



LETTER to our SHAREHOLDERS Spring 2015



Dear Shareholders,

2014 marked a turning point for Danone: we met the challenge of returning to profitable growth in the second half, ending the year with sales up +4.7%—right on target. This performance was all the more striking in a complex and unsettled world economy, roiled by volatile commodity prices and exchange rates in key Danone markets, including Russia and Argentina. Our strong showing reflects the strength of our brands, the global reach of our development platforms and our teams' commitment to success. And all of these assets will continue to fuel our company's growth as we head towards 2020 and beyond.

Last year was also a turning point in that we laid the foundations for Danone's future by making major changes in our governance structures. As part of our dual commitment to business success and social progress, we want Danone to be better positioned to meet the critical food challenges facing our world.

To achieve this, we set up a stronger chairmanship, which will focus on medium- and long-term strategic priorities, and a CEO to handle day-to-day operations. We defined the main priorities of our Danone 2020 program, set to guide the next stages in our growth, and laid the groundwork for deploying it.

In short, we used 2014 to prepare a solid foundation that Danone can build on in 2015 and the years ahead. Our top priority will remain: generating profitable growth in sales and creating conditions to make that growth sustainable. We will also start to deploy Danone 2020, with the goal of creating even more value to share with all of our stakeholders—our 100,000 employees, our customers and suppliers, and you, our shareholders.

Sales

**€21,144
million**

up +4.7% like-for-like

Dividend per share

€1.50

+3.4% as reported

Franck Riboud,
Chairman of the Board
Emmanuel Faber,
CEO

THE EXECUTIVE COMMITTEE

Management team strengthened to serve strategic priorities

To deploy the company's strategy and support the "Danone 2020" ambition, **Emmanuel Faber** has strengthened and developed his **Executive Committee**. The team that has been created will focus on short-term priorities while at the same time leading Danone towards a new stage in its development based on profitable and sustainable growth. This renewal fits with the medium-term schedule outlined in the "Danone 2020" development plan.

A new composition...

Cécile Cabanis, French, 43, will head the Financial Department as Chief Financial Officer. She previously held the post of Finance Director, Fresh Dairy Products Division.

Gustavo Valle, Argentinian, 50, has been appointed Executive Vice President Fresh Dairy Products to consolidate the division's return to growth. From January 2014, he was Executive Vice President Fresh Dairy Products Europe.

...and incorporating Danone's development priorities

Bertrand Austruy, French, 41 has been appointed as General Secretary. He was previously General Counsel, VP Product Compliance and Food Safety. He is now responsible for legal affairs, regulatory matters, compliance and food safety, as well as communications and public affairs.

Lorna Davis, Australian, 55, will join the Executive Committee on June 1, 2015 to shape the "Danone 2020" initiative as Chief Manifesto Catalyst.

Pascal De Petrini, French, 54, will be appointed as Executive Vice President Strategic Resource Cycles on June 15, 2015.

Pierre-André Térissé, French, 48, will manage the newly created Africa division. As Africa generates a €1.2 billion turnover, this new multi-sector division has been set up to accelerate Danone's development in this strategic region.



Emmanuel Faber,
Chief Executive Officer
and Vice Chairman of the
Board of Directors



Pascal De Petrini,
Executive Vice President
Strategic Resource Cycles



Bertrand Austruy,
General Secretary



Felix Martín García,
Executive Vice President
Early Life Nutrition



Marc Benoit,
Executive Vice President
Human Resources



Flemming Morgan,
Executive Vice President
Medical Nutrition



Cécile Cabanis,
Chief Financial Officer



Jean-Philippe Paré,
Executive Vice President
Research and Development



Francisco Camacho,
Executive Vice President
Waters



Pierre-André Térissé,
Executive Vice President Africa



Lorna Davis,
Chief Manifesto Catalyst



Gustavo Valle,
Executive Vice President
Fresh Dairy Products



3 questions for Cécile Cabanis

Chief Financial Officer

How would you describe Danone's 2014 results?

