DANONE

Press release – February 23, 2016

# *TRANSFORMATION IN MOTION*

**2015 results: solid, in line with objectives**

- Sales growth[1]: +4.4%
- Trading operating margin: 12.91% (+17 bps[1])
- Recurring EPS: 2.93€ (+8.4% at constant exchange rates)

**2016 targets: profitable growth**

- Sales growth[1]: within a range of +3% to +5%
- Solid improvement[1] of trading operating margin

*All references in this document (including 2015 results and 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 10 to 12.*

## CEO EMMANUEL FABER'S COMMENTS

"Over the past 18 months, we have been making the changes necessary to take up the challenges of a new and ever changing world, as we pursue our purpose to provide pleasurable, healthier, sustainable hydration and eating options to our consumers each and every day.
With organic growth of +4.4% and trading operating margin up +17 basis points like-for-like, our results are very solid and perfectly aligned with our objectives. They confirm that we have taken this mission to a new level, paving the way for strong, profitable and sustainable growth by 2020.
We have further sharpened the consumer relevance of our brands, invested more in research and reshaped our organization for greater efficiency and deeper expertise. At the same time, we have enhanced our knowledge and capabilities to protect and grow our businesses, and have moved toward an optimal combination of more agility and discipline in our resource allocation and decision processes.
Our choices in 2015 delivered these solid results, which came from the combination of our businesses in both developed and emerging markets across all four of our categories.
In 2016, in a global context that remains volatile, Danone will continue to invest behind its brands and will mark a further important step to develop a balanced model of strong, profitable and sustainable growth.
I am grateful to the 100,000 people at Danone for what they achieved last year and have full confidence in their engagement as we start a new year of our journey, in which our ambition remains unchanged: create value for all our stakeholders: our employees, our consumers, customers, suppliers and our shareholders."

## HIGHLIGHTS

| **€ million** *(unless stated otherwise)* | 2014 | **2015** | *As reported* | *Like-for-like* |
|---|---|---|---|---|
| **Sales** | 21,144 | **22,412** | +6.0% | **+4.4%** |
| **Trading operating income** | 2,662 | **2,892** | +8.7% | **+5.7%** |
| ***Trading operating margin*** | *12.59%* | ***12.91%*** | +32 bps | ***+17 bps*** |
| **Recurring net income — Group share** | 1,561 | **1,791** | +14.7% | **+9.1%** |
| **Net income — Group share** | 1,119 | **1,282** | +14.6% | **+7.4%** |
| **Recurring EPS** *(€)* | 2,62 | **2.93** | +12.0% | **+6.5%** |
| **EPS** *(€)* | 1.88 | **2.10** | +11.9% | **-** |
| **Free cash-flow excluding exceptional items** | 1,401 | **1,529** | +9.2% | **-** |

[1] *Like-for-like*

## FULL-YEAR 2015 SALES

| € million except % | Q4 2014 | Q4 2015 | Change* | Volume growth* | FY 2014 | FY 2015 | Change* | Volume growth* |
|---|---|---|---|---|---|---|---|---|
| **BY DIVISION** | | | | | | | | |
| Fresh Dairy Products | 2,693 | 2,682 | **+2.6%** | -0.6% | 11,129 | 11,057 | **+0.6%** | -3.0% |
| Waters | 944 | 953 | **+1.9%** | +2.6% | 4,186 | 4,768 | **+7.1%** | +5.1% |
| Early Life Nutrition | 1,241 | 1,332 | **+6.0%** | +3.6% | 4,397 | 4,994 | **+9.8%** | +4.7% |
| Medical Nutrition | 384 | 413 | **+6.8%** | +4.3% | 1,432 | 1,593 | **+7.5%** | +4.7% |
| **BY GEOGRAPHICAL AREA** | | | | | | | | |
| Europe | 2,105 | 2,167 | **+2.3%** | +1.9% | 8,522 | 8 900 | **+3.0%** | +1.0% |
| CIS & North America[1] | 1,042 | 1,064 | **+4.2%** | -2.4% | 4,525 | 4,471 | **+2.6%** | -3.8% |
| ALMA[2] | 2,114 | 2,147 | **+4.7%** | +2.9% | 8,097 | 9,041 | **+6.7%** | +2.8% |
| **Total** | 5,261 | 5,379 | **+3.6%** | +1.3% | 21,144 | 22,412 | **+4.4%** | +0.9% |

