Danone

ONE PLANET. ONE HEALTH

2017
REGISTRATION DOCUMENT
ANNUAL FINANCIAL REPORT

DANONE

ONE PLANET. ONE HEALTH

THE CHILD STAR: AN ICON INVITING EVERYONE TO JOIN THE MOVEMENT

Together, the new signature and logo—a refinement of our child gazing up to a star—carry a sense of optimism for positive change while embodying the same pioneering spirit the company has always had. In 1972, Antoine Riboud, the first Danone Chairman and CEO, said: “There is only one Earth, we only live once.” Those words kick-started a vision that lives on today: to bring health to our planet and to generations of people through our company and its ecosystems, now and in the future.

DANONE

A FRENCH CORPORATION (SOCIÉTÉ ANONYME) WITH SHARE CAPITAL OF €167,677,600

REGISTERED OFFICE: 17, BOULEVARD HAUSSMANN, 75009 PARIS

PARIS CORPORATE REGISTER NUMBER: 552 032 534

2017

REGISTRATION DOCUMENT

ANNUAL FINANCIAL REPORT

This Registration Document includes all the items of the Annual Financial Report.

The French language version of this Registration Document (Document de Référence) was filed with the French financial markets authority (Autorité des Marchés Financiers, or AMF) on March 12, 2018, pursuant to Article 212-13 of its General Regulations. This Registration Document may be used in support of a financial transaction if supplemented by a Securities prospectus (Note d'opération) authorized by the AMF. This Registration Document was prepared by the issuer and its signatory is liable for its contents.

This is a free translation into English for information purposes only.

Copies of this Registration Document are available from Danone at: 17, boulevard Haussmann – 75009 Paris, on Danone's website: www.danone.com and on the website of the Autorité des Marchés Financiers: www.amf-france.org
A PDF version for visually impaired readers is available at www.danone.com

"In 2017, Danone once again demonstrated the strength of its portfolio, the resilience of its business model and its ability to execute. Despite volatile food and beverage markets and rising input costs, we delivered very strong full-year results, with double-digit recurring earnings per share growth in line with our latest guidance. We closed the year with an accelerated sales growth rate, outperforming the industry average, along with very strong margin improvement and free cash flow above €2bn. In addition to strong results delivery, 2017 has been a year of preparation and continued transformation with the onboarding of WhiteWave, and the launch of our ambitious €1bn Protein savings program. We have also continued to strengthen our organization and governance, backing the launch of our One Planet. One Health vision to sustainable value creation for all our stakeholders. This achievement reflects the unparalleled engagement of all the Danone teams, which I am proud to lead and would like to thank for making this possible every day. In a trading environment that remains volatile and fragmented, we are starting 2018 with stronger foundations and I am confident that we are on track to accelerate towards our 2020 ambition, with another year of delivery against the commitment we made to our shareholders for consistent EPS growth."

Emmanuel FABER, Chairman and Chief Executive Officer

+2.5 %[a]	+70 bps[a]	+18.4 %[b]
€24.7 bn	14.36 %	€2.1 bn
SALES	RECURRING OPERATING MARGIN	FREE CASH FLOW

+14.2 %[c]	88 %[d]	-10.5 %[e]	5
2017 RECURRING EPS	OF VOLUME SOLD ARE SUITABLE FOR DAILY CONSUMPTION	REDUCTION OF CARBON INTENSITY FULL SCOPE	B CORP ENTITIES

(a) Like-for-like New Danone.
(b) On a reported basis.
(c) At constant exchange rate.
(d) This percentage refers to water, yogurt and other daily dairy products, baby milks & foods, milks and milk powders, beverages with 0% sugar and medical nutrition. Based on official public health recommendation, these categories are generally suitable for daily consumption.
(e) Compared to 2015 baseline, based on constant scope of consolidation and constant methodology. In line with Danone's commitment of reduction of 50% in carbon intensity full scope (scopes 1, 2 and 3) by 2030.
Notes (d) and (e) do not take into account WhiteWave.

	ESSENTIAL DAIRY AND PLANT-BASED INTERNATIONAL	ESSENTIAL DAIRY AND PLANT-BASED NORAM	SPECIALIZED NUTRITION	WATERS
Sales FY 2017	€8.4 bn -1.3 % [a]	€4.5 bn -2.0 % [a]	€7.1 bn +9.3 % [a]	€4.6 bn +4.7 % [a]
Recurring Operating Margin FY 2017	9.02 % -29 bps [a]	12.28 % +2 bps [a]	23.73 % +197 bps [a]	11.70 % +12 bps [a]

KEY FINANCIAL FIGURES

	2015	2016	2017
Sales [f]	**22,412**	**21,944**	**24,677**
Like-for-like New Danone growth [g]	-	-	+2.5 %
Recurring operating income [f] [g]	**2,892**	**3,022**	**3,543**
Like-for-like New Danone growth [g]	-	-	+7.8 %
Recurring operating margin [g]	**12.91 %**	**13.77 %**	**14.36 %**
Like-for-like New Danone growth [g]	-	-	+70 bps
Operating income [f]	**2,210**	**2,923**	**3,734**
Operating margin [f]	**9.86 %**	**13.32 %**	**15.13 %**
Recurring net income – Group share [f] [g]	**1,791**	**1,911**	**2,190**
Net income – Group share [f]	**1,282**	**1,720**	**2,453**
Recurring EPS [g] [h]	**2.93**	**3.10**	**3.49**
EPS [h]	**2.10**	**2.79**	**3.91**
Free cash flow [f] [g]	**1,468**	**1,760**	**2,083**
Cash flow from operating activities [f]	**2,369**	**2,652**	**2,958**

(f) In € millions.
(g) Financial indicator not defined in IFRS, see definition in section 3.6 *Financial indicators not defined in IFRS*.
(h) In € per share.

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INFORMATION ABOUT THE ISSUER AND INFORMATION ON THE REGISTRATION DOCUMENT

1.1 INFORMATION ABOUT THE ISSUER

LEGAL NAME AND TRADE NAME

The Company's legal name is "Danone" (hereafter the "Company"), having been changed by the Shareholders' Meeting of April 23, 2009 from "Groupe Danone".

REGISTRATION NUMBER IN THE REGISTER OF COMMERCE AND COMPANIES

The Company is registered in the Paris Register of commerce and companies under number 552 032 534.
The Company's APE Industry code is 7010Z, which corresponds to the activity of registered offices.

DATE OF START OF ACTIVITY AND TERM OF THE COMPANY

The Company business activities started on January 1, 1908. The Extraordinary Shareholders' Meeting of April 25, 2013 extended the term of the Company to April 25, 2112.

REGISTERED OFFICE

The Company's registered office is located at 17, boulevard Haussmann, in Paris (75009), France. The telephone number of the registered office is +33 (0) 1 44 35 20 20.

INFORMATION ABOUT BRANCHES PURSUANT TO ARTICLE L.232-1 OF THE FRENCH COMMERCIAL CODE.

The Company has a branch (secondary office) located at 152, boulevard Victor Hugo, in Saint-Ouen (93487), France.

LEGAL FORM AND APPLICABLE LAW

The Company, a French corporation (*société anonyme*) with a Board of Directors, is subject to the provisions of Book II of the French commercial code.

CORPORATE PURPOSE

In accordance with Article 2 of Danone's by-laws, the purpose of the Company, whether directly or indirectly, in France and in any country, shall be:

- industry and trade relating to all food products;
- the performance of any and all financial transactions and the management of any and all property rights and securities, whether listed or unlisted, French or foreign, together with the acquisition and the management of any and all real estate properties and rights.

In general, the Company shall be entitled to effect any and all property, real estate, industrial, commercial, and financial transactions relating directly or indirectly or possibly useful in any connection whatsoever to the Company in the fulfillment of its corporate purpose.

It shall be entitled to act and to effect the aforementioned transactions directly or indirectly, in any form whatsoever, on its own behalf or on behalf of third parties, and whether alone or in a joint-venture, association, grouping or company involving any other individuals or companies.

It shall also be entitled to acquire interests and holdings in any and all French and foreign companies and businesses, regardless of the purpose thereof, by means of the establishment of special companies, through asset contributions or subscriptions, through the acquisition of shares, bonds or other securities and any and all company rights, and, in general, by any means whatsoever.

STATUTORY AUDITORS

Principal Statutory auditors

Ernst & Young Audit
Member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*

Tour First, 1, place des Saisons
TSA 14444
92037 Paris-La Défense Cedex

Represented by Jeanne BOILLET and Pierre-Henri PAGNON

Start date of first term of office: April 28, 2016 (the first term of office with an entity member of Ernst & Young network began on April 22, 2010 with Ernst & Young et Autres)

Expiration date of term of office: date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ending December 31, 2021

PricewaterhouseCoopers Audit
Member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*

63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

Represented by Anik CHAUMARTIN and François JAUMAIN

Start date of first term of office: May 21, 1992

Expiration date of term of office: date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ending December 31, 2021

Substitute Statutory auditors

Auditex
Tour First, 1, place des Saisons
TSA 14444
92037 Paris-La Défense Cedex

Start date of first term of office: April 22, 2010

Expiration date of term of office: date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ending December 31, 2021

Jean-Christophe GEORGHIOU
63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

Start date of first term of office: April 28, 2016

Expiration date of term of office: date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ending December 31, 2021

1.2 INFORMATION ABOUT THE REGISTRATION DOCUMENT

SELECTED FINANCIAL INFORMATION

The financial information presented in section *Key figures* is extracted from section 3 *Danone's business highlights in 2017 and outlook for 2018* and from Danone's consolidated financial statements for fiscal year 2017 prepared in accordance with International Financial Reporting Standards (IFRS).

Consolidated financial statements and Notes to the consolidated financial statements for fiscal year 2017 are presented in section 4.1 *Consolidated financial statements and Notes to the consolidated financial statements*.

REFERENCES AND DEFINITIONS

Unless otherwise noted, all the references mentioned hereafter refer to the following elements:

Advanced Medical Nutrition	All references herein to the "Advanced Medical Nutrition" Reporting entity as defined in the 2016 Registration Document refer to adult or pediatric clinical nutrition products to be taken orally or through a tube in the event of malnutrition related to illness or other causes;
ALMA	All references herein to the "ALMA" region refer to the Asia/Pacific, Latin America, Middle East and Africa region;
CIS	Commonwealth of Independent States;
Company	All references herein to the "Company" refer to Danone as issuer;
Consolidated financial statements, Notes to the consolidated financial statements	All references herein to consolidated financial statements and Notes to the consolidated financial statements refer to consolidated financial statements for the 2017 fiscal year;
Danone	All references herein to "Danone" or the "Group" refer to the Company and its consolidated subsidiaries;
DANONE call options	All references herein to DANONE call options refer to DANONE share purchase options subscribed by the Company to hedge certain stock-option plans described in section 7.2 *Treasury shares and DANONE call options held by the Company and its subsidiaries*;
Danone's market shares and market positions	All references herein to Danone's market shares or market positions are derived from third-party market studies and databases provided in particular by Nielsen, IRI, Euromonitor and Canadean institutes;
Early Life Nutrition	All references herein to the "Early Life Nutrition" Reporting entity as defined in the 2016 Registration Document refer to baby formula (infant milk formula, follow-on milk, growing up milks), milk-and fruit-based desserts, cereals, jars of baby food and ready-made baby food;
EDP International	All references herein to the "EDP International" Reporting entity refer to the Essential Dairy & Plant-Based International Reporting entity;
EDP Noram	All references herein to the "EDP Noram" Reporting entity refer to the Essential Dairy & Plant-Based Noram Reporting entity;
Emerging countries	All references herein to "emerging countries" refer to countries other than mature countries where Danone is present;
Essential Dairy & Plant-Based International	All references herein to the "Essential Dairy & Plant-Based International" Reporting entity or "EDP International" refer to production and distribution in the world outside the United States and Canada of fresh fermented dairy products and other dairy specialties, plant-based products and beverages, coffee creamers and organic products;

Essential Dairy & Plant-Based Noram	All references herein to the "Essential Dairy & Plant-Based Noram" Reporting entity or "EDP Noram" refer to production and distribution in the United States and Canada of fresh fermented dairy products and other dairy specialties, plant-based products and beverages, coffee creamers and organic products;
Europe and Noram	All references herein to the "Europe and Noram" region refer to the region that includes Europe except CIS, the United States and Canada;
Fresh Dairy Products	All references herein to the "Fresh Dairy Products" Reporting entity as defined in the 2016 Registration Document refer to processed dairy products and exclude cream and butter;
GPS (Group performance shares)	All references herein to GPS (Group performance shares) refer to DANONE shares subject to performance conditions granted to certain employees and corporate officers described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*;
GPU (Group performance units)	All references herein to GPU (Group performance units) refer to multi-annual compensation described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*;
Group	All references herein to the "Group" or "Danone" refer to the Company and its consolidated subsidiaries;
Markets	All references herein to "markets" for products in particular, or to market shares, refer to markets for packaged products and exclude products that may be otherwise marketed or sold;
Market shares and market positions	Data pertaining to market shares and market positions are based on the value of sales;
Mature countries	All references herein to "mature countries" refer to Western Europe (particularly France and Southern Europe, including Spain, Italy and Portugal), North America, Japan, Australia and New Zealand;
Noram	All references herein to the "Noram" region refer to the region that includes the United States and Canada;
North America	All references herein to the "North America" region refer to the United States and Canada;
Put options granted to non-controlling interests	All references herein to "put options granted to non-controlling interests" refer to put options granted by Danone to certain non-controlling shareholders on all or part of their equity investment in certain consolidated subsidiaries described in section 3.4 *Balance sheet and financial security review*;
Registration Document	All references herein to the "Registration Document" refer to Danone's Registration Document;
Reporting entity	All references herein to a "Reporting entity" or "Reporting entities" refer to one or more of Danone's Essential Dairy & Plant-Based International, Essential Dairy & Plant-Based Noram, Specialized Nutrition or Waters businesses;
Rest of the World	All references herein to the "Rest of the World" region refer to the region that includes the ALMA and CIS regions;
Sales	All references herein to "Sales" refer to Danone's consolidated sales;
Specialized Nutrition	All references herein to the "Specialized Nutrition" Reporting entity refer to production and distribution of specialized food, for babies and young children to complement breast-feeding, and for people afflicted with certain illnesses or frail elderly people;
Stock-options	All references herein to stock-options refer to options to purchase DANONE shares granted to certain employees and corporate officers described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*;
Value of GPS and stock-options	All references herein to the value of GPS and stock-options refer to the fair value of those shares and options calculated as of grant date in accordance with IFRS 2;
Waters	All references herein to the "Waters" Reporting entity refer to bottled water, water sold in large containers (jugs), and water sold in small containers;
WhiteWave	All references herein to "WhiteWave" refer to The WhiteWave Foods Company.

INCORPORATION BY REFERENCE

Pursuant to article 28 of regulation (EC) No. 809/2004 of the European Commission dated April 29, 2004 and to section 36 of IAS 1, Presentation of Financial Statements, requiring that at least one-year comparative information be presented, this Registration Document incorporates by reference the following information:

- the consolidated financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2015 on pages 72 to 143 of the Registration Document filed with the AMF on March 17, 2016 under filing number D.16-0156;
- the annual financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2015 on pages 144 to 165 of the Registration Document filed with the AMF on March 17, 2016;
- the selected financial information, the Group's management report and all non-financial information pertaining to the fiscal year ended December 31, 2015 on pages 2 to 3 and 46 to 65 of the Registration Document filed with the AMF on March 17, 2016;

- the consolidated financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2016 on pages 68 to 137 of the Registration Document filed with the AMF on March 17, 2017 under filing number D.17-0183;
- the annual financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2016 on pages 138 to 158 of the Registration Document filed with the AMF on March 17, 2017;
- the selected financial information, the Group's management report and all non-financial information pertaining to the fiscal year ended December 31, 2016 on pages 2 to 3 and 42 to 60 of the Registration Document filed with the AMF on March 17, 2017.

1.3 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Emmanuel FABER

Chairman and Chief Executive Officer

Danone

STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT.

This is a free translation into English of the Chairman and Chief Executive Officer's statement issued in French, and is provided solely for the convenience of English-speaking readers.

Paris, March 12, 2018

"I hereby certify, after having taken all reasonable measures, that to my knowledge all the information in this Registration Document is accurate, and that no information liable to alter its scope has been omitted.

I certify that, to my knowledge, the financial statements in this document have been prepared in accordance with applicable accounting standards and provide a faithful representation of the assets, the financial situation, and the results of the Company and of all companies within its scope of consolidation, and that the management report referred to in the cross-reference table in the Appendix of the present Registration Document provides a faithful representation of the business trends, results, and financial position of the Company and of all companies within its scope of consolidation, as well as a description of the principal risks and uncertainties that they face.

The Statutory auditors have provided me with a letter (*lettre de fin de travaux*, or auditors' completion letter) stating that their work has been completed, and in which they indicate that they have verified the information included in this Registration Document relative to the financial situation and the financial statements, and have read this Registration Document in its entirety."

Chairman and Chief Executive Officer,

Emmanuel FABER

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OVERVIEW OF ACTIVITIES, RISK FACTORS

2.1 HISTORY

THE COMPANY'S ROOTS: FROM GLASS TO FOOD

Danone's origins date back to 1966 when the French glass manufacturers, Glaces de Boussois and Verrerie Souchon Neuvesel, merged to form Boussois Souchon Neuvesel, or BSN. In 1970, BSN began a program of diversification in the food and beverage industry by successively acquiring three of its primary glass container customers: Brasseries Kronenbourg, Société Européenne de Brasseries and Société Anonyme des Eaux Minérales d'Évian. These acquisitions made BSN France's market leader in beer, bottled water, and baby food.

In 1972, Antoine RIBOUD, then the Chairman and Chief Executive Officer of BSN, laid the foundation for the "dual economic and social project," which has since guided the Company's strategy. The following year, in 1973, BSN merged with Gervais Danone, a French food and beverage group specialized in dairy and pasta products, becoming the largest food and beverage group in France.

1973-1990: EUROPEAN EXPANSION

During the 1970s and 1980s, after selling off its flat glass operations, the BSN group focused its growth on food and beverages, primarily in Western Europe. In particular, this expansion included the acquisition of breweries, Générale Biscuit, a French holding company that owned LU and other European biscuit brands, the biscuit subsidiaries of Nabisco, Inc. and also Galbani, Italy's leading cheese maker. BSN group became the third-largest diversified food and beverage company in Europe, and the largest in France, Italy and Spain.

1990-1996: GLOBAL AMBITIONS

In the early 1990s, the BSN group started consolidating the positions acquired in previous years in Western Europe, enabling the development of synergies. In France, for example, BSN acquired Volvic to strengthen its position in bottled water. During this period, the Company also laid the groundwork for its international development by completing numerous acquisitions and joint-ventures outside of Western Europe (in the Asia-Pacific region, Latin America and Eastern Europe, as well as in selected markets such as South Africa and the Middle East).

In 1994, to consolidate its position as a multinational food and beverage group, the Company decided to change the BSN parent company's name to "Groupe Danone" (in 2009, the shareholders would subsequently approve the change of the legal name of the Groupe Danone parent company to "Danone").

1996-2007: REFOCUS ON HEALTH FOOD

In 1997, the Company decided to focus on its global businesses. Danone therefore steadily made divestitures in its Grocery, Pasta, Prepared Foods, Confectionery Products, Beer, Sauces and Italian Cheese and Meats activities. Danone also sold BSN Glasspack, the holding company of its Glass Containers business.

In 2006, Danone formalized its mission of "bringing health through food to as many people as possible," and the following year it completed a 10-year period of refocusing its operations on the health food sector. Indeed, in 2007 Danone sold nearly all of its Biscuits and Cereal Products business, and acquired Numico, thus adding Early Life Nutrition and Medical Nutrition activities to its portfolio.

2007-2014: ACCELERATION OF INTERNATIONAL DEVELOPMENT

In order to pursue its international development strategy around its four businesses, Danone acquired the Unimilk group's companies in Russia in 2010 and the Wockhardt group's nutrition activities in India in 2012. In 2013, the Company forged a strategic alliance with Mengniu, the Chinese fresh dairy products market leader, to accelerate the growth of this product category in China. In 2014, an agreement was signed calling for this alliance to be extended to the infant formula category through Danone's acquisition of a stake in Yashili, a Mengniu subsidiary. Since 2013 Danone has also accelerated its development on the African continent, notably with the acquisition of a controlling interest in Centrale Danone in Morocco and Fan Milk in West Africa and equity interests in Brookside in Kenya.

SINCE 2014: TOWARD STRONG, PROFITABLE AND SUSTAINABLE GROWTH

2014 was a turning point for Danone, which changed its governance structure and launched a transformational plan whose goal is to generate strong, profitable and sustainable growth. To reinforce the Company's economic and social impact, Danone also created its Manifesto, which expresses Danone's convictions and commitments to implement its mission. The 2017 acquisition of WhiteWave, the global leader in organic and plant-based products, represented another major step forward toward completing the Danone transformation plan.

