



DANONE

Sales in the third quarter and first nine months of 2014

October 15, 2014

+6.9%^[1] organic growth in the third quarter

Solid underlying trends across all businesses

Full-year targets for 2014 confirmed

- Q3 2014 sales^[2] are up +6.9% like-for-like^[3] and up +3.0% as reported
- Figures reflect solid trends across all businesses, underpinned by a favorable basis for comparison in Early Life Nutrition
- Group is continuing to follow the roadmap set out at the beginning of the year—adapting its portfolio and structures in Europe, building and enhancing the value of Fresh Dairy Products markets in the United States and Russia, and rebuilding Early Life Nutrition sales in China
- 2014 targets confirmed: sales^[2] growth of between +4.5% and +5.5%^[1], trading operating margin stable within a range of -20bps and +20bps^[1], free cash-flow of around €1.5 billion excluding exceptional items^[3]

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

[2] Net sales

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

Chairman's comment

“Our third-quarter organic growth was nearly 7%, buoyed by a favorable basis for comparison, but above all by solid trends across all Group businesses—in Europe, where we turned in a positive showing; in Russia and the United States, where we are consolidating our existing positions and laying the foundations for future growth; and in emerging markets, where we are continuing to gain ground with double-digit growth. With the world economy affected by volatility and pressures of many kinds, Danone teams are today focused on delivering on our priorities and achieving our full-year targets.

Working with our Board of Directors, we have just rolled out a stronger, simplified governance structure headed by Emmanuel Faber, and we are turning our attention towards 2015 and the years beyond. Against that backdrop, these third-quarter results confirm the strength of our businesses, our brands and our market positions. Underpinned by the commitment of the men and women at Danone, they give me great confidence in our ability to build the future together.”

Our presentation to analysts and investors, chaired by CFO Pierre-André Térissé, will be broadcast live from 9.00 a.m. (Paris time) on Wednesday, October 15, 2014.

Related slides will be available on our website (www.finance.danone.com) from 7.30 a.m. (Paris time) today.

Sales by business line and geographical area in Q3 and in the first nine months of 2014

€ million	Q3 13	Q3 14	Change like-for-like [1]	Volume growth like-for-like [1]	9M 13	9M 14	Change like-for-like [1]	Volume growth like-for-like [1]
BY BUSINESS LINE								
Fresh Dairy Products	2,913	2,796	+0.7%	-7.1%	8,936	8,436	+2.3%	-6.2%
Waters	1,089	1,169	+11.8%	+8.3%	3,080	3,243	+11.4%	+7.0%
Early Life Nutrition	924	1,084	+19.2%	+9.9%	3,307	3,155	-0.5%	-1.4%
Medical Nutrition	333	366	+10.1%	+5.6%	994	1,048	+7.6%	+5.4%
BY GEOGRAPHICAL AREA								
Europe excl. CIS	2,068	2,156	+2.8%	-0.9%	6,228	6,417	+1.1%	-1.2%
CIS & North America ^[2]	1,183	1,153	+3.3%	-6.9%	3,543	3,483	+6.0%	-6.5%
ALMA ^[3]	2,008	2,107	+13.5%	+3.9%	6,546	5,983	+5.4%	-0.7%
Total	5,259	5,416	+6.9%	-0.1%	16,317	15,883	+3.8%	-2.0%

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

[2] North America = United States and Canada

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

Overview of sales performance — Q3 2014

In the third quarter of 2014, consolidated sales as reported rose +3.0% to €5,416 million. Excluding the impact of changes in the basis for comparison, which include exchange rates and scope of consolidation, sales were up +6.9%. This organic growth reflects stable sales volumes (-0.1%) and a +7.0% increase due to the price/mix effect.

The exchange-rate effect of -3.7% reflects unfavorable trends in some currencies, including the Argentine peso, the Russian ruble and the Indonesian rupiah.

Fresh Dairy Products

Fresh Dairy Products division sales were up +0.7% like-for-like. This moderate increase reflects a -7.1% fall in sales volume offset by a steep +7.8% rise in value.

Business in Europe was on the whole in line with trends observed in the second quarter, with sales down by around -5%. This reflects a continued decline in sales volumes, due partly to overall market trends but also to the division's more selective approach to promotions and streamlining of some product lines. Together these initiatives, which have been rolled out gradually since the beginning of the year, are aimed at stabilizing margins in Europe by the second half of 2014.

The CIS/North America^[1] area reported slower growth in sales this quarter.