** Like-for-like*

In the fourth quarter of 2015, consolidated sales stood at €5,379 million, up +3.6% like-for-like. Growth reflects a +1.3% rise in volume and a +2.3% rise in value.

Fourth-quarter sales rose 2.2% as reported, including changes in exchange rates (-1.3%) and in the scope of consolidation (-0.1%). The exchange-rate effect reflects negative trends in currencies including the Russian ruble and the Brazilian real. Changes in the scope of consolidation result primarily from the deconsolidation in July 2014 of Fresh Dairy Products operations in China, and the sale in December 2014 of the Fresh Dairy Products business in Indonesia.

### Fresh Dairy Products division – Fourth quarter 2015

The Fresh Dairy Products division reported sales up +2.6% like-for-like, buoyed as anticipated by renewed growth in North America. Growth includes a slight -0.6% decline in volumes and a steep +3.2% rise in value.

Business in the CIS & North America area picked up markedly:

- In the United States, growth gathered pace over the quarter, driven by targeted investments backing brands and by the category's return to growth.
- In Russia, with consumer demand sluggish, we continued to enhance our portfolio through higher prices and a positive mix effect, once again offsetting the significant decline in volumes in low value-added segments.

In Europe, the division pursued a concerted effort to gradually steer its business back to profitable structural growth. Fourth-quarter trends are largely in line with those observed in the third quarter of the year. This includes, in particular, the sequential improvement in volumes, supported by the favorable basis of comparison signaling the end of PRGM (Profitable Revenue Growth Management).

Finally, the ALMA region reported a marked rise in sales reflecting contrasting performances in emerging countries, with positive results in Argentina, Mexico and Japan, and a slowdown in Brazil in a very volatile economy.

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

## Waters division – Fourth quarter 2015

The Waters division reported sales up +1.9% like-for-like. As anticipated, drivers were, first, strong double-digit growth for the division as a whole, excluding China, and second, Danone's transitioning of the *Mizone* brand in China which started in the third quarter. This resulted in an unfavorable geographical mix and a -0.7% price mix effect.

In Europe, the Waters division generated solid growth thanks to strong performances for both *evian* and *Volvic* brands that continue to benefit from the raft of initiatives deployed to enhance their organization, portfolio structure, distribution and innovation. *Volvic*'s fourth-quarter sales were boosted by the successful launch of its new *Star Wars*™ collectors' range in France.

The ALMA region (excluding China) also turned in a robust performance which was driven by *Aqua* in Indonesia and strong sales growth in Latin America (including Argentina and Mexico). Momentum came from the fast-moving aquadrink segment and from continued growth in plain waters.

In China, sales retreated as anticipated. In the complex Chinese environment, Danone continued to adjust inventories of *Mizone* to meet shifting trends in consumption and to support *Mizone*'s medium and long-term growth potential. A gradual return to a normalized growth pattern is expected in the second half of 2016.

## Early Life Nutrition division – Fourth quarter 2015

The Early Life Nutrition division saw sales rise a steep +6.0% like-for-like despite a very favorable basis for comparison. This reflects +3.6% growth in sales volume and a +2.4% value increase.

In Europe, sales were boosted by Chinese consumers' confirmed appetite for international brands *Aptamil* and *Nutrilon*, through exports to China.

In China, Danone pushed ahead with efforts to build a sustainable model of growth by continuing to invest in the *Aptamil* and *Nutrilon* brands, and by forging a structure for its local internet offering using a direct distribution model, while developing sales through specialized stores.
Sales trends for the *Dumex* brand (China) have not changed from previous quarters. *Dumex*'s future tie-up with Yashili will let Danone take part in the creation of a platform of strong local brands in a market that holds very significant potential.