2.2 PRESENTATION OF DANONE

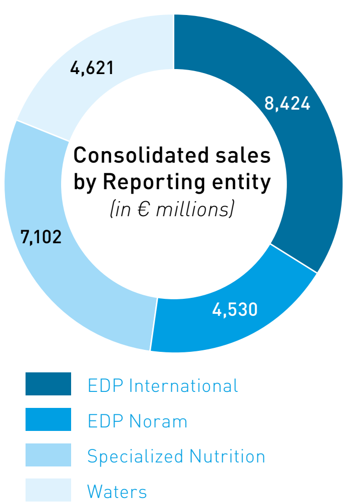
ACTIVITIES

With its mission to "bring health through food to as many people as possible", Danone is among the global leaders in the food and beverage sector, and since the acquisitions of Numico and WhiteWave in 2007 and 2017, respectively, it relies on four main Businesses:

- Essential Dairy and Plant-Based: production and distribution of fresh fermented dairy products and other dairy specialties; plant-based products and beverages (from soy, almond, hazelnut, rice, oat, coconut) and coffee creamers;
- Early Life Nutrition: production and distribution of specialized nutrition for infants and young children to complement breast feeding;
- Waters: production and distribution of packaged natural water and flavored and vitamin-enriched waters;
- Advanced Medical Nutrition: production and distribution of specialized nutrition for people who have certain illnesses or are weakened by age.

To reflect recent changes at Danone and in its organization, the Company reorganized its Reporting entities:

- EDP International (34% of Company sales in 2017);
- EDP Noram (18% of Company sales in 2017);
- Specialized Nutrition (29% of Company sales in 2017);
- Waters (19% of Company sales in 2017).



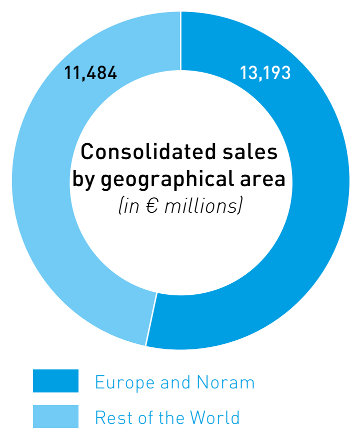
Danone enjoys, in value, the following leadership positions (in the relevant categories and markets):

- No. 1 worldwide for fresh dairy products;
- No. 1 worldwide for plant-based foods and beverages;
- No. 3 worldwide for packaged waters;
- No. 2 worldwide for early life nutrition;
- No. 1 in Europe for medical nutrition.

MAIN MARKETS

To reflect recent changes at Danone, the Company reorganized the regional reporting segments of its activities:

- the Europe and Noram region, which represented 53% of the Company's Sales in 2017, with an activity covering all of Danone's Businesses. The main countries in this region are the United States, France, the United Kingdom and Spain;
- the Rest of the World region, which represented 47% of the Company's Sales in 2017:
  - in Latin America, the main contributors are Mexico, Argentina and Brazil, with all Company activities present in this region;
  - in the Asia/Pacific region, the leading countries are China and Indonesia thanks to their strong presence in the Waters and Early Life Nutrition Businesses;
  - in Africa and the Middle East, the largest markets are Morocco and Turkey, with Danone's activity focused mainly on Essential Dairy and Plant-Based and Waters.



Top 10 countries in terms of sales

	Year ended December 31	
(in percentage)	**2016**	**2017**
United States	11%	18%
France	10%	9%
China	7%	7%
Russia	7%	7%
Indonesia	6%	6%
United Kingdom	5%	5%
Argentina	4%	4%
Mexico	5%	4%
Spain	5%	4%
Germany	4%	4%

Changes in these rankings from one year to the next are mainly due to currency fluctuations, especially high volatility in emerging markets.

Top 10 customers

In 2017, Danone's top 10 customers worldwide (five of which are French) accounted for approximately 19% of its consolidated sales; the top five customers represented approximately 13% of its consolidated sales.

2.3 STRATEGIC PRIORITIES

"ONE PLANET. ONE HEALTH": A CONSUMER-ORIENTED VISION AT THE CORE OF DANONE'S AMBITION

The new "Danone, One Planet. One Health" Company signature launched in 2017 expresses Danone's vision, at the core of its strategic priorities, both at Company level and for its Businesses. Given the challenges that exist in today's world, and in the continuity of its responsible business stewardship since several years, this signature reflects the vision that our health and preservation of the planet are totally interdependent. Consistent with this vision, Danone aims to reconnect consumers with their food by promoting healthier and more sustainable eating and drinking habits and consumer behaviors.

This ambition is inspired by the "Food Revolution" and new expectations of consumers, who want to know more about where their food comes from, how it has grown, how it arrived in their hands, and how it impacts their health and the health of the planet. Global food and retail companies have an important role to play in this revolution through a transformation of their business models, moving away from standardized food production systems to new models inspired by local dietary practices and leveraging on local sourcing models.

Danone has a broader vision of its mission to "bring health through food to as many people as possible". In addition to satisfying the nutritional needs of consumers, Danone has chosen to offer them a superior experience through products and services suited to each community's own way of life by taking into account the cultural, social, emotional and physiological aspects related to dietary practices in each part of the world, while at the same time pursuing the goal of building, nurturing and protecting health capital.

BUILDING A CONSISTENT PORTFOLIO OF ACTIVITIES, WITH A UNIQUE POSITIONING IN CATEGORIES OFFERING STRONG GROWTH POTENTIAL

Attractive categories aligned with consumer trends

Over the past 20 years, Danone has built a portfolio of activities that is consistent with its mission, in line with consumer trends, positioned in categories oriented toward health and offering an attractive and diversified growth profile.

Between 1996 and the acquisition of WhiteWave in 2017, Danone successfully adapted its portfolio, from a diversified European food conglomerate to a global health focused portfolio around four businesses: essential dairy and plant-based; waters; early life nutrition and advanced medical nutrition.

Danone's strategy is therefore marked by an ongoing strategic assessment of its portfolio, ensuring that it is aligned with new and changing consumer trends, to fuel future growth.

Building on a portfolio of strong brands that include both global brands and local and young brands with leadership positions in their respective markets, Danone develops its business activities in all regions of the world, in particular emerging countries.

Strong leadership at the local, regional and global levels

In addition to the attractive profile of the categories it plays in, the Company also ensures that it can exercise strong leadership at the local, regional and global levels.

Danone therefore develops its activities in all of the world's regions, notably emerging countries. These countries are an important driver for Danone to successfully complete its mission while ensuring its long-term growth. The main markets with strong potential where

Danone has strong positions are Indonesia, China, Russia, Mexico and Brazil. In these countries, the Company continues to develop its product categories, especially through innovation. Danone is also penetrating new markets in order to develop new growth drivers. Since 2013, Danone has accelerated its growth in Africa, with the increase of its majority stake in Centrale Danone (EDP International, Morocco) and Fan Milk (EDP International, West Africa), and the purchase of an equity interest in Brookside (EDP International, East Africa).

A unique organization serving a portfolio of global and local brands

Present in more than 120 markets, Danone has developed and optimized its organizational model in order to leverage its global scale while strongly supporting its local brands. In the near term, Danone's priority is to strengthen its various supply, distribution, manufacturing base and quality control platforms and to fuel future growth by relying in particular on its ability to innovate.

Innovation plays a key role in the implementation of this strategy in order to adapt both products and distribution to local conditions and local consumer practices. In order to better capture growth opportunities, Danone relies in particular on its venture incubation unit, Danone Manifesto Ventures, which seeks to support the development of innovative, high-growth-potential companies in the food and food tech sectors as well as on strategic partnerships.

BUILD A BALANCED MODEL OF GROWTH

Danone has set as its goal to build a balanced, profitable and sustainable growth model.

Growth, at the core of the business model

Positioned in the most dynamic categories of the food and beverage industry, Danone has a strong leadership position in all its markets. The Company relies on a unique portfolio of strong brands, solid execution capabilities in terms of innovation, brand activation and the development of new distribution channels.

Generating profitable growth

In an increasingly volatile and complex environment, Danone strives to strengthen its model of growth through disciplined resource allocation, efficiency gains and cost optimization with a permanent balance in managing the short, mid and long-term horizons. The Company therefore favors strategic growth opportunities that create long-term value over tactical short-term allocations.

Launch of an efficiency program: generate cost savings to fuel growth

In that context, Danone launched an efficiency program called Protein on its selling, general and administrative expenses. The program aims to strengthen the Company's competitiveness by generating cost savings of €1 billion by 2020. The program consists of incorporating sustainable efficiency into the Company's business model, and creating the best conditions to spend better, buy better and work more efficiently. Danone will reinvest a significant portion of the gains in growth to support the implementation of its strategy and mission.

Responsible business stewardship: continuing the dual economic and social project with B Corp

Collaboration with the international non-profit organization B Lab to receive B Corp certification represents a major new milestone in Danone's dual economic and social project, first expressed by Antoine RIBOUD in his 1972 speech in Marseille (see section 5.1 *Danone's integrated vision of social, societal, and environmental responsibility*).

As part of this approach, which creates value for consumers and shareholders, Danone is transforming the way in which the food and beverages of its flagship brands are designed and produced, notably by reducing the number of ingredients, and proposing new organic and non-GMO product lines. The Company also commits to promoting sustainable agriculture, encouraging the circular economy, conserving water, reducing waste, reducing its carbon footprint, promoting animal welfare and investing in the community.

A new approach to management of strategic resources

As a further example of its approach to act as an engaged and responsible company, Danone is transforming the upstream of its business (environmental management, raw materials supply and manufacturing processes and logistics) to optimize its costs, protect the lifecycles of its strategic resources and create a lever for value creation and differentiation from competition.

One of Danone's key strategic orientations is therefore a new approach for managing its strategic resources (milk, water and plastic). These resources are essential for Danone, not just from an economic but also from an environmental and social standpoint. Danone's key raw materials come from nature and must therefore be protected by creating and sharing value for ecosystems and communities where Danone operates. These resources are therefore managed as cycles in order to ensure their long-term viability, limit their volatility and, lastly, gain a true competitive advantage as detailed in section 5.4 *Contribute to the protection of the environment*.

CREATING OPTIMAL CONDITIONS FOR GROWTH AND EFFICIENCY

As part of its transformation plan, Danone decided to make organizational changes to become more agile in rapidly changing markets and promote more rapid decision-making at the local level close to the consumer. Danone therefore launched several initiatives to strengthen its efficiency, expertise, agility and flexibility.

This organization relies in particular on three principal factors:

Beyond Budget: a dynamic resource allocation process

Danone has reworked the methods used to monitor its performance, time horizons and business cycles in its Beyond Budget initiative. This initiative marked a radical shift in how Danone allocates resources. Danone has thus replaced the traditional budgeting process with a rolling forecast, *i.e.* a dynamic forecasting process based on new forecasts determined at the end of each quarter, with the aim to strengthen discipline, flexibility, agility and the accuracy of its organization to allocate resources.

One Danone (30 clusters)

The goal of this project is to share and strengthen the expertise of Danone through greater mutualization of resources across its activities and thereby build a solid and efficient backbone for the business. In this manner, Danone can better serve the development of its activities and the growth of its local businesses. It enables on the one hand optimization of its organizational entities by pooling certain support functions, and on the other investing in key functions, which are essential to ensure the long-term viability of Danone's model.

A newly-empowered regional business leadership team

Extended responsibilities were delegated in 2017 to this team of regional business leaders, in order to promote decision-making as close as possible to consumers and enable the Executive Committee to completely focus on strategic topics. Meanwhile, Danone decided to tighten the Executive Committee, extending the accountability of each member.

2020 OBJECTIVES

As part of its transformation plan aimed at ensuring a safe journey to deliver strong, profitable and sustainable growth, Danone set objectives for 2020 that include like-for-like sales growth between 4% and 5%, which include the following performances at the Reporting entity level:

- strong like-for-like growth above 5% for EDP Noram, Specialized Nutrition and Waters; and
- like-for-like growth of between 3% and 4% for EDP International.

Danone aims for a recurring operating margin of over 16% in 2020, driven primarily by:

- a structural improvement of margin in all categories, via more discipline and a stricter resource allocation process to guarantee profitable growth;
- the Protein program, which will generate over €1 billion savings by 2020, with at least €300 million net of reinvestment falling through into margin expansion by 2020 (€100 million per year from 2018);
- a $300 million synergies program generated in 2020 at recurring operating income level through the acquisition of WhiteWave.

Finally, Danone will continue to focus on growing its free cash flow, which will contribute to financial deleverage with an objective of a ratio of Net debt/EBITDA below 3x in 2020. Danone is committed to reaching a ROIC level around 12% in 2020.

2.4 DESCRIPTION AND STRATEGY OF THE REPORTING ENTITIES

Danone elaborates a strategy for each of its Reporting entities.

EDP INTERNATIONAL

EDP International primarily sells fresh dairy products as well as plant-based products and beverages, two distinct but complementary pillars.

Started in 1919 with the creation of the first yogurt in a pharmacy in Barcelona, fresh dairy products (notably yogurt) is Danone's original business. They are natural, fresh, healthy and local. This product line also includes so-called dessert yogurts, to be eaten occasionally.

To promote the consumption of fresh dairy products, Danone strives to build a consensus around the central role of its products as part of a balanced daily diet. Fresh dairy products certainly do provide essential nutritional benefits for the human body, notably proteins, carbohydrates, calcium, phosphorus and vitamins B2 and B12. The extraordinary transformative power of live lactic cultures makes yogurt a condensed form of essential nutrients and one of the least-processed food products sold.

The plant-based products and beverages line that came with the acquisition of WhiteWave in April 2017 combines natural or flavored beverages made from soy, almonds, coconuts, rice, oats, etc., as well as plant-based alternatives to yogurt and cream (cooking products). Through this acquisition, Danone seeks to develop and promote the plant-based category around the world.

Thanks to this expanded and more diversified portfolio, Danone can satisfy the growing demand for natural, nutritious and environmentally friendly products as well as the needs of "flexitarians", *i.e.* consumers looking to diversify their sources of protein, for whom plant-based products represent an alternative meeting their needs.

EDP International constantly renews its product line in terms of flavor, texture, ingredients, nutritional content and packaging. This innovative capability enables it to reach new consumers and develop new consumption opportunities while adapting to local tastes and dietary habits in all markets and making sure to cover all price points.

The strategy of this Reporting entity revolves around increasing market penetration and consumption of these products in all regions around the world.

Regarding fresh dairy products, this strategy aims to:

- maintain/stabilize business activity in the mature European countries, notably through product quality, the constant renewal of product lines and innovation;
- strengthen the main growth platforms (such as Mexico and Russia) and develop new regional markets (notably Africa and Asia) in the rest of the world.

As for plant-based products, the strategy seeks to:

- consolidate growth in four key European countries (United Kingdom, Germany, Belgium and the Netherlands);
- accelerate the expansion of *Alpro* in other countries in Europe and the rest of the world, relying on the strength of Danone's distribution network.

The Reporting entity relies on a very large portfolio of brands, both international and local, that are very well known and have a good reputation, including:

- *Alpro*, which takes in the entire plant-based line offered in Europe and exported to 54 countries worldwide;
- *Danone*, the flagship brand in the yogurt category;
- the Greek yogurt brands such as *Oikos* or *Danio,* which contain twice as much protein as a normal yogurt;
- *Activia*, sold in more than 70 countries for 20 years;
- *Actimel*, sold for more than 15 years;
- brands intended for children such as *Danonino*, which is offered in numerous countries, or *Tema* in Russia;
- dessert brands such as *Danette* or *Danissimo*;
- the organic brand *Les 2 Vaches*;
- the Light & Free line, gathering low-fat products with brands such as *Light&Fit, Taillefine* and *Ser*.

EDP NORAM

EDP Noram includes five categories, each having its own brand portfolio:

- the Yogurt category (roughly 40% of the Reporting entity's sales) comprises mainly yogurts (spoonable or drinkable) sold under the key brands *Activia*, *DanActiv*, *Danimals*, *Dannon*, *Danonino*, *Happy Family*, *Horizon Organic*, *Light & Fit*, *Oikos* and *YoCrunch*. The strategy in this category consists of increasing per capita consumption of yogurt in the United States and Canada by creating additional consumption moments and offering products that satisfy various consumer expectations;
- the Plant-Based Products and Beverages category (around 20% of the Reporting entity's sales) mainly includes (i) plant-based beverages (such as almond milk or soy milk), (ii) plant-based ice creams and novelties, (iii) nutrition products in the form of powdered proteins, originally intended to enhance athletic performance and development. These products are marketed under the brands *Silk*, *So Delicious* and *Vega*. The strategy in this segment consists of offering numerous nutritious and tasty options to consumers who are looking to diversify their sources of protein or are lactose intolerant;
- the Coffee Creamers category (roughly 20% of the Reporting entity's sales) includes coffee creamers (fresh or UHT) and coffee beverages sold under the key brands *International Delight*, *Magicow*, *Dunkin Donuts* (under license), *Land O Lakes* (under license) and *SToK*. The goal is to offer practical and tasty products that enable consumers to replicate the coffeehouse experience at home or on the road;
- the Premium Dairy category (around 10% of the Reporting entity's sales) includes organic milks (fresh and UHT), traditional milks, cheese and organic snacks as well as other organic dairy products sold under the *Horizon* brand. The strategy consists of offering dairy products to parents and adapted to the family for health, convenient and fun eating;

- the Fresh Foods category (roughly 10% of the Reporting entity's sales) includes packaged salads and green vegetables and fresh and frozen organic fruits and vegetables sold under the *Earthbound Farm* brand.

As one of the 15 largest food and beverage companies in the United States, Danone aims at maintaining and strengthening its leadership position. The Company will continue to develop the high-growth categories where it is currently positioned by creating nutritionally balanced, tasty, convenient and environmentally friendly products.

SPECIALIZED NUTRITION

Early Life Nutrition and Advanced Medical Nutrition, which make up the Specialized Nutrition Reporting entity, offer a portfolio of nutritional solutions aiming to impact the health and well-being of vulnerable individuals across the full life span, from preterm birth until old age, with activities offering similarities and synergies in terms of innovation and scientific research. The Specialized Nutrition Reporting entity focuses notably on allergy, from prevention to treatment, where Early Life Nutrition and Advanced Medical Nutrition are working hand in hand to foster synergies and strengthen Danone's leadership position in this sector. The *Nutricia* brand is a key asset for both businesses, with a legacy in healthcare of over 120 years, and acknowledged by health leaders worldwide.

The Early Life Nutrition business focusses on the right nutrition in the first 1,000 days – from the start of pregnancy to two years of age – aiming to positively influence short and long-term health outcomes. Danone also offers products, services and education to pregnant and breastfeeding women, infants and young children.

The infant milk formula segment accounts for more than 85% of the Early Life Nutrition business' activity. These products are available worldwide. The complementary foods segment (also known as "weaning foods") is less than 15%, and these products are only available in selected countries. The business has several global brands (such as *Aptamil* and *Nutrilon*) and a large number of local brands (*Cow & Gate*, *Blédina*, *Bebelac*, *Malyutka* and *Dumex*).

Danone aims to grow the Early Life Nutrition business in a credible, sustainable way, providing products, services and education that contribute to the health of next generations. For this, Danone collaborates with many scientists, suppliers, consumers and healthcare professionals in the sector. It also performs surveys to better understand local dietary habits and nutritional needs, in order to fuel its innovation.

The Advanced Medical Nutrition business focuses mainly on dietary management of patients, both children and adults, who have been diagnosed with various medical conditions. Advanced Medical Nutrition products are designed primarily to treat malnutrition due to disease in order to satisfy special food needs dictated by the pathology. These products– most of which are eligible for insurance reimbursement – are recommended or prescribed by healthcare professionals (doctors, medical personnel in hospitals, clinics and pharmacies).

Under the umbrella brand *Nutricia*, the Company has a large portfolio of brands marketed in several countries, including for example:

- *Nutrison*: tube feeding for dietary management of patients who suffer from illness-related malnutrition and are unable to feed themselves normally;
- *Fortimel/Fortisip*: liquid oral nutritional supplements;
- *Neocate*: hypoallergenic products aimed at babies and children with dairy or multiple food protein allergies;
- *Nutrini/Infatrini*: oral and feeding tube Advanced Medical Nutrition products adapted for the dietary treatment of babies and children who, due to illness, are incapable of feeding themselves normally or sufficiently.

Danone's strategy consists of increasing its global coverage by establishing itself in new countries and developing various distribution channels. The Company estimates that the medical nutrition market's growth potential is significant, mainly as a result of (i) population aging in some countries, (ii) increased awareness of the role of nutrition in health, (iii) the emergence of new illnesses and allergies, and (iv) the growing number of screening procedures enabling early management of patients.

WATERS

The Waters Reporting entity comprises the plain waters business along with aquadrinks (waters flavored and enriched with natural fruit juice extracts, fruit juice and vitamins).

The business has international brands such as *evian, Volvic* and *Badoit* and very strong local brands: *Aqua* in Indonesia, *Mizone* in China, *Bonafont* in Mexico, *Villavicencio* and *Villa del Sur* in Argentina, *Fontvella* and *Lanjarón* in Spain and *Zywiec Zdroj* in Poland.