In what proved a very volatile year, **we met our annual targets with organic growth of +4.7%***, operating margin down 12 basis points* and free cash flow excluding exceptional items of €1,401 million. Given the steep rise in milk prices during the year and the very high bases for comparison that resulted from the false safety alert in 2013, **this performance reflects the solidity of our operations around the globe.** That includes Europe, where the combined impact of efforts to revamp our product lines and boost productivity are beginning to pay off. Plus the US, where Danone confirmed its leading position in the yogurt segment, and Russia, where our operations and local brands are set up to face off the market's specific challenges. And finally, emerging countries, where we recorded double-digit growth in the second half.

What were your main achievements?

First, as anticipated, **we delivered an equation for profitable growth in the second half**—that is, we increased both our sales and our operating margin. It's worth noting that the prime driver for this performance was Europe, where we

started to turn profitability around in Fresh Dairy Products, boosting our second-half margin from 2013. At the same time, **we continued to lay the foundations for long-term growth**, most notably in Asia and Africa, by acquiring stakes in both Brookside (Kenya) and Yashili (China), and raising our interest in Centrale Laitière (Morocco) and Mengniu (China).

What do you see ahead in 2015?

We expect the world macro-economic environment to remain strained and unstable. Against that backdrop, we will benefit from favorable trends in milk prices, and our main objective will be to **make our equation for profitable growth sustainable.** That is, to generate organic growth in sales and margin while making the investments needed to secure this performance over time. All factors considered, we are targeting organic growth in sales of between +4% and +5% full year, and a slight growth in trading operating margin.

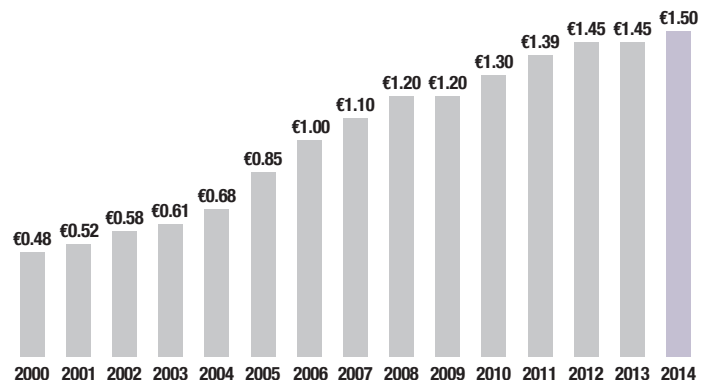
*Like-for-like

2014: Annual targets for growth in sales, margin and free cash-flow achieved

	2014 Target	2014 Reported
Growth in sales ⁽¹⁾	Over +4.5%	+4.7%
Operating margin ⁽¹⁾	Stable ±20 bps	12.59% -12 bps
Free cash-flow excl. exceptional items	Around €1.5 bn	€1.4 bn

⁽¹⁾ Like-for-like

Dividend per share up +3.5%⁽²⁾,
Reflecting Board of Directors' and management's confidence in the outlook for growth in earnings



⁽²⁾ 2014 dividend proposed to General Meeting of Shareholders on April 29, 2015

GROUP NEWS

Governance adapted to meet Danone's **new challenges**

In late 2014, Danone adopted a new governance structure designed to meet the challenges of a new millennium priorities: shaping our future in line with our mission and our dual commitment to business success and social progress, positioning ourselves to meet new food-related challenges worldwide, and keeping pace with changing patterns of consumption and an unpredictable economy.

Franck Riboud, our Chairman and Chief Executive Officer since 1996, began planning for his succession in 2014. In early October the functions of Chairman and CEO were divided, with Franck Riboud continuing to serve as Chairman and Emmanuel Faber, until then our company's Co-Chief Operating Officer, named CEO.