Finally, division business in the rest of the world remains upbeat, with double-digit growth in sales in both Latin America and Africa.

## Medical Nutrition division – Fourth quarter 2015

The Medical Nutrition division reported excellent like-for-like growth of +6.8%, with volumes up +4.3% and a price mix effect of +2.5%.

The division turned in solid performances in all geographical areas, in particular in ALMA, driven by growth in Brazil and China, and in Europe, with very good performances in the United Kingdom, the Benelux and Germany.

In keeping with the trend observed in the first three quarters of the year, all segments contributed to growth in the fourth quarter, with the pediatric range (*Neocate* and *Nutrini)* and *Nutrison* brand within the adult range doing particularly well.

## 2015 TRADING OPERATING MARGIN: +17 bps (like-for-like)

Danone's trading operating margin stood at 12.91%, up +32 bps as reported, reflecting a:

- +17 bps rise like-for-like
- +6 bps rise due to changes in the scope of consolidation that included deconsolidation of some Fresh Dairy Products operations in China and Indonesia, and a
- +9 bps rise due to trends in exchange rates.

| | 2014 | 2015 | Change *(like-for-like)* |
|---|---|---|---|
| **BY DIVISION** | | | |
| Fresh Dairy Products | 9.28% | 9.95% | ***+24 bps*** |
| Waters | 12.88% | 11.37% | ***-192 bps*** |
| Early Life Nutrition | 18.83% | 19.32% | ***+142 bps*** |
| Medical Nutrition | 18.28% | 17.95% | ***+1 bp*** |
| **BY GEOGRAPHICAL AREA** | | | |
| Europe | 15.67% | 17.26% | ***+168 bps*** |
| CIS and North America[1] | 8.56% | 8.67% | ***-19 bps*** |
| ALMA[2] | 11.60% | 10.71% | ***-120 bps*** |
| **Total** | **12.59%** | **12.91%** | ***+17 bps*** |

2015 saw an increasingly volatile and complex environment in a number of geographical areas. In this context, Danone demonstrated its capacity to adjust its profitable growth model in line with its roadmap and 2020 ambition of strong, profitable and sustainable growth.

In keeping with its 2015 targets, Danone reported a +17 bps rise in trading operating margin on a like-for-like basis, despite a slowdown that hit the entire category of non-alcoholic beverages in China and weakened the Waters division's margin.

In China, Danone is actively monitoring the transition of its *Mizone* brand toward a normalized pattern of growth and in recent months has begun a process of inventory adjustment with distributors, while maintaining targeted sales and marketing outlays, a dynamic innovation policy, and optimization of structural costs. These adjustments are set to continue in 2016, with growth returning gradually as of the second half of the year.

Outside of China, the Waters division delivered strong results driven by the many initiatives launched in recent years—from optimization of its product portfolio in Europe to the development of aquadrinks in emerging countries and strict cost controls.

2015 also benefited from the transformation program's positive results in Fresh Dairy Products, where margins were up +24 bps like-for-like. Against a backdrop of favorable price trends in raw materials, Danone pursued structural efforts to enhance the value of its brand portfolio and optimize its cost base, while stepping up investment in its brands, thus mobilizing all growth drivers and making its equation for profitable growth sustainable in 2016.

Lastly, Danone once again benefited from profitable growth in Medical Nutrition, where geographical expansion and growth in innovative brands provided momentum, and in Early Life Nutrition, which was sustained by the success of international brands and strong demand in China.