The business' strategy is based primarily on the development of bottled water and aquadrinks consumption, notably through the following measures:

- promotion of hydration-related health benefits: Danone is establishing initiatives to promote healthier hydration through partnerships with public health authorities and scientists and by communicating directly with consumers in order to inspire healthier hydration practices. In particular, the Company runs the "Hydration for Health" scientific platform: 150 scientists and public health authority researchers from around the world meet annually to share and promote advances in the area of hydration science and its positive effect on health;

- long-term management and environmental protection of water resources: Danone strives to preserve the unique quality and sustainable nature of its plain waters products by strengthening the protection of its springs and respecting the water cycle. Danone is also committed to getting all socio-economic players involved through associations and partnerships that promote the development of non-polluting activities and the establishment of more environmentally friendly agricultural practices around the catchment areas;
- the development of a line of healthier natural beverages, alternatives to sodas and other sweetened beverages. The challenge is to facilitate the adoption of healthier hydration practices for consumers of sweetened beverages. Many of the Company's water brands also come in flavored versions or mixed with fruit juice, *i.e.* aquadrinks;
- packaging innovation: in order to reduce its environmental impact, the business has substantially reduced the weight of its bottles over many years and uses new packaging materials such as those made from plant-based or recycled materials.

2.5 OTHER ELEMENTS RELATED TO DANONE'S ACTIVITY AND ORGANIZATION

DISTRIBUTION

Although they vary to reflect local specificities, Danone's distribution models reflect three main approaches:

- distribution aimed at major retail chains;
- distribution to traditional points of sale;
- distribution to e-commerce.

Moreover, a significant portion of the products in the Early Life Nutrition and Advanced Medical Nutrition markets are distributed through more specialized distribution channels such as hospitals, clinics and pharmacies.

Danone is constantly streamlining its logistics flows in order to improve service quality while reducing costs. This policy is based on an ongoing assessment of its organization, notably through outsourcing of distribution in collaboration with specialized companies.

Major retail chains

Danone establishes global partnerships with its main distributors in order to help develop the sales of its products. These partnerships are related in particular to logistics collaboration, online sales development and food safety management. Matters involving pricing policies, which are up to each subsidiary, are not included in these agreements.

In particular, Danone has taken several initiatives to work closely with large retailers in order to optimize the flow of goods and the inventory levels of its customers with the Efficient Consumer Response (ECR) approach. In addition to inventory management, automatic inventory replenishments and just-in-time delivery, ECR aims at working with distributors to better manage consumer demand and expectations at the points of sale. To that end, the Company has implemented shared inventory management systems with its leading distributors that are used to coordinate inventory levels among stores, as well as at the distributors' and Danone's warehouses.

Danone also works with its customers to develop specific marketing activities such as joint promotions.

Traditional market outlets

Globally, and particularly in emerging countries, a large portion of Danone's sales is generated through traditional market outlets thanks to small-scale point of sale networks. In-house sales forces and exclusivity agreements with wholesalers represent a competitive advantage for the Company in countries where traditional commerce and independent supermarkets continue to account for a significant share of food and beverage sales.

Moreover, in Latin America and Asia, a significant portion of the Waters business products are distributed directly to consumers (Home & office delivery, or HOD).

Finally, in emerging countries, Danone is developing new local retail models through large networks of independent sellers.

E-commerce

Danone is stepping up its partnerships and investments with e-commerce companies to satisfy growing consumer demand through this distribution channel. There are three different types of e-commerce channels:

- brick-and-mortar companies (major retailers that have created an e-commerce activity);
- pure players (companies selling exclusively through e-commerce);
- direct to consumer (a proprietary Danone website that enables Danone to sell directly to consumers without intermediaries).

Danone is growing in all these channels and gaining expertise.

Specialized distribution channels of hospitals, clinics and pharmacies

In the Early Life Nutrition and Advanced Medical Nutrition markets, a significant portion of products are marketed in hospitals, clinics and pharmacies, through specialized distributors or following a tendering process. Danone also maintains an ongoing relationship with healthcare professionals through its medical representatives, who meet with general practitioners and specialists (pediatricians, nutritionists, etc.) as well as pharmacists.

COMPETITION

The packaged food and beverage sector is highly competitive due to the large number of national and international competitors. Danone is confident that its strategy for profitable growth is strongly supported by its products' quality, taste, affordability and innovative aspect, and by the powerful brand image conveyed on health, nutrition or societal and environmental responsibility.

Considering that success in this food and beverage industry is achieved through strong local market positions, Danone strives to be the market leader of each segment in every country where it operates, always in compliance with laws and regulations relating to competition. This strategy allows for a long-lasting, balanced and constructive relationship with major distribution networks, by marketing key products yielding growth and profitability for both parties.

Reporting entity	Business / Category	Competitive environment
EDP International and EDP Noram	Fresh Dairy Products (including Yogurts and Premium Dairy)	Large multinational food and beverage companies (Nestlé, General Mills, Lactalis, Muller, Unilever, Chobani, Hain Celestial), many predominately local companies specializing in certain product lines or markets (Lactalis, Chobani, Friesland Campina, Lala, Yakult, Fage, Organic Valley), and numerous retail chains offering generic or private label products.
	Plant-based Products and Beverages	A few large global players (Campbell, Hain Celestial, Unilever), predominantly local companies specializing in certain product lines or markets (Blue Diamond, Califia Farms, Triballat, Wessanen, Valsoia) and many retail chains offering generic or private-label products.
	Coffee Creamers	A few large food and beverage multinationals (Nestlé), predominantly local companies specializing in certain product lines or markets (Hood) and retail chains offering generic or private label products.
	Fresh Foods	Some food and beverage companies (Bonduelle, Campbell, Organic Girl, Taylor Farms, Olivia's Organic) and numerous retail chains offering generic or private label products.
Specialized Nutrition	Early Life Nutrition	Large early life nutrition companies (Abbott, Reckitt/Mead Johnson, Nestlé) and predominantly local companies and/or companies specializing in certain product lines or markets (Lactalis, Biostime).
	Advanced Medical Nutrition	Large medical nutrition companies (Nestlé, Abbott) and predominantly local companies specializing in certain product lines or markets (Fresenius)
Waters	Waters	Historical beverage market leaders (Coca-Cola, Pepsi, Nestlé) and predominantly local companies (Mayora in Indonesia, Kang Shi Fu in China, Epura in Mexico).

RESEARCH AND INNOVATION

Danone's Research and Innovation

Research and Innovation plays a central role in the implementation of Danone's growth strategy. Its main mission is to drive Danone's conviction that food is an essential channel for addressing health concerns, and to spearhead a dietary revolution to prepare Danone and its products for the challenges of tomorrow's world.

Danone's Research and Innovation strategy is structured around four areas:

- Innovation: conduct and stimulate scientific research in key areas of nutrition and health; integrate this knowledge into increasingly healthy and innovative products to constantly adapt to new consumer habits and demands;
- Responsibility and Commitment: constantly reinforce commitments to the nutritional quality of products, preserve and sustainably manage the raw materials and natural resources that are vital for our products, and minimize our environmental footprint, particularly through our innovative, eco-design packaging;
- Health: beyond the nutritional profile of Danone's products, pursue cooperation with the academic world to demonstrate the effects of diet on health; contribute with our products to developing, improving and safeguarding lifelong health;
- Eating Practices: building on our understanding of local eating practices, integrate the cultural differences and needs of the various populations to encourage healthier dietary practices within communities and design future products that will contribute to the health of each individual.

Research and Innovation Organization

The Research and Innovation function has approximately 1,700 people spread across two international research centers (in Palaiseau, France and in Utrecht, Netherlands), four specialized centers (Danone Research Packaging in Evian, France; Nutricia Research Singapore in Singapore; Danone Research Fresh Dairy Technological Expertise in Madrid, Spain; Danone Research Fresh Dairy Technological Expertise, in Chekhov, Russia) and local teams in 55 Danone subsidiaries.

Scientific cooperation

To carry out their mission, Danone's Research and Innovation teams are involved in cooperation initiatives and partnerships with the academic and scientific world, especially with top universities and research centers worldwide. They lead scientific committees on strategic topics such as cultures, probiotics, microbiota, hydration and ageing and seek to improve understanding of health and nutrition issues through this permanent contact with the scientific world. These initiatives particularly give rise to scientific cooperation, joint investments in research work, and pooling of resources and skills. Danone expresses support for research and ongoing dialogue with the scientific community, which are among the beliefs and commitments in its Manifesto.

As part of its contribution to nutrition research, Danone created the Danone Institutes (non-profit entities) in 1991 to help strengthen the understanding of the links between food, nutrition and health. As of end 2017, 15 Danone Institutes have been established worldwide. Their initiatives cover everything from support for scientific research to information and training for health professionals, to educational programs for children and the general public.

PLANTS AND EQUIPMENT

Danone's general policy is to own its production facilities. Danone has many, widely-dispersed production facilities, except in the Early Life Nutrition and Advanced Medical Nutrition Businesses, whose sites are more concentrated.

Danone has production facilities around the world in its principal markets. As of December 31, 2017, Danone had 202 production sites including the production sites from recent acquisition WhiteWave legacy (see section 5.5 *Methodology note*).

Lastly, Danone rents some facilities, notably offices and warehouses (see section 3.4 *Balance sheet and financial security review*).

The production sites are inspected regularly to assess possibilities for improving quality, environmental protection, safety, and productivity. On the basis of these reviews, management establishes plans for the expansion, specialization, upgrading, and modernization (or closing) of specific sites.

Production during the year and main production sites

	Year ended December 31, 2017		
		Key sites by Business [a]	
	Production [b]	Localization	Share of production [b] by Business
Essential Dairy and Plant-Based	7.9 million metric tons	Mexico, United States	11%
Waters	28.3 billion liters	France, Indonesia	12%
Early Life Nutrition	0.9 million metric tons	Ireland	16%
Advanced Medical Nutrition	189.5 million liters	Netherlands	59%

(a) Two of the largest sites for the Essential Dairy and Plant-Based and Waters Businesses, the largest site for the Early Life Nutrition and Advanced Medical Nutrition Businesses.
(b) For the fiscal year.

RAW MATERIALS PURCHASING

Danone's principal raw material needs consist primarily of:

- materials needed to produce food and beverage products, mainly milk and fruits (the "food raw materials"). On a value basis, milk represents the main raw material purchased by Danone. These purchases consist mainly of liquid milk, for which the operating subsidiaries typically enter into agreements with local producers or cooperatives. Liquid milk prices are set locally, over contractual periods that vary from one country to another. The main other food raw materials are fruit-based preparations and sugar;
- product packaging materials, in particular plastics and cardboard ("packaging"). Packaging purchases are managed through global and regional purchasing programs making it possible to optimize skills and volume effects. Prices are influenced by supply and demand at the global and regional levels, economic cycles, production capacities and oil prices;
- energy supplies. These account for only a limited portion of the Company's overall purchases.

Danone's strategy increasingly relies on the upstream portion of its activities and in particular its supply of raw materials, not only to manage its costs but also to make it a genuine source of value added and differentiation relative to the competition (see section 2.3 *Strategic priorities*). These raw materials are now managed as cycles in order to ensure their sustainability, limit their volatility and gain a genuine competitive advantage:

- regarding the milk cycle, the goal is to ensure a sustainable long-term supply, continue to improve competitiveness and reduce dependency on this raw material by optimizing the use of all milk components thanks to new technologies and the pooling of needs among the various businesses, notably Essential Diary and Plant-Based and Early Life Nutrition;
- as for the plastics cycle, the main challenge is to develop new, 100% recyclable materials, give second life to plastic packaging that will be distributed in the market, increase the share of recycled PET from 10% to 25% in several countries and ultimately produce bottles made from second-generation, 100% bioplastics;
- lastly, Danone's main challenge at the heart of the water cycle remains protecting its springs.

The price trends of major raw materials may affect the structure of Danone's results. In that context, the Company manages the cost volatility of raw materials through the following measures:

- continuous productivity gains: Danone strives in particular to optimize its use of raw materials (reductions in production waste, lighter packaging and more effective use of milk sub-components in the Company's various products) and take advantage of pooled purchasing for its various subsidiaries; since2013, for example, the Company has used a centralized purchasing system for the non-milk purchases of the Essential Dairy and Plant-Based business;
- implementation of a purchasing policy ("Market Risk Management") that consists of defining rules for securing the physical supply and price setting with suppliers and/or on financial markets when they exist. The monitoring of exposures and the implementation of this policy are made for each raw materials category by the Company's central purchasing team. The buyers typically negotiate forward purchase agreements with suppliers, since no financial markets exist that would allow full hedging of the volatility of Danone's main raw materials purchase prices. Forward purchase agreements are monitored at the Company level at the end of each year. Information regarding these future purchasing commitments is presented in section 3.4 *Balance sheet and financial security review*. Also, with respect to Danone's two main raw materials categories (milk and dairy ingredients/ plastics including PET), a sensitivity analysis of the impact of changes in their prices on the Company's annual purchasing costs is presented in Note 5.7 of the Notes to the consolidated financial statements.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

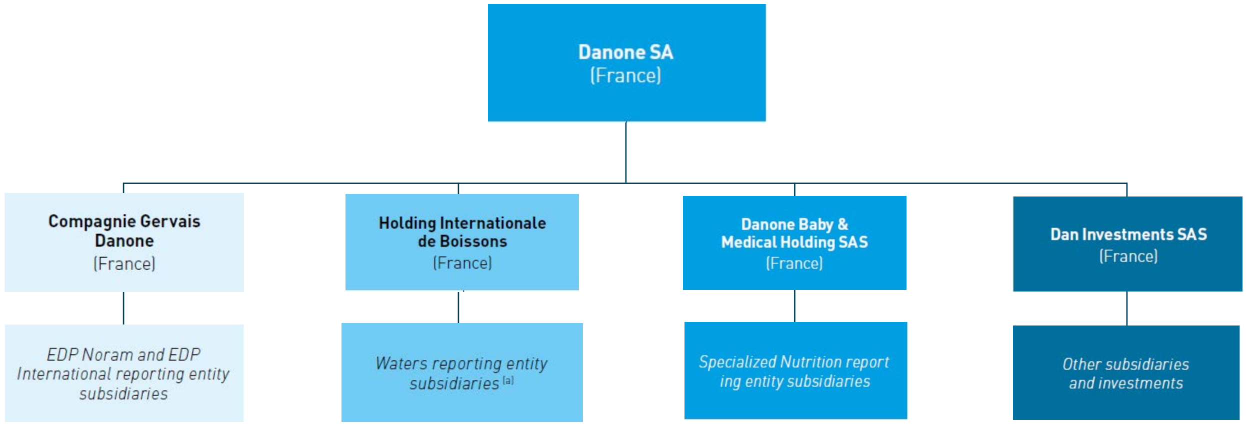
See section 5 *Social, societal and environmental responsibility*.

FINANCIAL RISK MANAGEMENT

See section 2.7 *Risk factors*.

2.6 SIMPLIFIED ORGANIZATIONAL CHART AS OF DECEMBER 31, 2017

The following simplified organizational chart presents the structure of Danone's overall legal organization. Some subsidiaries may nevertheless have a different parent company.



(a) The company Evian Resort, related to the Waters Reporting entity, operates the Evian's Casino and is therefore submitted to the French Ministry of Interior's control and to the regulation applicable to the Casino games activity.

PARENT COMPANY DANONE

Danone SA is the parent company of the Danone group. Danone SA has mainly a role of (i) holding directly or indirectly companies of the group; and (ii) coordination of the main functions and activities, with an average number of employees of 869 in 2017.

SUBSIDIARIES

The subsidiaries list can be consulted on the Danone's website.

MAIN PUBLICLY TRADED COMPANIES

As of December 31, 2017

	Reporting entity	Country	Listing market
Centrale Danone [a]	EDP International	Morocco	Casablanca
China Mengniu Dairy [b]	EDP International	China	Hong Kong
Yakult Honsha [b]	EDP International	Japan	Tokyo
Yashili [b]	Specialized Nutrition	China	Hong Kong

(a) Fully consolidated company.
(b) Associate.

2.7 RISK FACTORS

RISK IDENTIFICATION AND CONTROL POLICY

Like any company, Danone faces external and internal risks which can affect achievement of its targets. The main risks Danone is exposed to as of the date of this Registration Document are described in the following section.

Danone maintains an active risk identification and management policy aimed at protecting and developing its assets and reputation, the achievement of its targets and objectives, and protecting the interests of its consumers, shareholders, employees, customers, suppliers, the environment and its other stakeholders without guaranteeing the total absence of risks.

This risk identification and management policy is described in section 2.8 *Risk management and internal control*.

PRINCIPAL RISK FACTORS

Summary of principal risk factors to which Danone believes it is exposed as of the date of this Registration Document

Risks associated with Danone's business sector	Laws and regulations
	Risks associated with product quality and safety, and with their positioning
	Consumer tastes, preferences, and environmental preferences
	Raw materials: price volatility and availability
	Concentration of distribution
	Competition
	Natural and climate change risks
	Weather conditions and seasonal cycles
Risks associated with Danone's strategy	Intellectual property
	Risks associated with Danone's image and reputation
	External growth
	Principal markets
	Danone's position in certain markets
Risks associated with Danone's organization and operation	Concentration of purchases with a limited number of suppliers
	Human resources
	Risk related to ethics and to human rights
	Information systems
	Internal control deficiency
	Industrial risks
	Insurance coverage deficiency
Financial market risks	Financial market risks
	Currency risk related to operating activities
	Currency risk related to financing activities
	Liquidity
	Interest rates
	Counterparty, credit

These primary risk factors are described hereafter.

Other risks

Danone is also exposed to other risks inherent to any listed international company, including:

- exchange rate risk associated with the conversion of accounts in euro;
- risk associated with companies' fluctuating share prices.

All these risks could unfavorably impact Danone's business and results, and impair the Company's reputation and image.

Other risks that could adversely affect the Company in the future may exist, even though Danone was unaware of them or considered them immaterial as of the date of this Registration Document.

DESCRIPTION OF PRINCIPAL RISK FACTORS

Risks associated with Danone's business sector

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

Laws and regulations

Identification of risk

As a player in the food and beverage industry operating in numerous countries, Danone's activities are subject to extensive laws and regulations enacted by many national and international authorities and organizations, notably with respect to the environment (primarily involving water, air, the use of natural resources, noise, waste and greenhouse gas emissions), tax, commercial laws and regulations, competition authorities, labor law, hygiene and food safety, quality control and the use of water sources. Danone's activities are also subject to good conduct rules such as those of the World Health Organization (WHO) regarding the marketing of breast-milk substitutes and the corresponding rules at the various local regulatory levels. Danone is also subject to any customs duties, trade barriers or penalties that may be imposed.

The laws and regulations that Danone is subject to are complex, changing and increasingly restrictive, particularly with respect to:

- the protection of health and food safety, consumer protection, nutrition, and in particular the promotion of breast-feeding and claims about the health benefits of products marketed by Danone, the reimbursement of certain products of the medical nutrition activity and Danone's advertising and promotional activities. Any change in these laws or regulations, any decision by an authority regarding these laws or regulations or any other event that would challenge the nutritional or health claims related to certain products could have a significant impact on Danone's activities, increase its costs, reduce consumer demand and possibly result in litigation;
- access to water resources and the marketing of water. Regulatory changes are liable to affect the availability of water intended for bottling and sale, and/or its commercialization by Danone, and to have negative impacts on its businesses and results;
- the environment. Danone cannot guarantee that it will always be in compliance with laws and regulations. Also, bringing its activities into compliance with new regulations or changes in existing regulations could be costly, or even limit its ability to pursue or develop its activities;
- taxation. Any change in tax regulations through increases in existing taxes or the establishment of new taxes – involving in particular tax rates, transfer prices, dividends, social security contributions, deductibility of financial expenses, special tax plans or tax exemption rules – could adversely affect Danone's results.

Risk monitoring and management

Danone's international development limits concentration of the risk of more restrictive regulations for a given country.

Danone has developed a legal organization at the local (subsidiaries) and central levels. The Company and its subsidiaries, assisted by their legal departments and/or external legal advisors, take steps to ensure that they comply, at all times, with applicable laws and regulations.

In addition, Danone has developed and implemented internal policies and procedures relating to compliance detailed in section 2.8 *Risk management and internal control*. In order to ensure that such measures are commonly practiced at Danone, the Company has integrated compliance into its quality approach and internal control system.

In addition, to comply with applicable environmental regulations, Danone has established organizations and implemented procedures and tools, in addition to setting targets for reducing its environmental footprint. These various initiatives as well as the measures taken in 2017 are described in section 5.4 *Contribute to the protection of the environment*.

To the best of Danone's knowledge and as of the date of this Registration Document, no governmental, court, arbitration or any other proceeding to which the Company and its subsidiaries are a party is currently ongoing that would be likely to have a material impact on Danone's financial position or profitability other than those mentioned in Note 14.3 of the Notes to the consolidated financial statements.

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Finally, Danone is involved, or could be involved, in litigation associated with its normal course of business, which may have consequences in criminal and/or civil law. Should a result be unfavorable for Danone, this could adversely affect Danone's financial situation and its image or reputation. Danone's exposure to actual or potential major litigation, if applicable, is presented in Note 14.2 of the Notes to the consolidated financial statements.	

Risks associated with product quality and safety, and with their positioning

Identification of risk

Its activity exposes Danone to the risk – known or merely perceived, anticipated or alleged – of product contamination or that its products are harmful.

This quality risk may arise through the actual or alleged existence of (i) chemical and microbiological contaminants (even in infinitesimal amounts) in raw materials and packaging; (ii) cross-contamination with allergens; and (iii) non-compliance with the safety measures of finished products when they leave the factory and throughout the distribution chain. These actual or alleged contamination risks could also potentially occur (i) upstream from Danone's activity (with suppliers or while being transported by suppliers); and (ii) downstream from its activity (by clients or distributors or during the transportation phase by its distributors).