Franck Riboud discussed his rationale for the changes in a letter to Danone employees: "Just over 18 years ago, when I became

Danone's Chairman and CEO at the age of 40, we had set a certain number of goals. These included becoming a truly global company through a determined drive to win markets in emerging countries, generating outstanding organic growth, and refocusing our operations on promising core businesses where we could hold or share market leadership worldwide—all while continuing to practice our dual commitment to business success and social progress, and remaining a pace-setter in social innovation. Together,

Danone Board of Directors prior to General Meeting of Shareholders in April 2015⁽¹⁾



FRANCK RIBOUD
59, Chairman of Danone's Board of Directors



JEAN LAURENT⁽²⁾
70, Chairman of the Board of Directors of Foncière des Régions



JEAN-MICHEL SEVERINO⁽²⁾
57, Head of I&P SARL (Investisseurs & Partenaires)



EMMANUEL FABER
50, Chief Executive Officer of Danone and Vice Chairman of the Board of Directors of Danone



GAËLLE OLIVIER⁽²⁾
43, Chief Executive Officer, AXA Asia General Insurance



VIRGINIA A. STALLINGS⁽²⁾
64, Professor of Pediatrics at Children's Hospital of Philadelphia



BRUNO BONNELL⁽²⁾
56, Chairman, of I-Volution



BENOÎT POTIER⁽²⁾
57, Chairman and Chief Executive Officer of Air Liquide SA



BETTINA THEISSIG
52, Director representing Danone employees



JACQUES-ANTOINE GRANJON⁽²⁾
52, Chairman and Chief Executive Officer, vente-privee.com



ISABELLE SEILLIER
55, Head of Financial Institutions EMEA of J.P. Morgan



SERPIL TIMURAY^{(2)*}
45, Regional CEO Africa, Middle East, Asia-Pacific, and Executive Committee member of Vodafone Group



MARIE-ANNE JOURDAIN
56, Director representing Danone employees



MOUNA SEPEHRI⁽²⁾
52, Member of the Executive Committee, Executive Vice President of Renault SAS



LIONEL ZINSOU-DERLIN⁽²⁾
60, Chairman of PAI Partners SAS

(1) Richard Goblet d'Alviella will not seek renewal of his mandate as director at the April 2015 General Meeting of Shareholders.

(2) Directors recognized by the Board as independent under the Atep-Medef Code.

*Subject to the approval of the General Meeting of Shareholders on April 29, 2015.

we have reached these goals. Over the past few months, I have been thinking about what tomorrow's Danone should look like and what goals we should set for the coming decades. Our Danone 2020 project is an early example of that, and I now believe that it is my responsibility to spend most of my time on the key strategic issues that will shape our business model for the 2020s, the 2030s and beyond. And that also means creating the corporate structures and governance we will need as we move forward. At the same time—now more than ever—we must concentrate on the challenges of today. Which is why I recommended that the Board of Directors separate the duties of the Chairman, who will now focus essentially on the medium and long term and concentrate on putting Danone's governance in place, from those of the CEO, who manages our day-to-day operations. The Board agreed and confirmed me as Chairman. They also agreed with my recommendation that Emmanuel Faber be appointed as CEO, which means Emmanuel will take the helm at Danone and lead our teams. He will also head the Executive Committee and have operational responsibility for all of our businesses. Since 1997, Emmanuel has worked closely with me to make and deploy all major decisions affecting Danone, acquiring a thorough understanding of our company, our people, our businesses, our culture and our structures. His innovative flair, his rigor and his uncompromising standards have helped transform our company in profound ways. Deeply dedicated to the values of Danone's dual commitment. The Board and I trust him implicitly to lead our businesses in today's increasingly complex environment."

A STRONGER CHAIRMAN

Guidance for this change in governance came from Danone's Nomination and Compensation Committee and Board of Directors, who wanted the Chairman to be able to do more than simply coordinate the Board's work. For Jean Laurent, Lead Independent Director and Chair of the Nomination and Compensation

Committee, the explanation is simple (see box below).

Over the past few months, this stronger chairmanship has translated into a number of different activities for Franck Riboud. He has supported the CEO as it took on its new responsibilities and presented our new principles of corporate governance to various groups of stakeholders. He has talked with the management team about the Danone 2020 project, helping them set goals and define the scope of broader strategic priorities.

