “plan,” “intend,” “objective” “believe,” “forecast,” “foresee,” “likely,” “may,” “should,” “goal,” “target,” “might,” “will,” “could,” “predict,” “continue,” “convinced,” and “confident,” the negative or plural of these words and other comparable terminology. Forward looking statements in this document include, but are not limited to, statements regarding Danone’s operation of its business, and the future operation, direction and success of Danone’s business.

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 (the current version of which is available on www.danone.com).

Subject to regulatory requirements, Danone does not undertake to publicly update or revise any of these forward-looking statements. This document does not constitute an offer to sell, or a solicitation of an offer to buy Danone securities.

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 reporting entity and by geographical area (in € million)

	First quarter		Second quarter		Third quarter	
	2017	2018	2017	2018	2017	2018
BY REPORTING ENTITY						
EDP International	2,131	2,105	2,261	2,011	2,091	1,922
EDP Noram	642	1,192	1,328	1,247	1,275	1,293
Specialized Nutrition	1,694	1,812	1,756	1,831	1,838	1,723
Waters	1,026	976	1,361	1,325	1,268	1,248
BY GEOGRAPHICAL AREA						
Europe & Noram	2,649	3,311	3,623	3,453	3,523	3,468
Rest of the World	2,844	2,774	3,084	2,961	2,949	2,719
Total	5,493	6,085	6,707	6,414	6,472	6,186

	First quarter 2018		Second quarter 2018		Third quarter 2018	
	Reported change	« Like-for- like New Danone » change	Reported change	« Like-for- like New Danone » change	Reported change	« Like-for- like New Danone » change
BY REPORTING ENTITY						
EDP International	-1.2%	+0.8%	-11.1%	-2.4%	-8.1%	+0.0%
EDP Noram	+85.6%	-0.2%	-6.1%	+1.4%	+1.4%	+2.7%
Specialized Nutrition	+7.0%	+14.5%	+4.3%	+10.6%	-6.2%	-1.5%
Waters	-4.9%	+4.2%	-2.7%	+4.8%	-1.5%	+6.4%
BY GEOGRAPHICAL AREA						
Europe & Noram	+25.0%	-0.3%	-4.7%	-1.7%	-1.6%	-1.0%
Rest of the World	-2.5%	+11.7%	-4.0%	+9.4%	-7.8%	+4.2%
Total	+10.8%	+4.9%	-4.4%	+3.3%	-4.4%	+1.4%