In addition, in the event that certain of Danone's products (including recipes/formulas or certain active ingredients) presented as having nutritional or health benefits or positioning proved to be harmful in the short or long term or had no health effects, then Danone's activities, results and reputation could be adversely affected to an even greater extent, since Danone's strategy is based on the development of products with a strong nutrition/health component.

More generally, Danone is exposed to situations involving non-compliance with food standards and product ingredient regulations.

The materialization of such risks could have multiple consequences:

- Danone's sales and results related to these products could be severely affected;
- this impact could then extend beyond just the products involved to include other products of the same brand;
- given media coverage and the development of social networks, this impact could also spread to other geographic areas than the ones initially involved;
- the combined impacts could therefore have a significant adverse effect on Danone's overall sales and results;
- in addition to the immediate financial impact, the reputation of Danone, its brands and products as well as its quality image could be adversely affected over the long term, thereby exacerbating the financial risk for Danone.

Risk monitoring and management

Danone's strategy in the field of nutrition and health is consistent with the main orientations set by health authorities in various countries. In implementing this strategy, Danone pays close attention to scientific fundamentals, the regulatory environment and the origin of ingredients used through organizations, actions and procedures that it implements, in particular (i) the Research and Innovation strategy and organization, which are described in section 2.5 *Other elements related to Danone's activity and organization*; (ii) the development of partnerships with reference scientific organizations and an ongoing dialogue with public health authorities; and (iii) the establishment of an internal procedure to ensure the consistency, scientific foundation of health and nutrition claims disseminated in its communications.

To avoid any contamination risk, Danone applies an uncompromising food quality and security policy, which is implemented through a quality organization at both central and local levels and makes it possible to achieve the targeted level of food quality and security. Danone has established measures and procedures to limit contamination risk, in particular through the implementation of multiple controls on the production lines and throughout the distribution chain, as well as regular audits of its sites.

Danone has also prepared and implemented a procedure at each subsidiary that organizes (i) measures for halting production and withdrawing or even recalling products in certain cases, together with the relevant institutions; and (ii) systematic, in-depth controls and inquiries to determine whether Danone has liability exposure.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

Consumer tastes, preferences, and environmental preferences

Consumers' purchasing preferences are influenced by tastes and eating customs, and also increasingly by environmental concerns (in particular (i) greenhouse gas emissions, mainly methane emissions by cows producing milk; (ii) the preservation of water resources); and (iii) packaging and its recycling. Distributors also pay increasing attention to communications with consumers (in particular the labeling of the products' carbon footprint).

If Danone is unable to anticipate changes in preference in terms of consumer tastes, eating customs and environmental expectations, its activities, results and reputation could be negatively impacted.

Danone has developed a broad portfolio of product lines that allows it to offer a wide variety of products to respond to different consumption needs and situations. In addition Danone strives to foster ongoing dialogue with its consumers, and more generally with all stakeholders, by adapting to new communication and consumer patterns.

Danone undertakes continuous efforts to reinforce its societal and environmental commitment and to improve the management of its business activities throughout the entire product life cycle, notably through its Nature, Health & Nutrition strategies, their implementation and achievements in 2017 are described in section 5 *Social, societal and environmental responsibility*.

Raw materials: price volatility and availability

Danone's raw material needs consist primarily of:

- materials needed to produce food and beverage products, mainly milk and fruits (the "food raw materials");
- product packaging materials, in particular plastics and cardboard ("packaging");
- energy supplies. These account for only a limited portion of Danone's purchases.

Variations in supply and demand at global or regional levels, weather conditions, government controls, regulatory changes and geopolitical events (changes in production methods, trade saturation, etc.) could substantially impact the price and availability of (i) raw materials, and (ii) materials needed to package certain Danone products, which could have an adverse effect on its results. In particular, a potential increase in the prices of these raw materials (especially milk) and other materials may not be passed on, either in full or in part, in the sales price of Danone's products, notably in countries whose economic environment has deteriorated. This could have a significant adverse effect on Danone's activities and results.

In the context of high raw materials price volatility and in order to limit its impact on Danone's activity and results to the greatest possible extent, Danone manages this cost inflation through actions described in section 2.5 *Other elements related to Danone's activity and organization*.

Danone's supply policy and exposure to principal raw materials risks, including milk, are described in Note 5.7 of the Notes to the consolidated financial statements.

Concentration of distribution

While the end customers of Danone products are individual consumers, Danone sells its products mainly to major retail and grocery chains. Overall, the distribution market has become increasingly concentrated globally and locally. A continuation of the trend to concentrate distribution at the global level along with the emergence of key players at the local level would result in a smaller number of customers for Danone companies and could lead to retailers demanding better terms, which could in particular affect these companies' and therefore Danone's operating margins, and impact their market share.

The presence of Danone brands in different types of distribution channels helps to mitigate the potential negative impact of the concentration risk.

Danone has also taken measures that help to reduce this risk, in particular action programs related to the trade policy towards key customer accounts (see section 2.5 *Other elements related to Danone's activity and organization*).

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Competition	
Danone conducts its business in highly competitive markets that include large multinational companies and numerous local players of different sizes. This competition could lead Danone to lose market share, increase its advertising and promotional expenditures, reduce its prices in order to defend its market shares or prevent it from raising its prices in order to overcome cost increases, which could have a significant adverse effect on Danone's strategy and results.	Danone limits the effects of competition from the leading players in its markets, notably through its strategy of (i) differentiation relative to its competitors, especially in terms of product lines, price/quality ratios and positioning; and (ii) development through organic and external growth. These elements of Danone's strategy are described in sections 2.3 *Strategic priorities* and 2.5 *Other elements related to Danone's activity and organization*.
Natural and climate change risks	
Natural risks Danone's geographic expansion sometimes leads it to be present in regions exposed to natural risks, notably seismic. Natural disasters could therefore cause damage to persons, property or the environment, and directly affect Danone, its consumers or the regions where it is present, potentially having a negative impact on Danone's activities, financial situation and image. **Climate change risks** Danone's businesses are directly related to nature and agriculture and are naturally faced with climate change, which could have negative effects on the natural water cycles, soil, biodiversity and ecosystems. Climate change could therefore affect the activity of Danone, its suppliers and its customers, which could have negative impacts on its results and financial situation.	For its new site development projects, Danone conducts a risk exposure analysis for such risks in order to choose the site with the least possible exposure. If, however, the site chosen (or the existing site in the case of an expansion) is exposed to these risks, the building construction and equipment installation take into account recommendations from prevention/protection experts to limit the potential impacts of these natural risks. In addition, each year, Danone conducts a screening of its production sites' localization to identify its exposure to water cycles and climate change risks. Danone is developing and implementing actions, procedures, tools and policies that seek to prevent and reduce these risks, notably its Climate Policy which aims in particular to reduce its greenhouse gas emissions, foster "carbon positive" solutions, offer healthy and sustainable products, reinforce the resiliency of its water and food cycles, and eliminate deforestation from its supply chain by 2020. Lastly, to strengthen the resiliency of its food chain, Danone is developing collaborative "co-created" solutions involving all its stakeholders and local communities. These initiatives are described in section 5 *Social, societal and environmental responsibility*.
Weather conditions and seasonal cycles	
Seasonal consumption cycles pertaining to certain Danone products and weather variations could adversely affect Danone's activities and results.	The intensity of the seasonal impact is variable for Danone's different businesses. Moreover, Danone's international growth results in a geographical distribution of its activities that helps to diversify and limit the concentration of this risk of weather changes for a given region. Lastly, Danone relies on its operating experience (notably through the development of its product lines and management of its markets) to limit the impact of weather conditions as much as possible.

Risks associated with Danone's strategy

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Intellectual property	
Danone owns rights to brand names, registered designs and patterns, copyrights and domain names throughout the world. Intellectual property represents a significant portion of Danone's net assets. The territorial extent of the protection depends on the significance of the products and activities concerned: the protection is global for products intended for the international arena, and local or regional for other products. Danone also owns patents, licenses, proprietary recipes and substantial expertise related to its products and packaging, as well as to their manufacturing processes. Finally, the Company has established licensing agreements with its subsidiaries and partners that use these intellectual property rights. Danone cannot be certain that third parties will not attempt to infringe on its intellectual property rights. Moreover, Danone's potential recourse to intellectual property rights protection varies by country. The degree of protection may be different, as may be Danone's implementation of a defense strategy. If Danone were unable to protect its intellectual property rights against such infringement or misuse, its results and growth could be negatively affected, as could its reputation. In addition, certain employees have access to confidential documents in the course of their work. The loss or dissemination of sensitive and/or confidential information could harm Danone's interests and reputation, and have an adverse effect on its results.	In order to monitor its assets and ensure the protection, management and defense of its rights in a coherent and optimal manner, Danone has drawn up an Intellectual Property charter. The Company regularly contacts each of its subsidiaries in order to update its intellectual property rights portfolio and thereby protect and defend, to the best of its ability, the brand names, graphic design, forms, packaging, advertisements, websites, etc. that are used by Danone. Danone also takes all appropriate legal measures, notably through actions in the area of infringement and/or unfair competition, to protect and defend its intellectual property rights at both international and local level. Danone is continuing its efforts to develop awareness among staff with access to and/or in possession of sensitive and/or confidential information and provides updates to employees on best practices with a view to limiting this risk, notably as regards the use of information systems and social networks.
Risks adversely affecting Danone's image and reputation	
In addition to the aforementioned risks linked to its products, Danone is exposed to criticisms of all types and origin, whether well-founded or not and whether in good or bad faith, that could affect its image and reputation. Danone may therefore face negative publicity that could result from an actual situation, or even a simple allegation, concerning its activities, its brands or its practices in commercial affairs, its communication and marketing – notably towards children, or its societal responsibilities toward its stakeholders. The media publicity of such criticisms, whether they are founded or not, is facilitated by the development of social networks, which can amplify the impact considerably. Such events could adversely affect Danone's image and have repercussions on sales, activities, results and growth prospects.	In order to limit the risk of criticism, the Company has developed governance rules and best practices – which are communicated to the subsidiaries – notably with respect to (i) business conduct; (ii) societal responsibility toward suppliers; (iii) relations with local communities; (iv) responsible communication and marketing, and (v) ethics. In order to ensure that these rules and best practices are communicated and followed, Danone has integrated the subsidiaries' assessments with respect to these rules and best practices into its Danone Way approach. Further information is available in sections 2.8 *Risk management and internal control* and 5.1 *Social, societal and environmental responsibility*. Danone has also established procedures to manage (i) risks so as to avoid and anticipate potential crisis; and (ii) crises in order to prevent the spread and scope of such criticisms and to limit their impacts as much as possible.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

External growth

Danone's strategy consists in holding leading positions in each of the markets in which it operates. Given the context of continued concentration in the food and beverage industry, this strategy involves the pursuit of growth opportunities through joint-ventures or acquisitions, as was the case with the Unimilk transaction in Russia, the acquisition of Centrale Danone in Morocco, and with the acquisition of WhiteWave in North America.

In addition, during an acquisition, in case of allocation of the acquisition price a significant amount may be allocated to intangible assets (in particular goodwill).

Acquisitions may have an adverse effect on Danone's activities, asset values and results if the Company does not succeed in rapidly and efficiently integrating the acquired companies and achieving the expected benefits of the acquisitions, in particular:

- develop the expected business and generate the expected cash flow;
- identify the risks associated with historic structures and practices;
- achieve the expected synergies and savings.

An unfavorable change in business activity, business-activity forecasts and assumptions used in the projection of cash flows during impairment tests of the intangible assets acquired could result in the recognition of impairment charges, which would have a negative impact on Danone's results. In the case of joint-ventures, the relationships with Danone's partners in certain entities are governed by shareholder agreements that may provide for certain decisions to be made either with the agreement of the partners or without the agreement of Danone. Therefore, difficulties could be encountered with joint-venture partners, notably in the case of differences over strategy, development or operational management of these joint-ventures, and could adversely affect Danone's activities and results.

For each acquisition, Danone prepares an integration program and provides the resources necessary for its implementation.

The 2017 acquisition of the WhiteWave group's companies, for example, had been subject to an integration plan, and these assets have been integrated to Danone's internal control system.

Danone carefully reviews the drafting of shareholders' agreements and ensures the implementation and maintenance of adequate governance with its partners.

Principal markets

Geopolitical environment

Danone's activities and employees can be subject directly or indirectly to the effects of a period of economic, political, social or military instability in countries susceptible to undergoing or having recently undergone such a period.

Also, some countries where Danone operates have regulations that are not particularly developed and/or not very protective (in particular with respect to intellectual property rights), and are often unstable due to the influence of powerful local interests. Some of these countries maintain foreign exchange controls and/or control the repatriation of profits and invested capital, impose taxes and other payments and impose restrictions, sometimes retroactively, on the activities of multinational groups. In some countries, national and/or local authorities may also have recourse to laws and regulations, or to any other measures having a similar effect, notably to foreign interests, that restrict the ownership rights and/or access to liquidity and assets availability and/or the freedom to exercise its activity and/or are equivalent to the confiscation, nationalization or expropriation of assets.

Danone's international growth results in a geographical distribution that diversifies and, to a lesser extent, limits the concentration of risk to economic conditions for a given country. Danone also relies on (i) its reporting system to monitor its activity and the potential impact of economic conditions in countries where it is present; and (ii) its organization to take the necessary measures (adaptation of Danone's activity, its organization and, if necessary, restructuring plans). Depending on the situation, Danone's Safety Department may participate in the development and implementation of these plans and measures. In certain regions, it creates or consolidates relationships with government or private partners, which may be called upon if necessary. The Safety Department also gets involved in situations where government security and/or an international crisis may affect the activities of Danone's subsidiaries.

However, Danone cannot guarantee that its results will not be significantly affected by a disruption in economic, political or regulatory conditions or by a crisis in some of the countries where it is present.

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Lastly, Danone conducts business in certain countries, notably Iran and Russia, which may be targeted by economic and financial sanctions imposed in particular by American or European regulations. These regulations notably prohibit transactions with certain financial institutions and certain persons, and require prior authorization with the proper authorities before executing certain transactions. If the Company and/or its subsidiaries do not comply with these regulations, Danone could be subject to criminal penalties and/or significant financial penalties. Any period of political or economic instability in a country in which Danone operates, or any economic, regulatory or political measure such as the ones described above that may be implemented in some countries, could have a negative impact on its activities, results and reputation.

Economic conditions

In periods of slowing economic growth and/or deficit and public debt reductions that may affect some of its main markets, Danone may have to contend with the following phenomena:

- contraction in purchases by consumers, whose purchasing power has diminished, and/or change in consumption patterns as a result of economic conditions;
- increase of existing taxes or establishment of new taxes on consumers and/or companies, especially in heavily indebted countries;
- specifically in the case of the Advanced Medical Nutrition business, a reduction in the insurance reimbursement of medical products and/or pressure on prices and contraction in healthcare expenditures.

These changes could have a negative impact on Danone's activities and results.

Also, as described in section 2.3 *Strategic growth areas*, in order to ensure its long-term expansion, Danone's growth strategy is based primarily on a limited number of countries in which Danone has strong positions in rapidly growing markets. If Danone's activity in one or more of these countries were subjected to adverse trends, it could have negative effects on Danone's growth.

Finally, given their economic and/or monetary situation, certain countries, such as Argentina, experience very high and potentially very volatile inflation, which may affect Danone's activities and results.

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Sales by geographic region and Danone's top ten countries in terms of sales are presented in section 2.2 *Presentation of Danone*.

Lastly, Danone has developed and implemented an International Economic Sanctions policy aimed at ensuring compliance by Danone entities and their employees with the applicable rules concerning economic and financial sanctions.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

Danone's position in certain markets

Danone is market leader in some of its markets. As a consequence, the Company may be accused by third parties of abusing a dominant position in these markets and/or of engaging in anti-competitive practices. More generally, the provisions of competition law apply to Danone in the vast majority of countries where Danone does business. Actual or alleged violations of competition law could affect Danone's reputation, and result in investigations by competition authorities in countries where Danone is present, in legal proceedings or even criminal and/or significant financial penalties. This could have an adverse effect on Danone's activities and results.

In its Compliance department, Danone has put together a specialized team of competition law experts who are responsible for developing and deploying a competition law policy for the Group's entities. Meanwhile, the Company has developed an international network of competition law specialists within the legal function to monitor this risk.

Danone also pays close attention to this matter and seeks to limit the corresponding risk, mainly by communicating and promoting the Business Conduct Principles and Code of Conduct dedicated to the sales functions; and Danone has integrated these rules and best practices into its Danone Way approach in order to ensure that they are communicated and followed. Further information is available in sections 2.8 *Internal control and risk management* and 5 *Social, societal and environmental responsibility*.

Risks associated with Danone's organization and operations

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Concentration of purchases with a limited number of suppliers

Danone depends on a limited number of outside suppliers for (i) the delivery of certain goods, in particular raw materials (for example the ferments used in the Essential Dairy and Plant-Based business, or powdered milk for the Advanced Medical Nutrition business in some Asian countries); and (ii) certain services (in particular sub-contracted services or information technology services).

If some of these suppliers were unable to provide Danone with the quantities and qualities of products or goods that it needs under the conditions set forth, or if the suppliers were unable to provide services in the required time period, Danone's activities and results could be materially adversely affected.

In order to limit this risk, Danone selects and then monitors and supervises its key suppliers. It also prepares and implements procedures designed to secure its supplies and services as well as business continuity plans designating alternative suppliers.

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Human resources The availability, quality and commitment of Danone's employees play an essential role in Danone's success. If Danone's ability to attract and retain employees with the necessary skills or talents – notably in the emerging countries, Danone's principal markets, newly acquired companies and/or during times of transformation for the Company – were to diminish or be insufficient – especially in an environment marked by efforts to control wage and salary costs and/or in light of the impact of the economic crisis on Danone's various annual and multi-year variable compensation plans– then Danone's ability to achieve its objectives could be adversely affected, which could also negatively affect its results. Moreover, mobilizing Danone's management and staff to successfully implement these restructuring projects and, more generally, the Company's transformation projects could affect their availability and focus on the Company's business and its operational projects, which could have a negative impact on its activities and results. This is particularly the case of the transformational project towards Danone 2020 implemented starting in 2015.	As described in section 5 *Social, societal and environmental responsibility* related to Compensation and promotion, Danone offers competitive and fair compensation, and to that end has developed appraisal systems and procedures that are also described in this section. Danone has also developed a social, societal and environmental responsibility approach that it deploys in its subsidiaries, including in emerging countries. Danone believes that its approach and the actions implemented contribute to its appeal. This approach and the actions implemented are described in section 5 *Social, societal and environmental responsibility.*
Risk related to ethics and to human rights Certain Danone products belong to food categories in which respect for ethical values and integrity is of particular importance. Moreover, supply chains in the agricultural sector may entail risks related to human rights, in particular working conditions, the health and safety of farm workers or even forced or child labor. Actions by Danone, its suppliers, employees or any other agent acting on its behalf that are contrary to ethical principles or applicable laws and regulations – especially in the areas of combatting fraud and corruption and respecting human rights – could result in consumer mistrust of Danone products and expose Danone to criminal and civil liability and, more generally, have a negative impact on its results and reputation.	Back in 2001, the Company formulated its Fundamental Social Principles, which prohibit any form of human rights violations in its supply chains as well as in its own operations. In 2017, Danone developed its vigilance plan for respect of human rights, the environment and personal health and safety, applicable to both its own activities as well as those of its suppliers. Danone also established its ethical code (Business Conduct Policy) as well as its Integrity Policy. These policies, which apply to all Danone employees, formalize its commitment to the integrity of and compliance with applicable legal requirements. They define strict ethical rules as well as the action and conduct principles applicable to all employees for all Danone-related activities in all countries where the Company does business. Finally, the RESPECT policy aims to extend this commitment to the Company's suppliers. In 2017, Danone sought to advance the policy toward one of reasonable due diligence, with close attention paid to human rights using a continuous improvement approach. These elements are described in section 5 *Social, societal and environmental responsibility.*

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Information systems	
Danone is increasingly dependent upon shared infrastructures and information technology applications for all its business activities. The main risks are related to the availability of information technology services and the confidentiality and integrity of data. Whether due to involuntary technical breakdowns or to deliberate attacks, any failure of these infrastructures, applications or data communication networks, any interruption linked to the failure of security of data centers or networks as well as any loss of data and any use of data by third parties, could block or slow down production or sales, delay or taint certain decisions and, more generally, have an adverse impact on Danone's finances, operations or image. In addition, former Numico subsidiaries, as well as more recently acquired companies, rely on different information systems, which may increase the complexity of the monitoring and management of these risks by Danone.	Danone's policy is to consolidate data centers. In particular, Danone's central applications are hosted in a highly secured data center managed by IBM. In addition, Danone is developing and implementing specific information systems (SAP/Themis, etc.) in its subsidiaries to optimize and streamline information technology investment while promoting global synergies and reducing risks. The former Numico subsidiaries and recently acquired subsidiaries are gradually benefitting from the implementation of SAP/Themis, Danone's integrated information system. Further information is available in section 2.8 *Internal control and risk management*. In addition, Danone integrates into its global strategy action plans to resolve identified weaknesses and to continuously improve its security system, in particular with respect to intrusion detection. To strengthen the protection of its information systems and data, Danone notably ensures that digital security is taken into consideration starting in the design phase for IT projects.
Internal control deficiency	
The risk of an internal control deficiency is mainly associated with (i) reliability of financial information, (ii) compliance with the applicable laws, regulations and internal policies, and (iii) efficiency and effectiveness of internal processes, including those related to the protection of the Company's assets. If Danone's internal control systems were to experience deficiencies or prove to be inadequate, particularly in the area of fraud, the quality of its financial information, the ability of its executives to take the correct decisions and, more generally, its results, could be adversely affected.	Danone has implemented an internal control system, which is described in section *2.8 Internal control and risk management*. Regardless of how adequate it may be, this system can only provide reasonable assurance and not an absolute guarantee with respect to the achievement of the Company's objectives, given the limitations inherent in any control process. While Danone cannot fully exclude the risk of an internal control failure, the performance level and widespread deployment of its five internal control components (Control environment, Risk identification and assessment, Control activities, Information and communication, and Continuous monitoring) reduce Danone's exposure to this risk. Similarly, Danone cannot exclude all risks associated with fraud. However, the risk profile of its businesses and the existence of a widely disseminated anti-fraud program that covers all aspects for reducing the risk of fraud or the potential impact of any fraud– awareness, prevention, detection, investigation, penalty, reporting and continuous improvements of the internal control system – (see section 6.6 *Internal control and risk management)* limit Danone's exposure to this risk.