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

## RECURRING EPS 2015 : +8.4% (*at constant exchange rate*)

| *€ million (unless stated otherwise)* | 2014 | 2015 |
|---|---|---|
| **Trading operating income** | **2,662** | **2,892** |
| Other operating income and expenses | (511) | (682) |
| **Operating income** | **2,151** | **2,210** |
| Cost of net debt | (179) | (152) |
| Other financial income and expense | (132) | (133) |
| Income tax | (599) | (626) |
| **Net income from fully consolidated companies** | **1,239** | **1,299** |
| Net income from associates | 14 | 99 |
| Net income | 1,253 | 1,398 |
| Minority interests | 134 | 115 |
| **Group share** | **1,119** | **1,282** |
| of which non-recurring net result | (442) | (508) |
| **Recurring net income – Group share** | **1,561** | **1,791** |
| **Recurring EPS (€)** | **2.62** | **2.93** |
| EPS (€) | **1.88** | **2.10** |

Other operating income and expenses stood at -€682 million, reflecting in particular an impairment loss for the *Dumex* brand and for certain *Dumex* assets (€337 million), as well as expenses related to Danone's cost base reduction and organizational adaptation plans in Europe.

The cost of net debt declined despite a rise in the amount of net financial debt from 2014. This decline was linked in particular to lower interest rates and the benefits of bond issuances that enabled Danone to extend the average maturity of its debt at favorable market conditions.

The positive change in net income from associates reflects acquisitions made in 2014 and 2015 and improvements in net income for some of them. Moreover, the 2014 figure included non-recurring expenses relating to the impairment of certain interests in associates, which created a favorable basis for comparison.

The recurring tax rate stood at 31.3% in 2015, up +0.8 point from 2014 due primarily to the depreciation of deferred tax assets booked in the first half with respect to losses carried forward by *Dumex* in China.

Recurring net income – Group Share stood at €1,791 million in 2015, up +9.1% like-for-like, and up +14.7% as reported compared with 2014.

Recurring EPS stood at €2.93, up +6.5% like-for-like and up +12.0% as reported compared with 2014. EPS were €2.10, up +11.9% as reported.

## 2015 CASH-FLOW AND DEBT

Free cash-flow stood at €1,468 million in 2015, including €61 million[1] in outlays linked to the company's cost-reduction and organizational adaptation plan in Europe.

Free cash-flow excluding exceptional items thus came to €1,529 million (6.8% of sales), up +9.2% from 2014, buoyed by the rise in sales and in trading operating margin, and by favorable exchange-rate effects. This will fund Danone's roadmap for growth. Capital expenditure for 2015 came thus to €937 million, or 4.2% of sales.

Danone's net debt was stable compared with 2014 at €7,799 million on December 31, 2015. This includes €862 million in put options granted to minority shareholders, down €1,696 million from December 31, 2014.

In 2015, Danone finalized several external transactions, notably the acquisition of a 25% equity interest in Yashili, the repurchase of a 15.7% stake in Danone Spain, and the exercise, by some shareholders of the Danone-Unimilk group, of put options representing 40% of the company's share capital. After this transaction was completed in early 2016, Danone held 92.9% of the Danone-Unimilk group.

[1] *Net of tax*

## RECENT DEVELOPMENTS IN AFRICA

Danone is also continuing to expand in Africa, a strategic region with scope for new sources of growth. It launched a series of initiatives to raise company standards for supply, production and distribution, reflecting its ongoing commitment to developing a unique product offering for consumers.

To this end, Danone:

- acquired an additional 5% equity stake in Centrale Danone in Morocco on December 10, 2015, following two earlier transactions in 2013 and 2014. This gave Danone over 95% of the company's capital.
- increased its equity interest in Fan Milk from 49% to 51%, i.e., a controlling stake, on February 19, 2016.
- acquired the Egyptian company Halayeb for Dairy Products and Juice on February 18, 2016, specialized in fresh cheese, one of the most dynamic segment in the dairy category of this country.

Furthermore, on June 3, 2015, Danone DjurDjura acquired assets from Algerian company Trèfle, the country's third largest fresh dairy products player.

## REDUCTION OF CARBON FOOTPRINT IN 2015

Danone products depend on natural ecosystems. This being the case, it is in the company's best interest to make care for the environment an integral part of its business activities.