Franck Riboud has also helped design the Board's new Strategy Committee, which he will chair. The Strategy Committee is not a decision-making body, but will make recommendations to the Board on key issues affecting Danone's future. Its duties will include conducting in-depth reviews of acquisitions and other strategic initiatives proposed by the CEO, as well as proactively considering new directions for the company in partnership with senior management.

MORE OPEN TO NEW IDEAS THAN EVER

With the new Strategy Committee in place—it began its work in the first half of 2015—most of Danone's directors now have the opportunity to sit on a committee. At the same time, the Board's composition has changed significantly over the past twelve months, with major increases in the percentages of independent directors (now 77%*), women (38%*) and non-French directors (31%*). October saw the appointments of Marie-Anne Jourdain and Bettina Theissig, new directors who bring outstanding knowledge of Danone and its people to their responsibilities as employee representatives. The Board will this year welcome Serpil Timuray*, Regional CEO of Africa, Middle East and Asia-Pacific for the Vodafone Group. She will offer the Board a seasoned perspective for the economies and special characteristics of emerging markets, as well as her experience with

new technologies. To coordinate the work of the Board and its committees, Laurent Sacchi, formerly VP Chairman's Office, was named Secretary of the Board. He will provide liaison between the Chairman and the CEO on major issues affecting our company.

* Subject to the approval by the General Meeting of Shareholders on April 29, 2015 of the appointment of Serpil Timuray.

A stronger Chairman: the view of Jean Laurent Lead Independent Director and Chair of the Nomination and Compensation Committee

"For 20 years, Franck Riboud led Danone to spectacular growth, transforming it into a truly global company, focusing it on emerging markets and preparing it for the challenges of tomorrow. This growth created value for all of Danone's stakeholders, including our shareholders. Under Franck Riboud's leadership, the company's value nearly quintupled, and dividend per share never declined. In addition to his business performance, Franck Riboud personifies the company, its values, its management style and its unique culture. For all of these reasons, the Board felt it was essential for Franck Riboud to stay involved in the life of the company full-time to ensure a smooth, gradual transition, even as we fully accept the executive authority of the CEO. We believe that this model for succession and knowledge transfer is in the best interest of the company, its employees and its shareholders."

LATEST NEWS

Danone and Mars Inc. set up the Livelihoods Fund for Family Farming

On February 4, in Paris, Danone and Mars Inc. launched the Livelihoods Fund for Family Farming (Livelihoods 3F), aimed at helping companies to learn how to sustainably source the materials they need from smallholder farmers thereby greatly improving living conditions for these farmers and their communities. Over the next 10 years, Livelihoods 3F aims to invest €120 million to implement projects in Africa, Asia and Latin America. The goal is to help 200,000 smallholder farmers and 2 million people to boost sustainability for their crops.

"Livelihoods 3F is based on the conviction that sustainable farming, climate change and poverty are closely linked," said Bernard Giraud, President of Livelihoods Venture, the service company that will implement the fund. "It is an open investment fund. All businesses that want to source agricultural and natural goods in a sustainable and responsible way are encouraged to join us."

Over the next ten years, up to 40 projects may be implemented. They will focus on restoring the environment, improving living



conditions, productivity and income for small rural farmers. "The challenges of sustainable agriculture can only be met if we are able to develop radically different approaches combining economic, environmental and social objectives simultaneously," said Franck Riboud, Chairman of Danone's board of Directors. "Delivering quality products that consumers love, and growth we can be proud of as a company, are dependent upon having a sustainable value chain that creates mutual benefit for the farmers who work hard to produce our agricultural ingredient," said Victoria Mars, Chairman of the Board, Mars, Inc. The new Livelihoods 3F Fund will capitalize on the experience and networks of NGO partners and public partners developed through the Livelihoods Carbon Fund, initiated by Danone in 2011.