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Industrial risks Industrial risks are mainly water pollution (essentially organic and biodegradable pollution), environmental risks related to (i) cooling installations (ammonia and other cooling liquids); (ii) the storage of raw materials or products for the cleaning and disinfection of the plants (acid and alkaline products), especially when these plants are located in residential areas; and (iii) wastewater treatment. In the event that Danone is exposed to potential environmental liability as a result of a significant accident or pollution, its results and reputation could be adversely affected. Like any industrial activity, Danone's sites are exposed to various risks: fire, explosion, equipment failure, security systems failure or human error in equipment operation or works management. Such events could cause damage to persons, property or the environment and possibly have a negative impact on Danone's activities, financial situation and image.	Danone prepares and implements actions, procedures, tools and policies aimed at (i) preventing and reducing these risks; (ii) measuring and controlling Danone's impact, and implementing action plans and policies when necessary to address the risks related to these challenges. Concerning industrial risks, to reduce if not eliminate these risks and their potential impact, Danone has decided to elevate personal safety and industrial plant and environmental protection to core values of its policy. These values are "measured" through various programs with ambitious targets and action plans monitored by Danone departments, notably the Reporting entities' industrial departments.
Insurance coverage deficiency Danone's insurance coverage could be insufficient and/or Danone could be unable to renew its insurance programs on acceptable terms, which could have an adverse effect on its financial situation and results.	See section *Insurance and risk coverage* hereafter.

Financial market risks

Additional information on the financing structure and financial security are presented in section 3.4 *Balance sheet and financial security review.*

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Financial market risks As part of its normal business, the Group is exposed to financial risks, especially foreign currency, financing and liquidity, interest rate, counterparty, securities and commodity risks.	The Company's policy consists of (i) minimizing and managing the impact that its exposure to financial market risks could have on its results and, to a lesser extent, on its balance sheet; (ii) monitoring and managing such exposure centrally; (iii) whenever the regulatory and monetary frameworks so allow, executing the financial transactions locally or centrally; and (iv) using derivative instruments only for the purpose of economic hedging. Through its Financing and Treasury Department, which is part of the Company Finance Department, Danone possesses the expertise and tools (trading room, front and back office software) to act on different financial markets following the standards generally implemented by first-tier companies. In addition, the Internal Control and Internal Audit Departments review the organization and procedures applied. Lastly, a monthly financing and treasury report is sent to the Company Finance Department, enabling it to monitor the decisions taken to implement the previously approved management strategies. Additional information and figures, in particular on Danone's exposure to these different risks, once they are managed, are presented in Notes 5.4, 5.7, 10.3 to 10.8, 11.2 and 12.3 to 12.5 of the Notes to the consolidated financial statements.
Currency risk related to operating activities Danone mainly operates on a local basis and consequently in the currency of the country in which it is operating, thereby incurring no foreign exchange risk. However, the location of some of Danone's production units may result in inter-company billings in foreign currencies. This applies particularly to the Specialized Nutrition Reporting entity and, to a lesser extent, to the EDP International and EDP Noram Reporting entities. Similarly, some raw materials are billed or indexed in foreign currencies, in particular as regards the Waters, EDP International and EDP Noram Reporting entities. Lastly, Danone is also developing some export activities. The sales and operating margin of some subsidiaries are therefore exposed to fluctuations of foreign exchange rates against their functional currency.	Pursuant to its financial currency risk hedging policy, Danone's residual exposure after hedging is not significant during the hedging period (see Note 5.7 of the Notes to the consolidated financial statements).
Currency risk related to financing activities In conducting its risk centralization policy, Danone manages multi-currency financings and liquidities. Consequently, fluctuations in exchange rates of foreign currencies against the euro may have an impact on Danone's consolidated income statement and balance sheet.	Pursuant to its financial currency risk hedging policy, Danone's residual exposure (after hedging) is not material (see Note 10.8 of the Notes to the consolidated financial statements).

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Liquidity Danone does not use debt in either a recurring or a significant way in connection with its operating activities. Operating cash flows are generally sufficient to finance Danone's business operations and organic growth. Danone may, however, take on additional debt to finance external growth transactions or, occasionally, to manage its cash cycle, particularly when dividends are paid to the Company's shareholders. The Company's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources. Liquidity risk arises mainly from the maturities of its (i) interest-bearing liabilities (bonds, bank debt, etc.); and (ii) non-interest-bearing liabilities (liabilities on put options granted to non-controlling interests), and from payments on derivative instruments. As part of its debt management strategy, Danone regularly seeks new financing, especially to refinance its existing debt. In countries where centralized financing is not accessible, when medium-term financing is unavailable and/or in cases where certain types of financing existed at a company prior to being acquired by Danone, then Danone is exposed to liquidity risk on limited amounts in these countries. More generally, it is possible that in the event of a systemic financial crisis, Danone could be unable to access the financing or refinancing it needs on the credit or capital markets, or to access it on satisfactory terms, which could have an adverse impact on its financial situation. Meanwhile, Danone's ability to access financing and its interest expense may depend in part on its credit rating from credit rating agencies. The Company's short-term and long-term credit ratings and their possible downgrade could result in higher financing costs and affect Danone's access to financing. Finally, most of the financing agreements entered into by the Company (credit facilities and bonds) include a change of control provision, which offers creditors a right of early repayment in the event a change in control of the Company causes its rating by the financial rating agencies to fall below investment grade.	Under its refinancing risk management policy, Danone reduces its exposure by (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium-term financing, (iv) maintaining financing sources available at all times, (v) distributing maturity dates based on forecasted needs and cash flows generation; and (vi) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts. In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, some Danone companies may, for operational reasons, be required to borrow from local sources; for Danone, this financing involves limited amounts both individually and cumulatively, given a volume of operating cash flows generally sufficient to self-finance its business operations and organic growth.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Interest rates	
Danone is exposed to interest rate risk on its financial liabilities as well as its cash and cash equivalents. Through its interest-bearing debt, for example, Danone is exposed to the risk of interest rate fluctuations that affect the amount of its financial expense. In addition, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, interest rate fluctuations may have an impact on Danone's consolidated results and consolidated equity (see Note 10.8 of the Notes to the consolidated financial statements).	Danone has established a policy for monitoring and managing interest rate risk aimed at limiting the volatility of its financial result through the use of hedging instruments.
Counterparty, credit	
Danone is exposed to counterparty risk, especially regarding banking counterparties, as part of its financial risk management activities. As part of its normal activities, Danone has financial institutions as counterparties, mainly to manage its cash and foreign exchange rate and interest rate risks. The failure of these counterparties to comply with one or more of their commitments could adversely affect Danone's financial situation.	Danone's banking policy aims to reduce its risks by focusing on the quality of counterparty credit and by applying limits for each counterparty. Danone's exposure to these risks is described in Notes 5.4 and 12.5 of the Notes to the consolidated financial statements.

INSURANCE AND RISK COVERAGE

As regards risks other than financial market risks (which are described in the above section), Danone has a global insurance coverage policy that is based on stringent underwriting assessments and uses insurance products from the world market, depending on availability and local regulations. This risk coverage is therefore consistent for all companies over which Danone has operational control.

Insurance programs for property damage, business interruption and commercial general liability risk are negotiated at Company level for all subsidiaries, with leading international insurers. The "all risks except" policies are based on the broadest guarantees available on the market, coupled with deductibles of varying amounts, which are relatively low compared to those extended to groups of comparable size to reflect the autonomous management of the subsidiaries. The guarantee limits are set on the basis of worst case scenarios and on insurance market availability. These programs were renewed on January 1, 2016 for a term of three years; the total cost of these programs was approximately €33.6 million in 2017.

Insurance programs for "traditional" risks, which require local management, such as coverage of vehicle fleets, guarantees for the transportation of merchandise, work-related accidents (in countries in which these accidents are covered by private insurance), and insurance specific to some countries, are negotiated and managed in accordance with local practices and regulations, within the framework of precise directives provided and controlled by the Group. Total premiums came to approximately €23.8 million in 2017.

Lastly, insurance programs for potentially significant special risks, which require centralized management, such as the liability of the Company's corporate officers, fraudulent acts, and assorted risks (product recalls, credit risk, environmental risk, etc.) are negotiated according to market availability, on the basis of scenarios estimating the probable impact of any claims. The total cost of this category of coverage amounted to approximately €3.5 million in 2017.

In addition, in order to optimize its insurance costs and properly control its risks, Danone has a self-insurance policy through its captive reinsurance subsidiary Danone Ré (a fully consolidated entity). The self-insurance policy applies to specific risks where the costs can be accurately estimated, as Danone is aware of their frequency and financial impact. This concerns essentially (i) coverage of property damage, business interruption and commercial general liability for a large majority of Danone's companies (these self-insurance programs are limited to frequent claims with a maximum of €7.5 million per claim) as well as transportation in some cases; and (ii) for the French subsidiaries, payments for death, long-term disability, and education. Moreover, stop-loss insurance protects Danone Ré against any increased frequency of claims. These self-insurance programs are managed by professional insurers under Danone's supervision and the provisions are determined by independent actuaries.

2.8 RISK MANAGEMENT AND INTERNAL CONTROL

GENERAL ORGANIZATION OF INTERNAL CONTROL

Internal control objectives and framework used

Internal control is a process put in place by Danone's General Management, managers and operational teams. It is designed to provide reasonable assurance, albeit not absolute certainty, that the following main objectives are met:

- reliability of financial information;
- compliance with applicable laws, rules and internal policies;
- effectiveness and efficiency of internal processes, including those related to the protection of the Company's assets.

Danone's nternal control framework: DANgo

Danone's internal control system is adapted to its strategic policies and consistent with its international development. The internal control framework developed and used by Danone, DANgo (Danone Governing and Operating Processes), is based on the reference framework proposed in 2007 by the French Financial Markets Authority, together with its application guide, and updated in 2010. This reference framework relates to risk management and internal control procedures and describes the monitoring processes and the preparation of accounting and financial information. This reference framework is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) guidelines.

It was created in its present form in 2003 and greatly enhanced in 2005 and 2006 when Danone, a publicly traded corporation in the United States at the time, was subject to the Sarbanes-Oxley Act.

It includes process mapping, Standard Operating Models, Danone Operating Models and Danone Internal Control Evaluations. It is reviewed annually (see section *Control environment* hereafter).

In addition, this DANgo framework is supported by a software application of the same name accessible to everyone worldwide.

Scope of nternal control

Danone's internal control system applies to all its fully consolidated subsidiaries and to some associates. In the specific case of very small or newly-acquired subsidiaries, a simplified framework focused on the DANgo "fundamentals" has been created to facilitate their integration and development and to ensure appropriate control of their financial and accounting processes.

During fiscal year 2017, Danone entities located in around 60 different countries and accounting for more than 89% of total consolidated sales were evaluated under the internal control system. The WhiteWave and Alpro entities will be integrated into Danone's internal control in 2018.

Internal control participants

General Management

General Management is responsible for Danone's internal control system, while the Audit Committee is responsible for monitoring the effectiveness of Danone's control and risk management systems (see section 6.1 *Governance bodies*). To this end, General Management relies on the Finance Department and the operational reporting entities (reporting entities, regions, businesses, subsidiaries).

Company Finance Department

The Company Finance Department is responsible for the Finance function within the Company, both directly through centralized functions (Financial Control, Corporate Finance, Consolidation, Reporting and Standards, Treasury and Financing, Tax, Strategy, Financial Communication, Acquisitions, Corporate Legal) and, through functional ties, with the finance directors of the various Reporting entities.

The Finance Department is also responsible for risk management, internal control and internal audit, which enables a focus on corporate governance and compliance related topics.

The Chief Financial Officer, who reports to the Chief Executive Officer, is a member of the Executive Committee. The main heads of the Finance functions and Reporting entities are members of an Executive Finance Committee, which meets monthly.

Risk management

Danone has organized its risk identification and risk management system around two complementary processes:

- identification and management of operational risks, under the responsibility and monitoring of the Internal Control Department;
- identification and management of strategic risks, under the responsibility and monitoring of the Strategic Planning Department.

The process of identifying and managing Danone's risks is described hereafter in the *Risk identification and assessment* section.

Strategic Planning Department

Part of the Company Finance Department, the Strategic Planning Department is responsible for identifying and monitoring Danone's strategic risks. It relies in particular on the financial directors of the Reporting entities (see section *Organization of the finance function* hereafter).

Internal Control Department

Part of the Corporate Finance, Control and Services Department (see section *Organization of the finance function* hereafter), the Internal Control Department is composed of a five-member central team, which is supported by a large network of local internal controllers who generally report to the finance directors of the Clusters Business Services. These internal controllers ensure that the procedures defined by the Company are properly applied at their entities and organizations.

The Internal Control Department's main responsibilities are as follows:

- preparing and implementing DANgo, Danone's internal control framework;
- defining (i) priorities related to internal control, and (ii) the methodology to be used for self-assessment, its testing and documentation;
- managing and analyzing (i) the internal control indicators, and (ii) the results of the assessments and action plans implemented by the community of internal controllers;
- establishing and monitoring operational risk mapping at the various levels of the organization and managing the network of internal controllers on priority actions to be defined in response to these risk maps;
- supporting and overseeing the international network of internal controllers through coordination, communication and training initiatives.

Internal Audit Department

In 2017, the Internal Audit Department conducted 43 internal audits of subsidiaries or cross-company functions, based on the plan previously approved by the Audit Committee. These audits seek to verify the quality of the DANgo self-assessment performed by the subsidiaries. In light of the increased staffing on the Internal Audit teams and heightened compliance requirements, these audits periodically identify some gaps in the self-assessments of certain subsidiaries. We have strengthened communication with management of the Reporting entities concerning these gaps.

Following each audit, an action plan is prepared by the subsidiary's management to correct weaknesses identified in the audit report. The implementation of action plans is monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2017, 25 follow-up audits on implementation of action plans were conducted within 12 months of the initial audit wherever possible.

Moreover, the Treasury and Financing, Tax, Information Systems, Environment, Legal/Compliance, Food Safety, Quality, Industrial, Safety, Environment, Organization, Human Resources and Crisis Management departments arrange audits and periodic reviews at the subsidiaries, in addition to the general internal audits.

Compliance Department

As part of the General Secretary team, the Compliance Department directly reports via the Chief Compliance Officer to Danone's General Counsel and to the Audit Committee. It is supported by Compliance teams as well as the local Compliance Committees, which are assigned to 30 clusters (a cluster covers all of the Reporting entities and activities in a country or group of countries), with each cluster's Compliance Officer reporting to the Chief Compliance Officer. The Compliance department has developed and oversees Danone's Compliance Program, which is an integral part of Danone's *control environment*. It is described in the section hereafter, Control environment. Lastly, the Chief Compliance Officer oversees the Corporate Compliance & Ethics Board (see section *Monitoring of internal fraud* hereafter).

Other internal control participants

In Danone's largest and most complex subsidiaries, particularly in emerging countries, the local head of internal control is supported by a team of operational internal controllers, who are responsible for ensuring the proper operational application of internal control practices at the sites (warehouses, plants, etc.).

In addition, the operational line managers at the subsidiaries and headquarters play a major role in internal control and its implementation in their respective areas of responsibility, with support from the relevant corporate functions (mainly Finance, but also Human Resources, Sustainable Development, Environment, Safety, Quality, Information Systems, Legal, etc.– see section *Risk identification and assessment* hereafter).

Finally, (i) the DANgo Steering and Cross-functional Coordination Committee, (ii) the Internal Control Steering Committee and (iii) the Compliance Committee described hereafter are also involved in the management and continuous monitoring of internal control, with a view to ensuring consistency with the operating activity at all levels.

DANONE'S OVERALL INTERNAL CONTROL AND RISK MANAGEMENT PROCESS

Internal control consists of the following five closely related components:

- control environment;
- risk identification and assessment;
- control activities;
- dissemination of information;
- continuous monitoring.

They are implemented as described hereafter.

Control environment

The aim of the control environment is to make staff aware of the usefulness and necessity of internal control; it is the foundation of all the other components of internal control and imposes an ethical standard, discipline and an organization.

Danone's control environment is based on the following:

- Danone's values which are widely communicated across all of the subsidiaries, and Danone's dual economic and social project;
- the Business Conduct Policy defined by the Company;
- the human resources and social policy, particularly with regard to employee development and training;
- the impetus given by the Board of Directors and the willingness to achieve continuous improvements in all operating procedures, as expressed by Danone's General Management;
- the Danone Way approach, which is deployed in nearly all Danone's subsidiaries;
- the Compliance Program, which aims at protecting Danone and its subsidiaries against risks related, in particular, to corruption, anti-competitive practices, non-compliance with laws on confidentiality of personal data and international laws on trade sanctions. It describes the key principles and defines the responsibilities, organization and governance at all Company levels. It is also responsible for risk assessment, the integration of compliance and control procedures in the business, training, advisory, as well as prevention, investigation and reporting audits;
- the standardization of Danone's operating processes through the implementation of the DANgo framework and the regular use of a single integrated information system (Themis, see section *SAP/Themis integrated information system* hereafter) which contribute to the strength of the control environment;
- the DANgo framework (see section *Danone's internal control framework: DANgo* above): accessible to all Danone employees in an electronic version, it is subject to a systematic annual review by which the Company ensures that the DANgo internal control and best practices framework is kept up to date. DANgo is updated by (i) experts from the network of internal controllers; and (ii) operational teams of various Reporting entities, which enables DANgo to be used by those in the various functions and allows the framework to be enhanced through best operating practices;
- in addition to DANgo, an intranet site for Danone's internal controllers and a Danone social network present all the documents useful for internal control and contribute to the sharing of experiences and best practices in the area of internal control. These documents may also be accessed by all Danone employees and are updated regularly;
- the writing and distribution of internal control guidelines, which are updated annually.

Risk identification and assessment

Every company faces internal and external risks that may hinder the achievement of its objectives. The principal risks to which Danone believes it is exposed as of the date of this Registration Document are described in section 2.7 *Risk factors*.

Danone has established a system for identifying and managing risks based on two distinct systematic risk identification processes.

Operational risks

The first process for risk identification and management focuses on operational risks related to the Company's current activity and deficiencies identified by the internal control review (through the self-assessment and testing of control indicators, see section *Internal Control Department* above). A local standardized mapping of these deficiencies (Internal Control Deficiencies Impact Mapping) at the level of each operating unit makes it possible to classify them based on two categories qualifying (i) their potential financial impact on the Company; and (ii) the expected difficulty in resolving the deficiency under consideration. This mapping may then be used at different levels of the organization (management committee of the operating unit, region, Reporting entity, function, etc.) as a prioritization tool for action plans to be implemented in order to reduce the identified risk.

Strategic risks

The second risk identification and management process focuses on strategic risks and takes the form of a risk mapping hierarchy based on their likelihood of occurrence and their estimated impact on the Company.

Methodology

This risk mapping is prepared and updated semi-annually by the Company Finance Department. The following methodology is used:

- identification of the risks considered as material by Reporting entity with support from the main corporate transversal functions and integration of systemic risks not perceptible at the subsidiary level;
- consolidation of the major risks of the Reporting entities at Company level and integration of systemic risks not perceptible at the Reporting entity level;
- ranking of risks based on their likelihood of occurrence and estimated financial impact, at the level of a Reporting entities or the Company;
- determination of preventive or corrective actions, which may be local or global depending on the case.

This process is an integral part of annual strategic planning: the strategic plan for each Reporting entity starts from the previous year's mapping of strategic risks and results in the development of the new mapping with its related preventive actions.

Risk monitoring
For each Reporting entity, the most significant risks are reviewed twice a year by the Reporting entity managers and Danone's Head of Strategic Planning at special meetings attended by the General Manager and Finance Director of each Reporting entity and the Head of Strategic Planning.

A review of the most significant risks is also presented twice a year by Danone's Head of Strategic Planning to the Danone Chief Executive Officer and Chief Financial Officer. A mapping of Danone's major risks and risk mitigation plans are reviewed and assessed. This work serves as the basis for the presentations made to Danone's Executive Committee and Audit Committee.

Other elements of Danone's organization that contribute to risk identification and analysis
The existence of procedures – regarding the monitoring of competition, training, risk prevention and protection, etc. – and the initiatives taken by specialized departments– such as the Environment Department and the Quality and Safety Department for food – contribute to the identification and analysis of risks.