Since carbon footprint is a global indicator that reflects a wide range of environmental criteria, Danone has for the past several years been committed to reducing the carbon intensity[1] of its products very significantly. As a result of action plans deployed to this end, the company effectively decoupled business growth and CO2 emissions by reducing its carbon intensity by -46%[2] from 2008 to 2015, based on operations under its direct responsibility (packaging, industrial activities, logistics and end-of-life).

In November 2015, as part of the COP21 of the United Nations, Danone took these efforts further by adopting a new climate policy that targets zero net carbon emissions within both its direct scope of responsibility (production, packaging, logistics, end of life) and the full scope of areas where it shares responsibility, especially in agriculture. This new climate policy aims to achieve zero net carbon emissions in the long term, 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 start reducing its full scope emissions in absolute terms before 2025. Consistent with this commitment, the *evian* brand will be the first to achieve zero net carbon in 2020.

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

## 2016 OUTLOOK

After delivering profitable growth in 2015, Danone will pursue its journey to meet its ambition for 2020, which calls for strong, profitable and sustainable growth.

Danone 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 2016, Danone also anticipates upward trends in the cost of its main strategic raw materials. Against this backdrop, it will continue to strengthen its model through a range of initiatives aimed at offsetting inflation and limiting its exposure to volatility.
Milk prices are thus expected to edge up, with variations from one geographical area to the next:

- lower prices in Europe and the United States in the first half, with a possible rebound in the second half of the year, and
- steady price increases in emerging countries all year long, particularly in the CIS.

Regarding its other raw materials, including plastics, sugar and fruits, Danone anticipates overall inflation in which the recent deterioration in emerging market currencies is an important factor.

In this context, Danone will continue its transformation toward an increasingly balanced model, which makes perfect execution of its roadmap for growth and discipline in allocating resources its top priorities.

As a result, Danone's 2016 targets include:

- sales growth[1] within a range of +3% to +5%
- solid improvement[1] of trading operating margin

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

## TOWARD STRONG, PROFITABLE AND SUSTAINABLE GROWTH IN 2020

Danone is continuing to build a balanced model for profitable growth, drawing on extremely solid levers, product categories with strong potential, and its portfolio of unique brands, by focusing on the three streams set out in its Danone 2020 transformation program:

- *Alimentation*: encourage healthier eating and drinking behaviors by meeting people's nutritional needs, but also by integrating cultural, social, emotional and physiological factors that shape local eating habits in each region of the world;
- *food and water cycles*: protect and secure its main strategic resources (milk, plastics and water) while generating a genuine competitive advantage;
- *people and organization*: develop strong teams and improve the operational efficiency of its organization.

Danone's goal for 2020 is to generate strong, profitable and sustainable growth, more specifically overall growth equal to or higher than 5%, composed of the following dynamics:

- between +3% and +5% for the Fresh Dairy Products division
- between +7% and +10% for the Water division and the Early Life Nutrition division
- between +6% and +8% for the Medical Nutrition division

Moreover, Danone is committed to annual growth in margin driven primarily by a structural recovery in the margin reported by its Fresh Dairy Products division. In Fresh Dairy Products, Danone anticipates a rise of over 200 basis points in the division's aggregate margin between 2015 and 2020, compared to the 2014 figure, at constant exchange rates.

[1] *Like-for-Like*

## DIVIDEND

At the Annual General Meeting on Thursday, April 28, 2016, Danone's Board of Directors will ask shareholders to approve distribution of a **€1.60** dividend per share in cash in respect of the 2015 fiscal year, up +6.7% from 2014. This dividend reflects the confidence of both the Board and management in the company's scope for growth in profit.
Assuming this proposal is approved, the ex-dividend date will be Thursday, May 5, 2016. Dividends will be payable on Monday, May 9, 2016.

## GOVERNANCE

Acting on the recommendation of the Nomination and Compensation Committee, the Board of Directors, meeting on February 22, 2016, approved draft resolutions that will be submitted to the Annual General Meeting on April 28, 2016 proposing that shareholders renew the appointments of two Directors—Franck Riboud, Chairman, and Emmanuel Faber, CEO—whose current terms are expiring.