Good Health of the Advanced Medical Nutrition



It was an excellent year for the Advanced Medical Nutrition division which delivered almost 8% growth in CANN, driven by higher volumes in Turkey, China, Brazil and the Middle East. Favourable mix and pricing also contributed with Turkey and Brazil offsetting continued price pressure in Europe, especially in Benelux, where healthcare spending continues to be restricted by budgetary constraints.

The benefits of the reorganisation of the business in 2013, from four to three regions and a redefinition of roles between central and local teams, were seen in 2014. In addition Advanced Medical Nutrition renewed its focus on high value categories which resulted in a strong performance from its metabolics and paediatrics segment, with

specialised infant nutrition brands Neocate and Nutriini being particularly strong contributors.

In 2014 Advanced Medical Nutrition continued to build its product portfolio and launched several innovations. Fortini Creamy Fruits and PKU Lophlex LQ Juicy 2.0 were introduced to provide superior taste and alternative formats in the growing paediatrics category. The division also introduced products designed to meet the needs of consumers in specific geographical markets such as Fortini powder for Brazil and other growth markets. The successful Fortimel Compact range was rejuvenated to maintain its position as a leading product for adults suffering from frailty or malnutrition.

The division remained focused on delivering excellence in customer service through innovations in online sales and home delivery. For example, the digital application for patients, Nutricia Dietetic App was deployed in Ireland and was awarded the title "medical application of the year" at the Appys Awards, the British award ceremony for the year's best applications. Nutriacongresses.com was also launched, a new global platform for exchange of information and for healthcare professional content.

* PKU Lophlex LQ Juicy sold in 13 countries

Latin America: Danonino on McDonald's children's menus

Danonino is now available on McDonald's Happy Meal children's menus in over 35 countries.

In Brazil, Argentina, Uruguay, Paraguay, Guatemala and Mexico, McDonald's young customers can now choose Danonino, a fresh dairy product on their menu. The partnership between Danone and McDonald's started in July 2014 in these six Latin American countries and has proved a great success with 72 million Happy Meals sold in less than six months.

The success of a healthy dessert

Danonino, a fresh dairy product fortified with calcium and vitamin D, is ideal for children aged between 3 and 6. "A healthy, delicious dessert



danone.communities and the Waters division come together to promote greater access to drinking water

Teams from Danone's Waters Division and from danone.communities met at the Global Social Business Summit (GSBS), organised by Professor Yunus in Mexico last November, where they shared their experience of the issues surrounding access to safe drinking water. Far too few people still cannot rely on being able to drink safe water every day. There are currently 1.2 billion people worldwide who lack access to clean water and each year 2.2 million people die from diarrhoea. 70% of the need for access to safe water is concentrated in Asia and in rural areas in particular.*



with each Happy Meal" is the pledge made by McDonald's, the world's leading commercial catering company. After introducing chopped, fresh fruit to its children's menus, it is working to offer further nutritional alternatives for its children's menus. This initiative has succeeded in these six Latin America countries where obesity, and particularly in children, has become a major public health issue.

Danone has been tackling this issue through the danone.communities Fund which aims to fund local communities that are focused on social targets with a long-lasting economic model. At the GSBS, danone.communities organized a three day trip for around fifty employees from Waters division companies in Brazil, Argentina and Mexico. They travelled with representatives from Naandi and 1001 Fountains, two projects supported by danone.communities. The aim was to study the EcoAlberto project, launched in 2011 to meet the challenge of getting drinking water to the Mexican village of the same name, a village which is both arid and remote. Water is transported there in tanks and distributed by women. 25,000 people, belonging to 32 indigenous communities now have daily access to drinkable water. "When I look at the impact of EcoAlberto, I see a sustainable way of addressing a basic fundamental need, a fantastic way of attracting young talent, motivating Danone employees and making them proud," said Francisco Camacho, Executive Vice President Waters Division.

* Source: Hystra 2011 report.