The Safety Department also helps to identify threats against Danone's employees and assets.

In addition, the Crisis Management Department uses information made available by the risk maps established by each Reporting entity to identify potential crises and prepare the affected entities accordingly, ensuring that an appropriate response is provided for all crises, even if the related risk was not previously identified.

The identification and reporting of risks is also facilitated by the relatively low number of reporting levels within the Company, short decision-making channels and input from the operating units in strategic discussions. In addition, the Corporate Compliance & Ethics Board, a semi-annual cross-functional committee led by the Chief Compliance Officer, was created to supervise Danone's Compliance Program, notably by reviewing compliance-related risks. It is supported at local level by the 31 Compliance Committees.

Control activities

Control activities are intended to ensure the application of the standards, procedures and recommendations that contribute to the implementation of General Management's policies.

All the subsidiaries integrated into the DANgo scope use an annual self-assessment process. The largest of them follow a more detailed internal control review methodology that includes information flows, control points and tests conducted by management:

- the IT application that hosts the DANgo system allows subsidiaries to perform self-assessments and determine whether they are compliant with Danone's internal control framework. It also makes it possible to monitor any action plan that may be needed;
- the results of the subsidiaries' DANgo self-assessment campaign are sent periodically to the Internal Control Department, which analyzes them and sends relevant summaries to the various stakeholders. Appropriate action plans are put in place by the entities under the supervision of the Internal Control Department with a goal of continuous improvement, and internal audits are subsequently carried out to validate that corrective measures have indeed been taken.

In addition, the performances and results of each operating unit in the area of internal control are regularly and systematically monitored by the entities' Management Committees.

Transmission of information

Appropriate information must be identified, collected, quantified and disseminated in a manner and within a timeframe that enables each person to assume his or her responsibilities.

To this end, Danone relies on:

- its organization and information systems, which facilitate the communication of information needed for decision-making;
- the various intranet sites and documentation databases that enable information to be shared within Danone. This information includes not only financial information but also non-financial information that meets the needs of the various operating and administrative departments. Since 2012, Danone has deployed its social network, which is accessible to all, to transmit information and develop communication and experience sharing;
- the distribution of the DANgo framework by the Internal Control Department, which oversees, trains and coordinates the network of internal controllers:
  - it organizes working and annual training sessions for the network of internal controllers, including workshops and information-sharing seminars. More than 130 people covering 173 entities attended the session organized in 2017;
  - it is responsible for the training and integration of new internal controllers, including those working for newly acquired companies;
  - it is also responsible for internal control training sessions open to all managers of the finance functions;
  - it communicates regularly at various levels of the organization (Corporate Committees, meetings at Reporting entity level with the finance directors or operational employees, systematic annual presentations to the general managers and finance directors of the regions, and participation in functional Management Committees).

Continuous monitoring

The internal control system is reviewed periodically so that its performance and effectiveness may be qualitatively assessed.

The continuous monitoring of control procedures is part of the ongoing activities of Danone and its subsidiaries.

The quality of the internal control system's steering and monitoring is ensured by two Committees, led by the Internal Control Department, which meet regularly:

- the DANgo Steering and Cross-functional Coordination Committee, which consists of operational senior executives appointed as representatives of Danone's key functions: Research and Development, Purchasing, Operations, Marketing, Sales, Finance, Human Resources, Information Systems, etc.;
- the Internal Control Steering Committee, which consists mainly of the heads of Danone's Finance function and the Reporting entities and meets quarterly.

In addition, the Audit Committee, as well as Danone's General Management, are informed at least twice a year of the status of the subsidiaries' self-assessment processes, the results thereof and the results of the audits conducted by the Internal Audit Department. The following year's targets are also presented as well as the priorities selected by the Internal Control and Internal Audit functions.

Monitoring of internal control indicators

The Internal Control Department has introduced and monitors internal control performance indicators (coverage rate, internal control intensity rate and deficiency rate on control points) to analyze and communicate the internal control results of the subsidiaries and of Danone together with monitoring by geographic region and by Reporting entity.

The targets for these performance indicators are discussed by the Internal Control Steering Committee and by the DANgo and cross-functional coordination Steering Committee, and are then presented to Danone's Audit Committee (see section 6.1 *Governance bodies*), before being sent to the subsidiaries, which helps to harmonize and develop a shared vision of the internal control priorities.

In 2017, Danone's internal control key indicators recorded the following changes: the internal control intensity rate remained stable, the coverage ratio and the deficiency rate been slightly down compared to 2016.

Danone Ethics Line

A central whistleblowing system is available for all employees, suppliers and other third parties to submit confidential reports of suspected bribery, corruption, fraud or other cases of non-compliance. In 2016, a new system (Danone Ethics Line) was implemented to replace Dialert, comprising new features such as an advanced investigation management system. The Danone Ethics Line Committee was also formed and is responsible for the management of cases of non-compliance with the Corporate Compliance Program and the establishment and application of the Danone Ethics Line system. The Committee is composed of the Chief Compliance Officer, the Anti-Corruption Compliance Officer, the Internal Audit Director and Directors of the HR Department HQ. In 2017 Danone received 188 alerts related to various topics including human resources, corruption, fraud, etc. None of these cases had a significant impact on Danone's consolidated accounts.

Internal audit assignments

In 2017, the Internal Audit Department conducted 43 internal audits at subsidiaries or cross-company functions, based on the plan previously approved by the Audit Committee. These audits seek to verify the quality of the DANgo self-assessment performed by the subsidiaries. In light of the increased staffing on the Internal Audit teams and heightened compliance requirements, these audits periodically identify some gaps in the self-assessments of certain subsidiaries. We have strengthened communication with management of the Reporting entities concerning these gaps.

Following each audit, an action plan is prepared by the management of the subsidiary to correct weaknesses identified in the audit report. The implementation of action plans is monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2017, 25 follow-up audits on implementation of action plans were conducted within 12 months of the initial audit wherever possible.

Moreover, the Treasury and Financing, Tax, Information Systems, Environment, Legal/Compliance, Food Safety, Quality, Industrial, Safety, Environment, Organization, Human Resources and Crisis Management departments arrange audits and periodic reviews at the subsidiaries, in addition to the general internal audits.

INTERNAL CONTROL PROCESS RELATED TO THE PREPARATION AND PROCESSING OF DANONE'S FINANCIAL AND ACCOUNTING INFORMATION

Organization of the finance function

The finance function's organization is based on:

- functional departments: Corporate Finance, Control and Services (to which the following departments report: (i) Treasury and Financing; (ii) Tax; (iii) Insurance; (iv) Consolidation, Reporting and Standards; (v) Internal Control; and (vi) Internal Audit); Management and Performance Control; Strategy and External Development; Financial Communication; the corporate functions (accounting, treasury, etc.) and certain expertise functions are then organized by geographic area (Region Business Services) including several units covering all the Reporting entities and activities in a given country or group of countries (Cluster Business Services);
- operational finance departments for the Reporting entities and key operating activities responsible for managing and steering the business; each Business therefore has its own operational finance department, which is itself organized by region (Region Business Units) including one unit per country (Category Business Unit).

Production of financial and accounting nformation

Financial information is generated by a rigorous and comprehensive financial planning process. This process includes, in particular:

- a three-year strategic plan specifying annual key financial targets;
- 12-month rolling forecasts performed quarterly on all financial indicators as well as monthly updates for certain indicators;
- monthly reports;
- monthly performance review meetings attended by the financial teams and the general managers of the Reporting entities;
- quarterly meetings to monitor execution of the strategy with the participation of the finance teams and general managers of the Reporting entities.

The relevance of the financial indicators selected to monitor performance is reviewed on a regular basis.

In this context, a detailed monthly financial report and a semi-annual exhaustive consolidation package used in the preparation of Danone's consolidated financial statements are prepared for each operating unit.

These consolidation packages are verified by a central team, which is also responsible for the elimination and consolidation entries and for analyzing and validating the most significant line items of the consolidated financial statements (intangible assets, taxes, equity, provisions and liabilities, etc.).

In addition, the production of financial information includes the following preliminary control stages, carried out by the Consolidation, Reporting and Standards Department:

- validation by the central team, throughout the year, of the main accounting options adopted by the subsidiaries and central functions and simulation of complex transactions in the consolidation software;
- in-depth review of certain subsidiaries' monthly closings at the end of May and November (known as the hard close procedures) based on the specific risks and transactions identified for preparing the interim and annual consolidated financial statements, respectively;
- maintenance and implementation of a central tool called WeFi, which identifies the finance function's main organizational principles and processes and the accounting principles validated for Danone;
- meetings to share information and best practices are attended regularly by the main financial managers, notably those from Cluster Business Services and some central department heads, and training sessions covering specific accounting topics are also held regularly;
- (i) preparatory meetings with the financial staff of Danone's main subsidiaries and the Cluster Business Services covering them based on the specific transactions and risks identified; (ii) presentations to the Audit Committee (specific transactions during the period, the main accounting options concerning the closing and the potential significant changes introduced by developments of the International Financial Reporting Standards) (see section 6.1 *Governance bodies*).

In addition, Danone's financial and accounting information is produced using the following applications.

SAP/Themis integrated information system

The management and optimization of information flows for the financial functions as well as the purchasing, industrial, quality, supply chain and sales functions, both within the subsidiaries and between them, is performed primarily through the SAP/Themis integrated information system. This application is being steadily deployed in all Danone subsidiaries and its features are constantly being improved.

As of December 31, 2017, the activities supported by Themis accounted for 71% of consolidated sales in the Fresh Dairy Products and Waters Businesses. The rollout of Themis continued in 2018, in particular for WhiteWave and Alpro.

The same information system is currently being rolled out at the subsidiaries of the Specialized Nutrition Businesses (covering 82% of total sales for the year ended December 31, 2017).

Consolidation and reporting software

Monthly financial reports and, more generally, the financial information used to manage and control the activities of the operating units are produced by a unified information system (SAP/Business Objects Financial Consolidation).

This same system is also used to produce the interim and full-year consolidated financial statements. The procedures related to the security, use and development of new features of this consolidation system are documented.

Control environment

The control environment relating to the preparation and processing of Danone's financial and accounting information is based on the following:

- the organization of the finance function, which is based on central functional departments and the finance department of each of the Reporting entities (see section *Organization of the finance function* above). In all cases, the operating units are responsible for the production and content of their financial statements as well as their internal control;
- the DANgo control practices and procedures, which help to ensure the reliability of the processes for preparing the financial statements. Indeed, the DANgo framework includes many points that address the quality of the financial and accounting information;
- the controls carried out by the Consolidation, Reporting and Standards Department (see section *Production of financial and accounting information* above);
- the definition for the Company of the roles and skills required at the various levels of the financial organization and the development, as a result, of internal training programs;
- the production and communication of the Company's financial and accounting information via the unified tools described above;
- the single set of guidelines covering the Company's accounting procedures and principles, which are consistent with its internal control principles. Available on the WeFi intranet, these guidelines are accessible to all the finance function's employees.

Risk identification and assessment

The monitoring and management of the main identified risks related to the preparation and processing of Danone's financial and accounting information is organized as follows:

- the risks identified in the results obtained from the annual assessment of internal control (DANgo) and internal audits are monitored;
- the budgeting and strategic planning processes, performance monitoring, the regular meetings mainly attended by the finance functions (Controlling, Treasury and Financing, Consolidation, Reporting and Standards, Development) and the meetings of the Risks Executive Committee and the Executive Committee allow the main risks identified to be monitored and managed;
- the internal control system is also adapted based on the risks identified.

Control activities

Each Reporting entity has a finance department, which is responsible for monitoring performance, capital expenditure and operating cash flow, primarily through the rigorous financial planning and reporting process. The Reporting entities' finance departments are supported by the finance departments in the geographic regions and operating units, with the overall financial planning process administered by the Controlling Department.

Members of the central departments visit the operating units on a regular basis (performance monitoring, procedure reviews, pre-closing meetings, ad hoc audits, progress on improving internal controls, follow-up on action plans, and training in accounting standards). The appropriate documents are provided sufficiently well in advance for them to be reviewed by Danone's management bodies.

Twice a year, the general manager and finance director of each subsidiary and the finance director of the Cluster Business Service covering it, along with their counterparts in the regions and Reporting entities, provide written confirmation of compliance with Danone's applicable procedures and with all of the standards applicable to the financial information sent to the central teams. This confirmation is provided in a representation letter that covers the closing of the interim and annual financial statements, including all subjects involving risk management, internal control and corporate law.

The control activities are therefore conducted at all of Danone's hierarchical and functional levels and include a variety of actions such as approving and authorizing, verifying and comparing, assessing operational performances, ensuring the protection of assets and monitoring the segregation of duties. The audits conducted independently by the Internal Audit Department provide appropriate validation.

Transmission of information

Danone's financial and accounting information is produced and communicated via the tools described above.

To disseminate financial information within Danone, each quarter the entire finance function can log onto a website where the Chief Financial Officer comments on the activity for the quarter, the year-to-date financial results and the main challenges for the Company.

Lastly, Danone's guidelines related to financial and accounting information (WeFi, DANgo, etc.) are accessible to all employees of the finance function and some are available to all Danone employees.

Continuous monitoring

One of the responsibilities of each Reporting entity's finance director and function manager is to improve the procedures used to prepare and process financial information. Detailed audits are conducted on the key control procedures in the preparation of financial information (particularly published disclosures) in the subsidiaries and in Danone's headquarters and on their effective application. Moreover, the internal audit assignments conducted in the operating units are aimed primarily at verifying the quality of the accounting and financial information. The Reporting entities' Finance Departments ensure that the action plans established subsequent to the above-mentioned internal and external audits have been carried out correctly.

Assessment

The procedures intended to control the accounting and financial information provided by the consolidated subsidiaries, as well as the internal control procedures used to prepare the consolidated financial statements, are adequate to provide reliable accounting and financial information.

3

BUSINESS HIGHLIGHTS IN 2017 AND OUTLOOK FOR 2018

Danone's consolidated financial statements and the Notes to the consolidated financial statements are presented in section 4.1 Consolidated financial statements and Notes to the consolidated financial statements. Risk identification and control policy, as well as the major operational risks relating to Danone's business sectors or to its activity and organization, are described in section 2.7 Risk factors.

Amounts are expressed in millions of euros and rounded to the nearest million. As a rule, the values presented are rounded to the nearest unit. Consequently, the sum of the rounded amounts may differ, albeit to an insignificant extent, from the reported total. In addition, ratios and variances are calculated based on the underlying amounts and not on the rounded amounts.

Danone reports on financial indicators not defined by IFRS, internally (among indicators used by the chief operating decision makers) and externally. These indicators are defined in section 3.6 Financial indicators not defined in IFRS:

- *Like-for-like New Danone changes (or "Like-for-like including WhiteWave starting in April 2017" changes) in sales and the recurring operating margin;*
- *recurring operating income;*
- *recurring operating margin;*
- *recurring tax rate;*
- *recurring net income;*
- *recurring EPS;*
- *recurring EPS growth excluding Yakult Transaction Impact;*
- *free cash flow;*
- *net financial debt.*

The Group also uses references that are defined in section 1.2 Information about the Registration Document related to References and definitions.

3.1 BUSINESS HIGHLIGHTS IN 2017

HIGHLIGHTS OF 2017

Highlights were detailed in the main press releases issued by Danone during 2017.

- On February 15, Danone announced the launch of Protein, an efficiency program aimed at delivering €1 billion in sustainable savings by 2020;
- On April 12, Danone announced the completion of the WhiteWave acquisition. The respective activities of Danone and WhiteWave in North America were combined into a single entity called DanoneWave;
- On May 18, during the Investor Seminar that it held in Évian (France), Danone outlined its financial targets for 2020 (see section 2.3. *Strategic priorities*);
- On June 22, Danone launched One Planet. One Health a new corporate signature reflecting its vision that our health is connected with and interdependent on the health of our planet;
- On July 3, Danone announced the disposal of Stonyfield to Lactalis for $875 million;
- On October 18, Danone announced that Emmanuel FABER had been appointed Chairman and Chief Executive Officer of Danone effective December 1st. Frank RIBOUD becomes Honorary President of Danone and remains a Director of the company. Danone also announced a new, tighter Executive Committee;
- On October 23, Danone launched a €1.25 billion hybrid bond issue and early redeemed WhiteWave's $500 million senior notes, with a 5.375% coupon;
- On November 30, 2017, Danone was awarded damages of €105 million to be paid immediately by Fonterra for costs suffered because of the Fonterra food safety failures of 2013;
- On December 14, the Board of Directors of Danone proposed that Michel LANDEL be appointed as Lead Independent Director.

OTHER BUSINESS ACTIVITIES IN 2017

Acquisitions, disposal of shares in companies

Main changes in fully consolidated companies

(in percentage)	Division	Country	Transaction date [a]	Ownership as of December 31 2016	Ownership as of December 31 2017
Main companies consolidated for the first time during 2013					
WhiteWave companies	EDP International and EDP Noram	Several countries, of which mainly the United States and Europe	April	–	100.0%
Main consolidated companies with change in ownership percentage					
Danone-Unimilk entity	EDP International	CIS zone	October	92.9%	97.6%
Happy Family	Specialized Nutrition	United States	July	91.9%	100.0%
Main companies that are no longer fully consolidated as of December 31					
Stonyfield	EDP Noram	United States	July	100.0%	–

(a) Month of fiscal 2017.

Main changes in investments in associates

The Group did not experience any material changes during the period.

Reduction of carbon footprint

See also section 5.4 *Contributing to the protection of the environment*.

Social and societal responsibility

These activities are described in paragraph 5 *Social, societal and environmental responsibility*.

New phase in the transformation of Danone

A new organization to create the best conditions for growth and efficiency

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

The three main organization principles are:

- 30 One Danone clusters;
- An empowered leadership team of 15 regional business Vice Presidents who are currently in charge of executing the businesses' regional agendas and are accountable for results in their region, and that will be the best point of leverage to make decisions as close as possible to consumers. By delegating extended responsibility to RVPs, Danone will ensure its new Executive Committee is completely focused on strategic topics.
- A tighter Executive Committee team, to increase efficiency and support more agile decision-making against the backdrop of rapid changes in the food sector. The new Executive Committee, as of 2018, is composed of three executives with operational responsibilities and three executives with functional responsibilities, under the leadership of Emmanuel FABER (see Section 6.1 *Governance bodies*).

Protein: launch of a €1 billion efficiency program

At the beginning of the year Danone announced the launch of Protein, an ambitious efficiency program aimed at delivering €1 billion in sustainable savings by 2020 by making smarter spending choices. At the end of 2017, 10 out of 30 clusters, representing more than 50% of the targeted cost base, had been activated. Procedures, governance, best practices and tools have been put in place to start delivering savings in 2018.

Governance

Refer to sections 6.1 *Governance Bodies* and 6.2 *Positions and responsibilities of the Directors and Nominees to the Board of Directors*

Research and Innovation

Essential Dairy and Plant-Based

In 2017, Danone continued its research activities on the impact of yoghurt consumption on food and health; which has been confirmed by academic research studies covering, in particular:

- the relationship between yoghurt consumption and a better diet;
- the potential mechanisms of action that could explain the benefits of yogurt on cardio-metabolic risk and type 2 diabetes;
- the link between yogurt consumption and a better lifestyle among children in Europe.

In addition, in collaboration with scientific institutions such as INRA (French National Institute for Agricultural Research) in Paris, and Harvard University T.H. Chan School of Public Health in Boston, USA, Danone also continued its work on understanding the intestinal flora: its evolution and the impact of diet or probiotics on flora richness.

Lastly, Danone has maintained its plan to reduce the sugar content of all its products and redesign its brands, particularly with the launch of reseable *Danonino* flask. Easy to carry, the bottle can be kept outside the fridge for eight hours without spoiling and contains only 4.9g of added sugar per serving.

In the field of innovation, the development of strong positions in the Greek yogurt segment in the United States continued, with the deployment of range extensions on *Oikos Triple Zero* and *Light & Fit*. Danone has also been accelerating the development of its ranges in the indulgence segment, with an extension in Russia of the *Danissimo* range, which offers products to drink with a straw in innovative packaging.

Lastly, the *Danone* brand was relaunched in France and Spain in the last quarter of 2017, with simplified recipes, 100% natural ingredients, and a new visual identity. Danone created the "1919" range, inspired by the original recipe based on whole milk and offered in four flavors: Plain, Orange Blossom, Vanilla and Cane Sugar.

Waters

In 2017, with a view to converting consumers to healthier hydration practices, the Waters Research and Innovation department continued its efforts on aquadrinks and the packaging of its products:

- aquadrinks offerings have been enriched with new varieties to better meet the needs of consumers. Danone carried on with its efforts to reduce the sugar content of its products, for instance *Bonafont* products for children come with no added sugar and no artificial sweeteners. Danone has created new ranges: *evian*, in collaboration with KUSMI TEA, launched an infusion made from white tea and natural mineral water with no preservatives, artificial flavors or sweeteners; a range of orangeade drinks was born in Argentina; the "Mizone Mi Pro" range and the Lemonade brand, targeted at millennials, were launched in China.
- in terms of packaging, Danone is continuing to develop the 100% vegetable and 100% recyclable plastic bottle by partnering with Nestlé Waters and California-based Origin Materials, a specialist in bio-sourced plastics (see section 5.4. *Contribute to the protection of the environment*. In addition, Danone continues innovating to improve the convenience of packaging, as illustrated by the new *Volvic* bottles (500 ml).