Reviewing the proposed renewals, the Board underscored the exemplary and particularly smooth transition to the new governance structure adopted on October 1, 2014, in which the functions of Chairman and Chief Executive Officer were separated and the Chairman was granted strengthened duties to accompany the transmission process. Against this backdrop, and subject to the renewal of Franck Riboud's appointment as Director, the Board confirmed that the period of expanded Chairman duties will end, as planned, in the course of 2017, after which Franck Riboud will serve as a traditional non-executive Chairman.

The Board also proposed that shareholders approve the appointment of Clara Gaymard as an Independent Director as recommended under the AFEP-MEDEF governance code.

A French national, 56-year-old Clara Gaymard is a graduate of the Institut d'Etudes Politiques (Paris) and the Ecole Nationale d'Administration. She began her career with France's Court of Auditors and the Ministry for the Economy and Finance's DREE unit, charged with international economic relations, before being appointed roving ambassador for international investment in 2003. She joined the management of General Electric France in 2006 as Director. From 2010 to the end of 2015, she was Chairman and CEO of General Electric France and Vice-Chairman of General Electric International. Her management expertise and track record in successfully expanding the activities of international corporations, and her familiarity with Danone's key markets are obvious assets for the work of a Board of Directors.

The Board has noted that these renewals and this new appointment are in keeping with the drive to improve its governance that has now been underway for several years.

The Board's percentage of independent directors increased to 79%, and both the expertise and the diversity of its composition are confirmed. With Ms Gaymard's appointment, the percentage of women directors will rise from 38% to 43%, which means Danone will reach the 40% target set for 2017 in French legislation promoting the equality of women and men on Boards of Directors in advance of the projected date.

## MAJOR FINANCIAL TRANSACTIONS AND DEVELOPMENTS OVER THE PERIOD

***(Summary of press releases issued in the last quarter of 2015)***

- On November 23, 2015, Danone announced the successful launch of a €750 million bond issue in euros, priced at mid-swap +67 basis points, and a coupon of 1.25%. Contributing to the financing of Danone and its development, this issue enables the company to extend the maturity of its debt in a market favorable to quality bond issues. Danone is rated A-, negative outlook, by Standard & Poor's and Baa1, stable outlook, by Moody's.

- On December 2, 2015, and following the conclusion of a preliminary agreement with Yashili and Mengniu signed on July 24, 2015, Danone announced the execution of a final sale agreement of Dumex in China to Yashili, for a total €150 million.

- On December 2, 2015, Danone announced that it was investing €240 million to build a new plant for its Early Life Nutrition business. With this investment, Danone will capitalize on strong and growing demand for its international early life nutrition brands, including *Aptamil* and *Nutrilon*, for both standard and specialized products. The state-of-the-art facility will be built in Cuijk in the Netherlands, and will start production in late 2017. This new plant is Danone's largest investment in its European production capabilities, and will double its capacity in the Netherlands.

## ADDITIONAL INFORMATION

At its meeting on February 22, 2016, the Board of Directors closed statutory and consolidated financial statements for the 2015 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 12.*

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

- like-for-like changes in sales, trading operating income, trading operating margin, recurring net income and recurring EPS;
- trading operating income;
- 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, Trading operating income, Trading 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 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) limit the inflation of price and cost of goods sold per kilo to their average level for the past three years and (b) cap trading 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 %)* | | | | | | | |
| **2014** | 21,298 | +0.1% | -5.5% | +0.4% | -5.9% | **+4.7%** | 21,144 |
| **2015** | 21,144 | -0.4% | +2.0% | +0.3% | +1.7% | **+4.4%** | 22,412 |
| ***Trading operating margin*** | | | | | | | |
| **2014** | 13.19% | -20 bps | -28 bps | -20 bps | -8 bps | **-12 bps** | 12.59% |
| **2015** | 12.59% | +6 bps | +9 bps | -1 bps | +10 bps | **+17 bps** | 12.91% |
| ***Recurring EPS*** *(€ except %)* | | | | | | | |
| **2014** | 2.78 | -0.3% | -7.8% | -1.7% | -6.1% | **+2.5%** | 2.62 |
| **2015** | 2.62 | +1.9% | +3.5% | +0.3% | +3.2% | **+6.5%** | 2.93 |