- In Russia, growth remains buoyed by continued portfolio enhancement through higher prices and a very positive mix effect; low value-added segments have continued to decline in volume, affecting sales in both the geographical area and the division. For the CIS as a whole, growth has in any case tapered off since the beginning of the year due to the negative performance of Ukraine.
- In the United States, the category is leveling off after several years of strong dynamics, particularly in Greek yogurt. Danone has confirmed its leading position, and is launching a range of initiatives focusing on innovation, distribution and partnerships to drive category growth.

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The ALMA^[2] area remained dynamic on the whole, driven by Latin America and by Brazil in particular, despite volatile conditions and inflationary pressures in some markets.

[1] North America = United States and Canada

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

Waters

The Waters division reported another strong rise in sales of +11.8% like-for-like, driven by a +8.3% increase in volume.

These figures reflect both solid performance in European markets and continued strong growth in emerging markets, in particular Asia, fueled by expansion of the *Mizone* brand and very strong performances by *Aqua*.

Growth in value was +3.5% and was due primarily to the mix effect generated by very strong growth in aquadrinks.

Early Life Nutrition

The Early Life Nutrition division saw sales rise +19.2% in the third quarter, driven by +9.9% volume growth. This excellent performance was buoyed by very favorable bases for comparison across all eight Asian markets affected by Fonterra's false alert starting in August 2013, with sales in most of these markets now back to pre-crisis levels.

In China, the market that was hardest hit, Group brands as a whole continued to grow broadly in line with expectations. Demand for *Nutrilon* products rose sharply, particularly in ultra-premium segments and specialized distribution ("mom & baby stores"). The e-commerce boom has been another driver, with a significant impact on Chinese consumer trends, while sales of *Dumex* brand products continue to lag projections.

In Europe, Q3 sales showed double-digit growth underpinned by *Aptamil* and *Nutrilon* products and helped by a stabilization in weaning food products, particularly in France and Italy.

Division activities in the rest of the world remained very robust, with double-digit growth in Latin America, Russia and Africa/Middle East.

Medical Nutrition

Buoyed by a very solid performance in Europe, the Medical Nutrition division reported Q3 growth of +10.1% like-for-like, its strongest increase in the past four years. Growth reflected a volume rise of +5.6% and a positive price/mix effect of +4.5%.

Main contributors to growth were Turkey, the United Kingdom, Brazil and China, with a stronger contribution from the pediatric care brands that show steady growth.

2014 Outlook (from press release dated February 20, 2014)

The Group assumes that consumer demand will remain similar to 2013, with sluggish trends in Europe, significant carry-over of milk price inflation and persistently high exchange-rate volatility in emerging markets, resulting in higher inflation in those countries.

In response, Danone will continue to deploy action plans already under way in Europe—updating its product portfolio and sharpening its competitive edge—with a view to stabilizing its performances in the region by the end of 2014. The Group will also build on its strong momentum in markets outside Europe to continue growth in emerging countries and North America, and to manage rising inflationary pressures as appropriate. Finally, the Group will focus on rebuilding its Early Life Nutrition positions in Asia, in particular through product launches and brand extensions, favoring solid, lasting growth over speed.

Due to this rebuilding effort and to 2013 bases for comparison, organic growth in sales and operating margin will vary widely from one half to the next in 2014. The Group thus anticipates a return to strong, sustainable, profitable growth beginning in the second half.

Danone has set the following targets for full-year 2014:

- like-for-like sales^[1] growth of between +4.5% and +5.5%^[2],
- trading operating margin stable within a range of -20 bps and +20 bps^[2], reflecting the flexibility that the Group seeks to manage its operations, in particular for its Early Life Nutrition business in Asia,
- free cash-flow of around €1.5 billion excluding exceptional items^[3].

[1] Net sales

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

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

Key financial transactions and events in the first half of 2014 (from press releases issued in the past quarter)

On September 2, 2014, on the recommendation of Chairman and CEO Franck Riboud, Danone's Board of Directors voted to separate the functions of Chairman and CEO and to appoint Emmanuel Faber as CEO, with Franck Riboud remaining as Chairman of the Board. As part of this new governance structure, Bernard Hours' mandate as Co-COO was terminated and the Board thanked him warmly for his contribution to Danone's success over the past 30 years. This change in governance, which took effect on October 1, 2014, reflects Mr. Riboud's desire to concentrate on the key strategic issues facing Danone in the medium and long term and to lay the groundwork for a smooth succession. Using the same rationale, the Board of Directors voted to set up its own Strategy Committee, to be headed by the Chairman with the participation of the CEO.