Danone is also continuing its scientific research on hydration and the benefits of water consumption on health.

Early Life Nutrition

Danone has continued its research on nutrition in the first 1,000 days, from the conception until the child's second year, in particular in the following areas:

- development of healthy eating habits and the impact of nutrition on the immune system development;
- development of the intestinal function and microbiota;
- metabolism of infants and young children (to gain a better understanding of the impact of nutrition on growth);
- the benefits of breast milk and breastfeeding;
- development of products and technologies.

To achieve this, Danone Nutricia Research works closely with a global network of thought leaders in specific areas: health experts, scientists and decision-makers, to create customized and nutritionally optimal products for every step of the 1,000 first days.

Advanced Medical Nutrition

Research and Innovation in the Advanced Medical Nutrition Business aims to develop products with nutritional contributions to help people live longer and healthier.

Danone's teams focus on the development of medical nutrition products adapted to specific diseases or specific clinical situations: allergies, Alzheimer's disease, critical care, epilepsy, low growth and neuro and psychomotor disorders, inborn errors of metabolism, oncology, physical fragility, stroke and dysphagia.

In these areas, Danone is doing joint research with a variety of partners in the scientific community. In 2017, the results of a study on cow's milk allergies (Assign) were published in the scientific journal Pediatric Research.

Legal and arbitration proceedings

The Company and its subsidiaries are parties to legal proceedings arising in the normal course of business, in particular by competition authorities in certain countries. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

Proceedings relating to the false alarm given by Fonterra with respect to certain ingredients supplied to the Group in Asia in 2013

Danone has reviewed its recourse and compensation options and decided to initiate proceedings in the New Zealand High Court, as well as arbitration proceedings in Singapore to bring all facts to light and to obtain compensation for the harm it has suffered. Proceedings are still in progress.

On November 30, 2017, the Singapore arbitration court awarded Danone damages of €105 million (excluding costs and interest to be determined subsequently) to be paid immediately by Fonterra as compensation for the costs suffered as a result of the Fonterra food safety failures of 2013.

The full amount of this €105 million income was therefore recognized in 2017, in Other operating income (expense) in the income statement and in Cash flows provided by operating activities in the consolidated statement of cash flows.

Other proceedings

To the best of the Danone's knowledge, no other governmental, court or arbitration proceedings are currently ongoing that are likely to have, or have had in the past 12 months, a material impact on the Danone's financial position or profitability.

Major contracts and related party transactions

Danone granted put options to third parties with non-controlling interests in certain consolidated subsidiaries, with these options giving the holders the right to sell part or all their investment in these subsidiaries.

As of December 31, 2017, financial liabilities related to these options totaled €607 million and are classified as financial debt.

Related party transactions are described in Note 15 of the Notes to the consolidated financial statements.

See also section 6.6 *Related party agreements and commitments.*

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3.2 CONSOLIDATED NET INCOME REVIEW

			Year ended December 31	
(in millions of euros unless stated otherwise)	**2016**	**2017**	**Reported changes**	**Like-for-like New Danone changes [a]**
Sales	21,944	24,677	12.5%	2.5%
Recurring operating income [a]	3,022	3,543	17.2%	7.8%
Recurring operating margin [a]	13.77%	14.36%	+58bps	+70bps
Operating income	2,923	3,734	27.7%	
Operating margin	13.32%	15.13%	+180bps	
Recurring net income – Group share [a]	1,911	2,190	14.6%	
Net income – Group share	1,720	2,453	42.6%	
Recurring EPS *(in €)* [a]	3.10	3.49	12.6%	
EPS *(in €)*	2.79	3.91	40.1%	
Free cash flow [a]	1,760	2,083	18.4%	
Cash flow from operating activities	2,652	2,958	11.5%	

(a) Refer to definition in section 3.6 *Financial indicators not defined in IFRS.*

SALES

Consolidated sales

In 2017, consolidated sales were €24,677 million, up +2.5% on a like-for-like New Danone basis. The sales growth included a +3.9% rise in value showing continued mix and value enhancement in all Reporting entities, which offset a -1.4% decline in volume mainly driven by EDP International.

Full-year reported sales were up +12.5% vs. 2016, including:

- the base effect corresponding to the consolidation of WhiteWave from April 12, 2017 (+12.7%);
- other changes in the scope of consolidation (-1.1%), resulting primarily from the disposal of Stonyfield (August 2017);
- negative currency impact (-1.6%) reflecting the appreciation of the euro against the US dollar, the Turkish lira and the British pound.

Sales by Reporting entity

			Year ended December 31	
(in € millions except percentage)	**2016**	**2017**	**Sales growth [a]**	**Volume growth [a]**
EDP International	8,229	8,424	(1.3)%	(6.1)%
EDP Noram	2,506	4,530	(2.0)%	(1.8)%
Specialized Nutrition	6,634	7,102	9.3%	3.0%
Waters	4,574	4,621	4.7%	1.4%
Total	**21,944**	**24,677**	**2.5%**	**(1.4)%**

(a) Like-for-like New Danone.

EDP International

Sales

EDP International recorded sales of €8,424 million in 2017, down -1.3% on a like-for-like New Danone basis. This variation resulted from a -6.1% decline in volume partly offset by a +4.8% increase in value. The performance improved in Europe in the second half of the year, but operations in Brazil remained under pressure. Excluding Brazil, EDP International posted positive sales growth in 2017.

Main Markets

Sales growth in Europe (excluding *Alpro*) was negative in 2017, despite the gradual improvement since the second quarter, with a different pace of recovery from one country to another. Activia started showing clear signs of progress in several major countries (France, Spain, United Kingdom and Italy) in the fourth quarter. The relaunch in the third quarter of the flagship Danone brand, with a new and enhanced brand stature, also contributed to this positive trend, in particular in France. Danone continued to expand successfully in Europe its portfolio of young and local-heritage brands, including *Light&Free* in the UK or *Les Deux Vaches* in France.

Sales of *Alpro*, now the second-largest EDP International brand in Europe, rose nearly 10% in 2017, driven by robust demand for nut-based beverages and plant-based alternatives to yogurt. *Alpro* is the market leader in its top-four countries — the UK, Germany, Belgium and the Netherlands.

In Latin America, sales growth was solid in 2017, supported by the good performance of Mexico. Operations in Brazil remained under pressure with a double-digit sales decline. The ongoing restructuring of the portfolio and distribution network is continuing although it will take time to complete.

In the CIS region, Danone reported solid growth, driven by the strong performance of premium brands like *Actimel*, *Danissimo* and the added value segment of *Prostokvashino*, sustained by a pipeline of major innovations.

EDP Noram

Sales

EDP Noram recorded sales of €4,530 million in 2017, down -2.0% on a like-for-like New Danone basis. This variation resulted from a decrease in volume of -1.8% and a -0.2% decline in value. The performance of the Reporting Entity has improved gradually since the acquisition of WhiteWave. EDP Noram recorded positive growth in the fourth quarter excluding Fresh Foods.

Main Markets

In Yogurts, Danone continued to outperform the US retail market and posted market share gains. Further progress was made against strategic priorities, including the execution of the Non-GMO Pledge in the US, with around 90% of *Danimals* and *Dannon* brands almost entirely converted as of end 2017; the improved distribution of *Silk* and *So Delicious* plant-based yogurts; and the successful delivery of a large pipeline of innovations. In particular, Danone introduced in the fourth quarter the first whole-milk organic yogurts for kids and babies under the *Happy Family* brand, a new *Light & Fit* packaging design, as well as the first indulgence yogurt sold under the *International Delight* brand.

Coffee Creamers enjoyed good momentum throughout the year, driven by market share gains across the product portfolio. Effective marketing and innovation were key drivers of the performance.

Plant-based foods and beverages delivered positive growth in 2017, with a significant improvement in the second half, driven by a steep rise in *Silk* nut-based beverages, as well as continued strong growth of the *Vega* nutrition brand and *So Delicious* frozen desserts and novelties.

Premium Dairy sales declined sharply in 2017 as a result of the severe impact of the over-supply of organic milk in the industry. The entire industry was challenged in 2017 due to the abnormally high disparity in retail prices between organic and conventional milk and the recovery will take time. Danone has started to reduce its organic milk supply, reallocating the surplus to other products in its portfolio, and driving demand through innovations around differentiated milks, such as the Horizon Grassfed product line.

Lastly, sales in the Fresh Foods category contracted. Danone has started to implement a turnaround plan with further cost cutting initiatives.

Specialized Nutrition

Sales

Specialized Nutrition posted sales of €7,102 million in 2017, up +9.3% on a like-for-like New Danone basis. This growth resulted from a +3.0% increase in volume and a +6.3% increase in value. Early Life Nutrition posted a very strong performance in 2017 with sales growth of around 10%. The Advanced Medical Nutrition business saw its sales rise by more than +5%.

Main Markets

Early Life Nutrition sales increased by around +10% on a full-year basis, driven by very strong sales in China. The performance reflected the rebound in Chinese demand as well as market share gains across all direct distribution channels, resulting from successful innovation and brand activation plans around *Aptamil* and *Nutrilon* brand platforms. Danone continued to focus on building a sustainable direct sales model in China. Outside China, sales were stable in Europe and momentum remained strong in Latin America and North America. Danone continued the development of its Tailored Nutrition products, which delivered full-year sales growth of around +10%, driven by Indonesia, Russia and the UK.

Advanced Medical Nutrition delivered mid-to-high-single digit sales growth, driven by all regions and all product segments (adult and pediatric care), with visible gains in brands such as *Neocate*, *Nutrison* and *Nutrini*, and supported by very strong growth in China.

Waters

Sales

The Waters Division recorded a solid performance in 2017, with sales up +4.7% on a like-for-like New Danone basis to €4,621 million. This growth resulted from a +1.4% increase in volume and a +3.3% increase in value.

Main Markets

Plain waters sales grew at a strong pace in 2017, with good results across all markets and brands. This was driven by successful brand activation campaigns and innovations. In line with Danone's 'One Planet. One Health' vision, and its commitment to building brands aligned with consumer values, plain water brands, such as *evian*, *Villavicencio* and *Lanjaron*, are increasingly committed to plastic recycling. In particular, evian committed to become a 100% circular brand by 2025 making all of its plastic bottles from 100% recycled plastic.

Aquadrinks benefited in 2017 from the continued switch of consumers towards healthier hydration options and the launch of breakthrough innovations, especially in Turkey, Argentina and Mexico. In China, *Mizone* confirmed the end of its transition in the second half of the year, on the back of a gradual rebound of the category, successful activation plans, and positive results from *Mi-Pro* launched in the second quarter.

Sales by geographical area

					Year ended December 31	
(in € millions except percentage)	**2016**	**2017**	**Sales growth [a]**	**Volume growth [a]**	**Share of sales delivered by the region in 2016**	**Share of sales delivered by the region in 2017**
Europe & Noram	10,933	13,193	(1.2)%	(1.1)%	50%	53%
Rest of the World	11,011	11,484	7.1%	(1.3)%	50%	47%
Total	**21,944**	**24,677**	**2.5%**	**(1.4)%**	**100%**	**100%**

(a) Like-for-like New Danone.

Europe & Noram

The Europe & Noram region posted sales of €13,193 million in 2017, down -1.2% on a like-for-like New Danone basis, including a decline in volume of -1.1%.

This result reflects, on the one hand, the decline in sales of EDP Noram and, on the other, the poor performance of EDP International in Europe, despite a gradual improvement.

Rest of the World

The Rest of the World region posted sales of €11,484 million in 2017, up +7.1% on a like-for-like New Danone basis, driven in particular by the strong performance of Specialized Nutrition in China and Waters in Latin America.

Sales by quarter

	First quarter		Second quarter		Third quarter		Fourth quarter		Total	
(€ millions)	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
By Reporting Entity										
EDP International	2,025	2,082	2,075	2,209	2,055	2,048	2,075	2,084	8,229	8,424
EDP Noram	651	658	626	1,333	627	1,290	602	1,250	2,506	4,530
Specialized Nutrition	1,610	1,699	1,672	1,762	1,618	1,844	1,734	1,797	6,634	7,102
Waters	1,020	1,024	1,373	1,360	1,237	1,272	944	964	4,574	4,621
By geographical area										
Europe & Noram	2,737	2,656	2,822	3,619	2,735	3,532	2,639	3,386	10,933	13,193
Rest of the World	2,569	2,809	2,924	3,045	2,802	2,921	2,716	2,709	11,011	11,484
Total	**5,306**	**5,464**	**5,746**	**6,664**	**5,537**	**6,454**	**5,355**	**6,095**	**21,944**	**24,677**

Sales variation by quarter

	First quarter 2017		Second quarter 2017		Third quarter 2017		Fourth quarter 2017		Total 2017	
(in percentage)	Reported changes	Like-for-like new Danone changes	Reported changes	Like-for-like new Danone changes	Reported changes	Like-for-like new Danone changes	Reported changes	Like-for-like new Danone changes	Reported changes	Like-for-like new Danone changes
By Reporting Entity										
EDP International	2.8%	(1.7)%	6.5%	(0.8)%	(0.3)%	(2.3)%	0.4%	(0.3)%	2.4%	(1.3)%
EDP Noram	1.1%	(2.8)%	112.9%	(2.9)%	105.7%	(2.2)%	107.4%	(0.4)%	80.8%	(2.0)%
Specialized Nutrition	5.6%	5.2%	5.4%	5.6%	13.9%	17.8%	3.7%	8.4%	7.1%	9.3%
Waters	0.4%	1.8%	(0.9)%	0.3%	2.8%	7.6%	2.2%	10.3%	1.0%	4.7%
By geographical area										
Europe & Noram	(3.0)%	(3.0)%	28.3%	(1.5)%	29.2%	(0.2)%	28.3%	(0.6)%	20.7%	(1.2)%
Rest of the World	9.3%	4.9%	4.1%	3.1%	4.3%	11.1%	(0.3)%	9.4%	4.3%	7.1%
Total	**3.0%**	**0.9%**	**16.0%**	**0.6%**	**16.6%**	**4.7%**	**13.8%**	**3.7%**	**12.5%**	**2.5%**

RECURRING OPERATING INCOME AND RECURRING OPERATING MARGIN

Recurring operating income totaled €3,543 million in 2017, compared with €3,022 million in 2016.

Danone's recurring operating margin stood at 14.36%, up +58 bps on a reported basis, reflecting:

- a +70 bps rise on a like-for-like New Danone basis;
- a -33 bps dilutive base effect related to the consolidation of WhiteWave;
- a +21 bps positive impact of changes in the scope of consolidation resulting from the disposal in 2016 of Dumex in China and Fresh Dairy Products activities in Colombia, and in 2017 the disposal of Stonyfield in the US and Fresh Dairy Products activities in Chile;
- a marginal positive impact of +1bp from change in currencies.

In line with its 2020 transformation plan, Danone continued to focus in 2017 on building a more resilient and balanced growth model, through disciplined resource allocation, efficiency gains and cost optimization. On a like-for-like New Danone basis, recurring operating margin increased by +70 bps. This very strong improvement reflects notably:

- sales growth reflecting top-line valorization and differentiation strategy;
- significant productivity gains, partly offsetting the strong negative impact from input cost inflation over the year (mainly milk, plastics and sugar);
- efficiencies and disciplined resource allocation behind brand investment;
- achievement of more than $50 million cost synergies in recurring operating margin from WhiteWave integration, ahead of the initial plan, resulting in particular from headquarters consolidation, the merge of sales forces and mutualization of back office functions.

Cost of goods sold totaled €12,459 million in 2017 (€10,744 million in 2016), or 50.5% of consolidated sales (49.0% in 2016). This negative change reflects in particular the inflationary trend of milk and plastic.

Selling expense was €5,890 million in 2017 (€5,562 million in 2016), or 23.9% of consolidated sales (25.3% in 2016). The decrease was attributable to (i) synergies related to the acquisition of WhiteWave, in particular the merger of the two sales forces in North America; and (ii) more efficient and disciplined resource allocation in brand investment.

General and administrative expense totaled €2,225 million in 2017 (€2,004 million in 2016), or 9.0% of consolidated sales (9.1% in 2016).

Research and Development costs totaled €342 million in 2017 (€333 million in 2016), or 1.4% of consolidated sales (1.5% in 2016) (see section 3.1 *Business highlights in 2017*).

Other income and expenses stood at -€219 million in 2017 (-€278 million in 2016). The improvement was partly attributable to an insurance payment in connection with the fire in Cuijk plant in the Netherlands in 2015.

Recurring operating income and recurring operating margin by Reporting entity

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Fiscal year ended December 31
	2016	**2017**	**2016**	**2017**	**Like-for-like New Danone changes**
EDP International	731	760	8.88%	9.02%	-29bps
EDP Noram	351	556	14.02%	12.28%	+2bps
Specialized Nutrition	1,419	1,685	21.39%	23.73%	+197bps
Waters	521	541	11.40%	11.70%	+12bps
Total	**3,022**	**3,543**	**13.77%**	**14.36%**	**+70bps**

EDP International's recurring operating margin was 9.02% in 2017, down -29bps on a like-for-like New Danone basis. This trend reflects lower volumes and a sharp rise in raw material prices as well as logistics costs. Initiatives around portfolio valorization, acceleration of productivity gains, and discipline and efficiencies behind brand investments offset almost all of these negative effects.

Despite the impact of declining volumes in the Premium Dairy category, EDP Noram's recurring operating margin was 12.28% in 2017, up +2bps on a like-for-like New Danone basis. The performance was attributable notably to the achievement of cost synergies from the integration of WhiteWave.

The recurring operating margin of Specialized Nutrition was 23.73% in 2017, up +197bps on a like-for-like New Danone basis. The improvement was driven by strong growth in the Early Life Nutrition and Advanced Medical Nutrition businesses, a positive geographical mix and an insurance payment in connection with the fire in Cuijk plant in the Netherlands in 2015.

The recurring operating margin of Waters was 11.70% in 2017, up +12bps on a like-for-like New Danone basis. Despite the high price inflation of plastics and the impact of Brexit, the Reporting Entity benefited from efficiency initiatives that helped protect the margin.

Recurring operating income and recurring operating margin by geographical area

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Fiscal year ended December 31
	2016	**2017**	**2016**	**2017**	**Like-for-like New Danone changes**
Europe & Noram	1,842	2,048	16.84%	15.52%	-14bps
Rest of the World	1,180	1,495	10.72%	13.02%	+183bps
Total	**3,022**	**3,543**	**13.77%**	**14.36%**	**+70bps**

The recurring operating margin of the Europe and Noram regions was 15.52% in 2017, down -14bps on a like-for-like New Danone basis. The profitability of the area was strongly impacted by raw materials inflation.

The recurring operating margin of the Rest of the World was 13.02% in 2017, up +183bps on a like-for-like New Danone basis, illustrating notably the good performance of Specialized Nutrition in Asia and Waters in Latin America.

NET FINANCIAL INCOME (EXPENSE)

Market risks exposure and management policy

See section 2.7 *Risk factors*.

Net financial income (expense)

	Year ended December 31	
(in € millions)	**2016**	**2017**
Interest income on cash, cash equivalents and short term investments	130	151
Interest expense on financial debt	(276)	(414)
Cost of net financial debt	**(146)**	**(263)**
Other financial income	67	137
Other financial expense	(214)	(312)
Other financial income or expense	**(146)**	**(175)**
Net financial income (expense)	**(293)**	**(438)**

Cost of net debt

The cost of net debt increased in absolute terms in 2017 from (€146) million in 2016 to (€263) million in 2017, reflecting additional charges related to the financing of the WhiteWave acquisition.

Other financial income and expense

Other financial income and expense stood at -€175million, an increase due notably to the non-recurring amount paid in relation to the early redemption last October of WhiteWave's outstanding 5.375% $500 million senior notes.

TAX RATE

The recurring income tax rate was 30.3% in 2017, representing a 0.75 point decrease from 2016, mainly due to the removal of the 3% tax on cash dividends in France, partially offset by the new exceptional corporate income tax implemented by the French government.

The US tax reform enacted in December 2017 had a one-off non-cash benefit on reported income tax of +€285 million resulting from the revaluation of deferred tax liabilities. This was partially offset by other tax effects including capital gain arising from Stonyfield disposal.

RECURRING NET INCOME – GROUP SHARE AND RECURRING EPS

Net income totaled €2,563 million in 2017, compared with €1,827 million in 2016. Net income – Group Share totaled €2,453 million in 2017, compared with €1,720 million in 2016.

Share of profit of associates

Net income from associates increased from €1 million last year to €109 million on the back of a favorable base of comparison (impairment of the 25% interest in Yashili in 2016). Minority interests were stable at €110 million.

Recurring net income – Group share

Recurring net income – Group share was €2,190 million in 2017, up +14.6%.

Recurring EPS reached €3.49, up +14.2% at constant exchange rates, in line with full-year guidance. Recurring EPS was up +12.6% on a reported basis, including negative changes in exchange rate (-1.6%), mainly driven by the depreciation of the British pound.