***Trading 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.

***Trading operating margin*** is defined as Trading 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 Total Recurring net income over tax income and expenses related to non-recurring income and expenses.

| | | | **2014** | | | **2015** |
|---|---|---|---|---|---|---|
| *(€ million except %)* | Recurring | Non-recurring | **Total** | Recurring | Non-recurring | **Total** |
| **Trading operating income** | **2,662** | | **2,662** | **2,892** | | **2,892** |
| Other operating income and expense | | (511) | (511) | | (682) | (682) |
| **Operating income** | **2,662** | **(511)** | **2,151** | **2,892** | **(682)** | **2,210** |
| Cost of net debt | (179) | | (179) | (152) | | (152) |
| Other financial income and expense | (129) | (3) | (132) | (129) | (4) | (133) |
| **Income before taxes** | **2,353** | **(514)** | **1,839** | **2,611** | **(686)** | **1,925** |
| Income tax | (716) | 117 | (599) | (818) | 193 | (626) |
| Effective tax rate | 30.5% | | 32.6% | 31.3% | | 32.5% |
| **Net income from fully consolidated companies** | **1,637** | **(397)** | **1,239** | **1,792** | **(493)** | **1,299** |
| Net income from associates | 66 | (52) | 14 | 123 | (25) | 99 |
| **Net income** | **1,703** | **(450)** | **1,253** | **1,915** | **(518)** | **1,398** |
| • Group share | 1,561 | (442) | 1,119 | 1,791 | (508) | 1,282 |
| • Non-controlling interests | 142 | (7) | 134 | 125 | (9) | 115 |

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

| | | **2014** | | **2015** |
|---|---|---|---|---|
| | **Recurring** | **Total** | **Recurring** | **Total** |
| **Net income-Group share** *(€ million)* | 1,561 | 1,119 | 1,791 | 1,282 |
| **Number of shares** | | | | |
| • Before dilution | 594,472,798 | 594,472,798 | 609,647,527 | 609,647,527 |
| • After dilution | 595,536,328 | 595,536,328 | 610,155,241 | 610,155,241 |
| **EPS** *(€)* | | | | |
| • Before dilution | 2.63 | 1.88 | 2.94 | 2.10 |
| • After dilution | 2.62 | 1.88 | 2.93 | 2.10 |

***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 deployed within the framework of the plan to generate savings and adapt Danone's organization in Europe.

| *(€ million)* | **2014** | **2015** |
|---|---|---|
| **Cash-flow from operating activities** | **2,189** | **2,369** |
| Capital expenditure | (984) | (937) |
| Disposal of tangible assets | 67 | 31 |
| Transaction fees related to business combinations[1] | 6 | 5 |
| Earn-outs related to business combinations[2] | - | - |
| ***Free cash-flow*** | **1,277** | **1,468** |
| Cash-flows related to plan to generate savings and adapt organization in Europe[3] | 123 | 61 |
| **Free cash-flow excluding exceptional items** | **1,401** | **1,529** |

[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, 2014** | **At December 31, 2015** |
|---|---|---|
| Non-current financial debt[1] | 6,598 | 8,087 |
| Current financial debt | 4,544 | 2,991 |
| Short-term investments | (2,317) | (2,514) |
| Cash and cash equivalents | (880) | (519) |
| Derivatives — non-current assets | (153) | (125) |
| Derivatives — current-assets | (28) | (120) |
| **Net debt** | **7,764** | **7,799** |
| • Liabilities related to put options granted to non-controlling interests — non current | (349) | (248) |
| • Liabilities related to put options granted to non-controlling interests — current | (2,209) | (614) |
| Financial debt excluded from net financial debt | (2,558) | (862) |
| **Net financial debt** | 5,206 | 6,937 |