LATEST NEWS

Danone & Mengniu expand their alliance to include infant milk formula in China

Alongside its partner Mengniu, Danone is expanding its presence in China in Early Life Nutrition by subscribing to a private placement by Yashili, one of China's leading infant milk companies

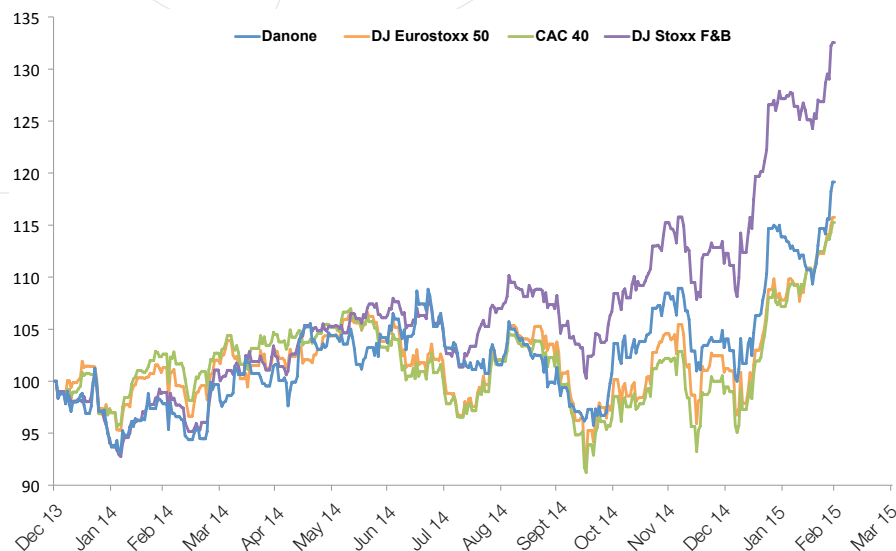
With this new alliance, Danone and Mengniu intend to grow Yashili and develop a wide range of products that meet the very highest standards in this category. Upon completion of the subscription, Danone will hold a 25% equity interest in Yashili. This cooperation will enable Danone to combine its international expertise and experience of infant milk products with Mengniu's solid infrastructure. The infant milk formula market in China is set to more than double and reach almost 25 billion euros in 2017 (source Euromonitor) given an annual birth rate of over 16 million, relaxation of the single child policy in some regions and the huge expansion of the middle classes and urban development. This offers great potential for Danone which is already present on the market with Dumex and Nutrilon.



SHAREHOLDER INFORMATIONS

Danone share price compared with international indices

December 31, 2013 to February 28, 2015 (Base 100 at 31/12/2013)



Danone shares

> NUMBER OF SHARES ON JUNE 5,

2014: 643,792,000

> NOMINAL VALUE: 0.25 euro per action

> QUOTED STOCK MARKETS:

Company shares are quoted on the NYSE Euronext Paris, on the Swiss Stock Exchange and are quoted under the American Depositary Shares/Receipts (ADS/ADR) on the Over-the-Counter (OTC) market in the United States with the ratio: 1 current share = 5 ADS

News flash:

Bond issue

On January 7, 2015, Danone successfully launched a €1.3 billion dual-tranche bond issue.

As an integral part of financing for Danone and its development, this issue enables the company to extend the maturity of its debt in a market favourable to quality bond issue. The issue consists of one tranche to raise 550 million euros over 5 years at a variable rate and a second for 750 million euros over ten years at a fixed rate. Widely subscribed to by a diversified investor base, the bonds issued will be listed on Euronext Paris.

Important dates

> April 15, 2015:

Sales in the first quarter of 2015

> April 29, 2015:

Shareholders' General Meeting

> July 24, 2015: Sales and results in the first semester of 2015

Contacts

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Further information:

Available at **danone.com**

the 2014 Economic and Social Report, the 2014 Sustainability Report and the 2014 Registration Document (from April 29, 2015).

LETTER TO THE SHAREHOLDERS is a Danone publication, Direction of corporate communication, 15, rue du Helder, 75009 Paris. Design and production: **** Photo credit: Danone/Dumex, Eric Flogny, Stéphan Gladieu, Philippe Lassale, Eric Manas (ref. LAAC1 15)



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