Governance

Two new Directors representing Danone employees were appointed in September 2014:

- Marie-Anne Jourdain, Danone project and social monitoring manager, French nationality, designated by the Company's Works Council, and
- Bettina Theissig, Chairwoman of Milupa's Works Council (German Early Life Nutrition company), German nationality, designated by the Group's European Works Committee.

In addition, in the context of the change in governance of the Group, Bernard Hours informed the company on October 14, 2014, of his decision to end his function as a Director, with immediate effect.

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

Given severe deterioration in consumer spending in Europe, Danone has set a target for savings and adaptation of its organization to regain its competitive edge. Starting in the first half of 2013, Danone 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 the Group is as follows:

Like-for-like changes in net sales, trading operating income, trading operating margin, current net income – Group share (or underlying net income) and current net income – Group share per share (or underlying net income per share) 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), (ii) changes in consolidation scope, with indicators related to considered fiscal year calculated on the basis of previous-year scope and (iii) changes in applicable accounting principles.

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 related to major crisis and major litigations.

Furthermore, in connection with IFRS 3 (Revised) relating to business combinations, the Group also classifies in Other operating income and expense (i) acquisition costs related to business combinations, (ii) revaluation profit or loss accounted for following a loss of control, and (iii) changes in earn-outs related to business combinations and subsequent to acquisition date.

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

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

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

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

Unless otherwise stated, 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 that could cause actual results to differ materially from those anticipated in these forward-looking statements. For a detailed description of these risks and uncertainties, please refer to the "Risk Factor" section of Danone's Registration Document (available at www.danone.com).

APPENDIX — Sales by division and by region

<i>€ million</i>	First quarter		Second quarter		Third quarter		First nine months	
	2013	2014	2013	2014	2013	2014	2013	2014
BY BUSINESS LINE								
Fresh Dairy Products	2,952	2,809	3,071	2,831	2,913	2,796	8,936	8,436
Waters	887	895	1,104	1,179	1,089	1,169	3,080	3,243
Early Life Nutrition	1,177	1,029	1,206	1,042	924	1,084	3,307	3,155
Medical Nutrition	322	328	339	354	333	366	994	1,048
BY GEOGRAPHICAL AREA								
Europe excl. CIS	2,005	2,053	2,155	2,208	2,068	2,156	6,228	6,417
CIS & North America ^[2]	1,163	1,154	1,197	1,176	1,183	1,153	3,543	3,483
ALMA ^[3]	2,170	1,854	2,368	2,022	2,008	2,107	6,546	5,983
Group^[4]	5,338	5,061	5,720	5,406	5,259	5,416	16,317	15,883

First quarter 2014		Second quarter 2014		Third quarter 2014		First nine months 2014	
<i>Reported change</i>	<i>Like-for-like change^[1]</i>	<i>Reported change</i>	<i>Like-for-like change^[1]</i>	<i>Reported change</i>	<i>Like-for-like change^[1]</i>	<i>Reported change</i>	<i>Like-for-like change^[1]</i>

BY BUSINESS LINE

Fresh Dairy Products	-4.8%	+3.9%	-7.8%	+2.4%	-4.0%	+0.7%	-5.6%	+2.3%
Waters	+0.8%	+8.9%	+6.8%	+13.1%	+7.4%	+11.8%	5.3%	+11.4%
Early Life Nutrition	-12.6%	-7.7%	-13.6%	-9.2%	+17.3%	+19.2%	-4.6%	-0.5%
Medical Nutrition	+1.8%	+5.2%	+4.3%	+7.3%	+10.0%	+10.1%	5.4%	+7.6%

BY GEOGRAPHICAL AREA

Europe excl. CIS	+2.4%	+0.5%	+2.4%	+0.1%	+4.2%	+2.8%	3.0%	+1.1%
CIS & North America ^[2]	-0.8%	+7.8%	-1.8%	+7.0%	-2.6%	+3.3%	-1.7%	+6.0%
ALMA ^[3]	-14.6%	+0.5%	-14.6%	+2.0%	+4.9%	+13.5%	-8.6%	+5.4%
Group	-5.2%	+2.2%	-5.5%	+2.3%	+3.0%	+6.9%	-2.7%	+3.8%

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

[2] North America = United States and Canada

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

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