[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).*

***Our presentation to analysts and investors, chaired by Emmanuel Faber, CEO, and Cécile Cabanis, CFO, will be broadcast live this Tuesday, February 23, 2016, starting at 9.00 am (CET).***

***Related slides will be available on our website (www.finance.danone.com) from 7.30 am (CET) today.***

## APPENDIX – Sales by division and by geographical area

| | First quarter 2014 | First quarter 2015 | Second quarter 2014 | Second quarter 2015 | Third quarter 2014 | Third quarter 2015 | Fourth quarter 2014 | Fourth quarter 2015 | Full-year 2014 | Full-year 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **BY DIVISION** | | | | | | | | | | |
| Fresh Dairy Products | 2,809 | 2,807 | 2,831 | 2,857 | 2,796 | 2,711 | 2,693 | 2,682 | 11,129 | 11,057 |
| Waters | 895 | 1,065 | 1,179 | 1,438 | 1,169 | 1,312 | 944 | 953 | 4,186 | 4,768 |
| Early Life Nutrition | 1,029 | 1,220 | 1,042 | 1,225 | 1,084 | 1,217 | 1,241 | 1,332 | 4,397 | 4,994 |
| Medical Nutrition | 328 | 380 | 354 | 401 | 366 | 400 | 384 | 413 | 1,432 | 1,593 |
| **BY GEOGRAPHICAL AREA** | | | | | | | | | | |
| Europe | 2,053 | 2,156 | 2,208 | 2,290 | 2,156 | 2,286 | 2,105 | 2,167 | 8,522 | 8,900 |
| CIS & North America[1] | 1,154 | 1,108 | 1,176 | 1,197 | 1,153 | 1,102 | 1,042 | 1,064 | 4,525 | 4,471 |
| ALMA[2] | 1,854 | 2,207 | 2,022 | 2,434 | 2,107 | 2,252 | 2,114 | 2,147 | 8,097 | 9,041 |
| **Total** | **5,061** | **5,471** | **5,406** | **5,921** | **5,416** | **5,641** | **5,261** | **5,379** | **21,144** | **22,412** |

| | First quarter 2015 | | Second quarter 2015 | | Third quarter 2015 | | Fourth quarter 2015 | | Full-year 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *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 | -0.1% | +0.2% | +0.9% | -1.1% | -3.0% | +0.6% | -0.4% | +2.6% | -0.6% | +0.6% |
| Waters | +18.9% | +8.6% | +22.0% | +10.2% | +12.3% | +6.8% | +1.0% | +1.9% | +13.9% | +7.1% |
| Early Life Nutrition | +18.5% | +11.6% | +17.6% | +11.1% | +12.3% | +10.9% | +7.3% | +6.0% | +13.6% | +9.8% |
| Medical Nutrition | +15.8% | +9.1% | +13.3% | +7.1% | +9.1% | +6.9% | +7.6% | +6.8% | +11.3% | +7.5% |
| **BY GEOGRAPHICAL AREA** | | | | | | | | | | |
| Europe | +5.0% | +2.9% | +3.7% | +1.8% | +6.1% | +5.1% | +3.0% | +2.3% | +4.4% | +3.0% |
| CIS & North America[1] | -4.0% | +2.8% | +1.8% | +0.4% | -4.4% | +3.2% | +2.1% | +4.2% | -1.2% | +2.6% |
| ALMA[2] | +19.0% | +8.0% | +20.4% | +9.4% | +6.9% | +4.7% | +1.6% | +4.7% | +11.7% | +6.7% |
| **Total** | **+8.1%** | **+4.8%** | **+9.5%** | **+4.5%** | **+4.2%** | **+4.6%** | **+2.2%** | **+3.6%** | **+6.0%** | **+4.4%** |

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