Bridge from Net income – Group share to Recurring net income – Group share

						Year ended December 31
			2016			2017
(in € millions except percentage)	Recurring	Non-recurring	Total 100%	Recurring	Non-recurring	Total 100%
Recurring operating income	**3,022**		**3,022**	**3,543**		**3,543**
Other operating income and expenses		(99)	(99)		192	192
Operating income	**3,022**	**(99)**	**2,923**	**3,543**	**192**	**3,734**
Cost of net debt	(146)		(146)	(263)		(263)
Other financial income and expense	(134)	(13)	(146)	(137)	(38)	(175)
Income before taxes	**2,742**	**(112)**	**2,630**	**3,143**	**153**	**3,296**
Income tax	(852)	48	(804)	(953)	111	(842)
Effective tax rate	31.1%		30.6%	30.3%		25.5%
Net income from fully consolidated companies	**1,890**	**(64)**	**1,826**	**2,190**	**264**	**2,454**
Net income from associates	129	(128)	1	111	(2)	109
Net income	**2,019**	**(191)**	**1,827**	**2,301**	**262**	**2,563**
• Group share	1,911	(191)	1,720	2,190	263	2,453
• Non-controlling interests	108	–	107	111	(1)	110

Bridge from EPS to Recurring EPS

				Year ended December 31
		2016		2017
	Recurring	Total 100%	Recurring	Total 100%
Net income – Group share *(in € millions)*	1,911	1,720	2,190	2,453
Coupon relating to hybrid financing net of tax *(in € millions)*	–	–	(2)	(2)
Number of shares				
• Before dilution	616,442,041	616,442,041	625,986,636	625,986,636
• After dilution	616,700,618	616,700,618	627,121,266	627,121,266
EPS *(in €)*				
• Before dilution	3.10	2.79	3.50	3.92
• After dilution	3.10	2.79	3.49	3.91

3

ADDITIONAL INFORMATION ON CONSOLIDATED INCOME STATEMENT: BRIDGE FROM REPORTED TO LIKE-FOR-LIKE FIGURES

	Previous period	Period under review	Reported changes	*Of which impact of WhiteWave base effect*	*Of which impact of other changes in scope of consolidation*	*Of which impact of changes in exchange rates*	Like-for-like New Danone growth
Sales *(in € millions except percentage)*							
Year ended December 31, 2016	22,412	21,944	(2.1)%	–	*0.5%*	*(5.5)%*	2.9%
Year ended December 31, 2017	21,944	24,677	12.5%	*12.7%*	*(1.1)%*	*(1.6)%*	2.5%
Recurring operating margin							
Year ended December 31, 2016	12.91%	13.77%	+87 bps	–	*+10 bps*	*+6 bps*	+70 bps
Year ended December 31, 2017	13.77%	14.36%	+59 bps	*-33bps*	*+21bps*	*+1bps*	+70bps

DIVIDEND PAID IN RESPECT OF 2017 FISCAL YEAR

At the Annual General Meeting on April 26, 2018, Danone's Board of Directors will ask shareholders to approve the distribution of a €1.90 dividend per share in respect of the 2017 fiscal year, up +11.8% from 2016. This dividend reflects the confidence of both the Board and management in the Company's roadmap towards strong profitable and sustainable growth.

Shareholders will be asked to opt for full payment of their dividend in either cash or in DANONE shares. New shares would be issued at a price set at 90% of the average opening Danone share price on Euronext over the twenty trading days prior to the Shareholders' Meeting on April 26, 2018 less the amount of the dividend.

Assuming this proposal is approved, the ex-dividend date will be May 4, 2018. The period during which shareholders may opt to receive dividends in cash or in shares will begin on May 4 and run through May 18. Dividends will be payable in cash or in shares on May 31, 2018.

3.3 FREE CASH FLOW

At the date of this Registration Document, Danone estimates that the cash flows generated by its operating activities, its cash flow and the funds available through confirmed credit lines managed at the level of the Company will be sufficient to cover the necessary expenses and investments, the debt service (including the financing of the exercise of any put options granted to holders of non-controlling interests) and the payment of dividends.

Free cash flow stood at €2,083 million, up +18.4% from 2016, supported by the rise in recurring operating income, strict discipline in capex and tight monitoring of working capital. In addition, this result includes an exceptional contribution from the €105 million Fonterra settlement.

This cash delivery will primarily contribute to the Company's deleveraging and fund Danone's roadmap for growth. Capital expenditure for 2017 came to €969 million, or 3.9% of sales.

FREE CASH FLOW

Transition from operating cash flow to free cash flow

	Year ended December 31	
(€ millions)	**2016**	**2017**
Cash flow from operating activities	**2,652**	**2,958**
Capital expenditure	(925)	(969)
Disposal of tangible assets	27	45
Transaction fees related to business combinations [a]	6	50
Earn-outs related to business combinations [b]	–	–
Free cash flow	**1,760**	**2,083**
Cash flows related to plan to generate savings and adapt organization in Europe [c]	26	2
Free cash flow excluding exceptional items [d]	**1,786**	**2,085**

(a) Represents acquisition costs related to business combinations paid during the period.
(b) Represents earn-outs related to business combinations and paid subsequently to acquisition date and over the period.
(c) Net of tax.
(d) Free cash flow excluding exceptional items corresponds to 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31	
(in € millions)	**2016**	**2017**
Net income	**1,827**	**2,563**
Share of profit of associates net of dividends received	52	(54)
Depreciation, amortization and impairment of tangible and intangible assets	786	974
Increases in (reversals of) provisions	51	153
Change in deferred taxes	(65)	(353)
(Gains) losses on disposal of property, plant and equipment and financial investments	(74)	(284)
Expense related to Group performance shares	24	22
Cost of net financial debt	149	265
Net interest paid	(148)	(186)
Net change in interest income (expense)	–	80
Other components with no cash impact	13	(15)
Cash flows provided by operating activities, before changes in net working capital	**2,615**	**3,085**
(Increase) decrease in inventories	(24)	(122)
(Increase) decrease in trade receivables	(110)	(190)
Increase (decrease) in trade payables	298	145
Change in other receivables and payables	(127)	40
Change in working capital requirements	37	(127)
Cash flows provided by (used in) operating activities	**2,652**	**2,958**
Capital expenditure [a]	(925)	(969)
Proceeds from the disposal of property, plant and equipment [a]	27	45
Net cash outflows on purchases of subsidiaries and financial investments [b]	(66)	(10,949)
Net cash inflows on disposal of subsidiaries and financial investments [b]	110	441
(Increase) decrease in long-term loans and other long-term financial assets	6	(4)
Cash flows provided by (used in) investment activities	**(848)**	**(11,437)**
Increase in share capital and additional paid-in capital	46	47
Purchase of treasury shares (net of disposals) and DANONE call options [c]	32	13
Issue of perpetual subordinated debt securities	–	1,245
Interest on perpetual subordinated debt securities	–	–
Dividends paid to Danone shareholders [d]	(985)	(279)
Buyout of non-controlling interests	(295)	(107)
Dividends paid	(94)	(86)
Contribution from non-controlling interests to capital increases	6	1
Transactions with non-controlling interests	(383)	(193)
Net cash flows on hedging derivatives [e]	50	(52)
Bonds issued during the period	11,237	–
Bonds repaid during the period	(638)	(1,487)
Net cash flows from other current and non-current financial debt	(442)	(564)
Net cash flows from short-term investments	(10,531)	9,559
Cash flows provided by (used in) financing activities	**(1,616)**	**8,289**
Effect of exchange rate and other changes [f]	(151)	272
Increase (decrease) in cash and cash equivalents	**38**	**81**
Cash and cash equivalents as of January 1	**519**	**557**
Cash and cash equivalents as of December 31	**557**	**638**
Supplementary disclosures		
Income tax payments during the year	(891)	(1,116)

(a) This expenditure relates to property, plant and equipment and intangible assets used in operating activities.
(b) Acquisition/disposal of companies' shares. In the case of fully consolidated companies, this comprises cash and cash equivalents as of the acquisition/disposal date.
(c) DANONE call options acquired by the Company.
(d) Portion paid in cash.
(e) Derivative instruments used to manage net debt. As of December 31, 2016, also includes and consists almost entirely of cash flows related to the hedging of the WhiteWave acquisition price that expired in 2017.
(f) Effect of reclassification with no impact on net debt.

3.4 BALANCE SHEET AND FINANCIAL SECURITY REVIEW

SIMPLIFIED CONSOLIDATED BALANCE SHEET

	As of December 31	
(in € millions except percentage)	**2016**	**2017**
Non-current assets	24,836	34,627
Current assets	19,113	9,641
Total assets	**43,949**	**44,268**
Equity – Group share	**13,109**	**14,501**
Non-controlling interests	85	73
Non-current liabilities	21,705	19,282
Current liabilities	9,050	10,411
Total equity and liabilities	**43,949**	**44,268**
Net debt	7,472	15,372
Net financial debt	6,773	14,765

FINANCING STRUCTURE AND FINANCIAL SECURITY

Liquidity risk exposure and management policy

See section 2.7 *Risk factors* relating to *Market risk*.

In particular Danone manages its liquidity risk and its financing at Company level.

Financing situation and liquidity risk

Main financing transactions in 2017

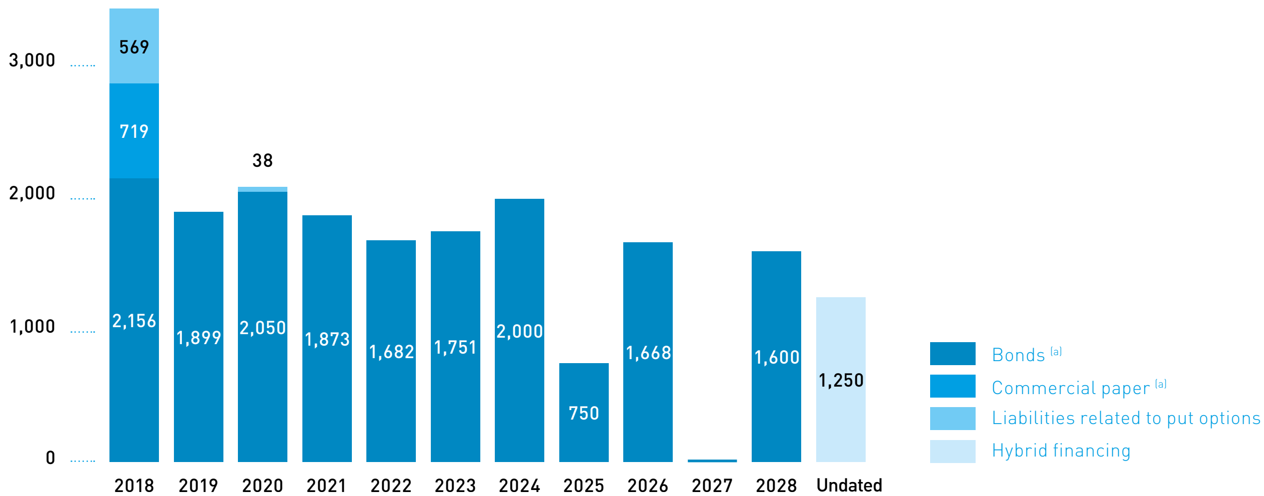
	Year ended December 31		
			2017
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
Hybrid financing	EUR	1,250	Undated
Repayments			
WhiteWave bond	USD	553	2022
Eurobonds	EUR	750	2017
Yen private placement	JPY	11,000	2017
Euro private placement	EUR	95	2017

Main financial debt repayment schedule

This relates to financing managed at the Company level.

Projected cash outflows related to the contractual repayment of the principal amount based on the assumption of non-renewal

(in € millions)

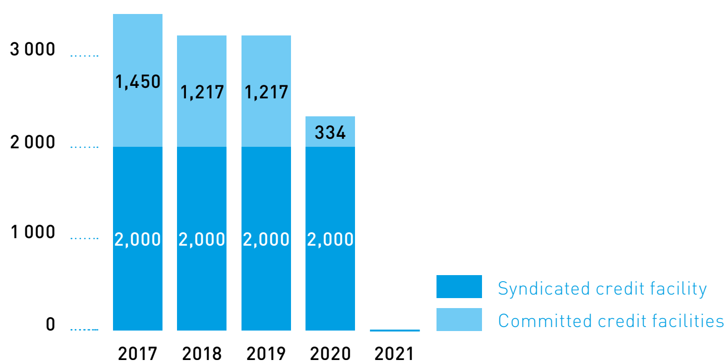


(a) Includes the value of derivatives hedging bonds and commercial paper.

Sources of financing available at any time

The sources of financing available at any time established by the Group are composed mainly of available committed credit facilities and a syndicated credit facility carried by the Company.

(in € millions)



Company rating

				As of December 31
	2016		2017	
	Moody's	Standard and Poor's	Moody's	Standard and Poor's
Short-term rating [a]				
Rating	–	A-2	–	A-2
Long-term rating [b] [c]				
Rating	Baa1 [c]	BBB+	Baa1 [c]	BBB+
Outlook	Stable	Negative [d]	Stable	Negative [d]

(a) Rating given to the Company's commercial paper program.
(b) Rating on the Company's debt with a maturity of more than one year.
(c) Rating reviewed on September 8, 2016.
(d) Rating reviewed on July 8, 2016 and outlook attributed on September 21, 2016.

On February 20, 2018, Standard & Poor's raised its perspective on Danone's credit rating from "negative" to "stable".

LIABILITIES RELATED TO PUT OPTIONS GRANTED TO NON-CONTROLLING INTERESTS

General principles

Danone granted put options to third parties with non-controlling interests in certain consolidated subsidiaries, with these options giving the holders the right to sell part or all their investment in these subsidiaries. These financial liabilities do not bear interest.

Change during the period

(in € millions)	**2016**	**2017**
As of January 1	862	699
New options and options recognized previously in accordance with IAS 39	–	–
Options exercised [(a)]	(285)	(111)
Changes in the present value of the options	121	19
As of December 31 [(b)]	**699**	**607**

(a) Carrying amount at the closing date of the previous period.
(b) Several options, none of which individually exceeds €200 million. In most cases, the strike price is an earnings multiple.

See also Note 3.5 of the Notes to the consolidated financial statements.

NET DEBT AND NET FINANCIAL DEBT

Net debt

	As of December 31	
(in € millions)	**2016**	**2017**
Non-current financial debt	18,771	15,716
Current financial debt	2,510	3,792
Short-term investments	(13,063)	(3,462)
Cash and cash equivalents	(557)	(638)
Derivatives – assets – Non-current [(a)]	(148)	(16)
Derivatives – assets – Current [(a)]	(42)	(19)
Net debt	**7,472**	**15,372**

(a) Used solely to manage net debt. The net debt has not been restated in respect of the portion of the derivatives (assets) used to hedge the WhiteWave acquisition price, *i.e.* €377 million as of December 31, 2016. As of December 31, 2017, these hedging instruments were settled on payment of the acquisition.

Change in net debt in 2017

Danone's net debt increased by €7,900 million compared to December 31, 2016, to €15,372 million as of December 31, 2017.

This change reflects in particular, the acquisition of WhiteWave and the disposal of Stonyfield. The net debt figure includes €607 million in put options granted to minority shareholders, down €92 million from December 31, 2016.

Bridge from net debt to net financial debt

	Year ended December 31	
(€ millions)	**2016**	**2017**
Net debt	**7,472**	**15,372**
Liabilities related to put options granted to non-controlling interests– Non-current	(315)	(38)
Liabilities related to put options granted to non-controlling interests – Current	(384)	(569)
Financial debt excluded from net debt	**(699)**	**(607)**
Net financial debt	**6,773**	**14,765**

Net debt / EBITDA and Return on invested capital (ROIC)

Danone tracks these ratios every year.

Net debt / EBITDA

The net debt / EBITDA ratio corresponds to the ratio of net debt to operating income restated for depreciation, amortization and impairment of tangible and intangible assets. The ratio in fiscal 2017 was 3.3x:

(in € millions except ratio)	2016	2017
Net debt as of December 31	**7,472**	**15,372**
Operating income	2,923	3,734
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	786	974
EBITDA of the year	**3,709**	**4,708**
Net debt / EBITDA of the year	**2.0 x**	**3.3 x**

ROIC

ROIC is the ratio of net operating income in the current year to average capital invested in the current and prior years, which corresponds to:

Goodwill and other tangible and intangible assets

+ investments in non-consolidated companies and other financial investments;
+ assets held for sale net of liabilities;
+ working capital requirement;
- provisions and other net liabilities;

It stood at 10.3% in 2017:

(in € millions except percentage)	2015	2016	2017
Recurring operating income		3,022	3,543
Recurring income tax rate		31,1%	30.3%
Tax on recurring operating income		(940)	(1,074)
Recurring income from associates		129	111
Operating income		**2,211**	**2,580**
Intangible assets	15,779	15,803	24,945
Property, plant and equipment	4,752	5,036	6,005
Goodwill and other tangible and intangible assets	**20,531**	**20,839**	**30,950**
Investments in associates	2,882	2,730	2,678
Other financial investments	274	288	260
Short-term loans	40	18	14
Investments in non-consolidated companies and other financial investments	**3,196**	**3,036**	**2,952**
Assets held for sale net of liabilities	**153**	**66**	**–**
Deferred taxes net of deferred tax assets	(224)	(259)	(922)
Provisions for retirement and other long-term benefits	(793)	(959)	(919)
Other non-current provisions and liabilities	(834)	(885)	(1,003)
Provisions and other net liabilities	**(1,851)**	**(2,103)**	**(2,844)**
Working capital	**(1,561)**	**(1,549)**	**(1,112)**
Capital expenditure of the year	20,468	20,289	29,947
Average invested capital		**20,379**	**25,119**
ROIC		**10.9%**	**10.3%**

SHAREHOLDER'S EQUITY

Change in shareholder's equity – Group share

	Year ended December 31	
(in € millions)	**2016**	**2017**
As of January 1	12,606	13,108
Net income	1,720	2,453
Other comprehensive income	134	(391)
Dividends paid [a]	(986)	(279)
Translation adjustments	(283)	(1,722)
Other	(83)	1,332
As of December 31	**13,108**	**14,501**

(a) Impact on the Group share of equity, impact of the dividends paid on the consolidated equity amounting to €(365) million in 2017 (€(1,079) million in 2016).

OFF-BALANCE SHEET COMMITMENTS

Commitments given as of December 31, 2017 relating to operating activities

			Amount of financial flows by period			
(in € millions)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022 and beyond**
Commitments to purchase goods and services [a]	(4,252)	(2,397)	(780)	(478)	(281)	(317)
Capital expenditure commitments	(197)	(187)	(9)	–	–	(1)
Operating lease commitments	(748)	(223)	(139)	(101)	(65)	(220)
Guarantees and pledges given	(25)	(22)	(1)	–	–	(2)
Other	(55)	(34)	(11)	(6)	(3)	(2)
Total	**(5,278)**	**(2,863)**	**(939)**	**(585)**	**(349)**	**(542)**

(a) Commitments relating mainly to purchases of milk, dairy ingredients and other food raw materials.

3.5 OUTLOOK 2018

MATERIAL CHANGE IN FINANCIAL OR TRADING POSITION

The Company and its subsidiaries overall have not experienced any material changes in their financial or trading position since the close of the 2017 fiscal year.

SUBSEQUENT EVENTS

New phase in Danone's strategic partnership with Yakult

On February 14th, 2018 Danone has announced a new phase in its partnership with Yakult, thus strengthening their long-term strategic collaboration in probiotics, while optimizing its capital allocation:

- Intensified collaboration to promote and develop probiotics activities;
- Reduced stake in Yakult: in accordance with its continued focus on disciplined capital allocation, Danone announced in parallel its intention to sell part of its stake in Yakult. The intended divestiture will be carried out through:
  - a market transaction launched on February 14th, 2018 by Yakult and expected to settle in March;
  - a share buyback program launched in Yakult, in which Danone will participate.

Following the completion of these transactions, Danone's resulting stake in Yakult's issued share capital is expected to be approximately 7%, subject to market conditions. With this, Danone is expected to remain Yakult's largest shareholder and will continue to sit on the company's Board of Directors.

OUTLOOK FOR 2018

In the current year, Danone will make further progress towards its 2020 ambition through its separate focuses on both mid-term growth and short-term efficiency. It will also start rolling out the Protein efficiency program and continue to 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 rebound in crude oil prices; and
- inflationary conditions in other raw materials, in particular 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 savings delivered by its Protein program. In 2018, the Company will progress towards its 2020 ambition through further sales growth and an improved recurring operating margin.

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

3.6 FINANCIAL INDICATORS NOT DEFINED IN IFRS

Additional ndicator: Like-for-like New Danone growth

Since 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 consolidation scopes thus no longer reflects their real performance. As a result, Danone has decided to monitor and then report its performance after adding the contribution of WhiteWave as a whole to 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:

- 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.

Lastly, 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.

3

Financial indicators not defined in IFRS

Financial indicators not defined in IFRS used by Danone 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 scope of consolidation, with indicators related to a given fiscal year calculated on the basis of the scope of the previous year;
- Changes in applicable accounting principles;
- Changes in exchange rates (i) calculating both current-year and previous-year indicators 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 the previous and current year); and (ii) correcting differences caused by the exceptional volatility of inflation in countries that are structurally subject to hyperinflation, which would otherwise distort any interpretation of Danone's organic performance.

Since inflation in Argentina — already structurally high — accelerated further in 2014, in particular following the sharp, steep devaluation of the peso in January, using an identical exchange rate to compare 2014 figures with those for the prior year did not accurately reflect Danone's organic performance in that country. 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 has been applying this methodology, which was applicable only to Argentina, starting from the release of 2014 full-year results. Danone will keep an eye on the economic and monetary position of Argentina and the volatility of its inflation. This methodology led to (i) limiting the inflation of the price and cost of goods sold per kilo to their average level over three years; and (ii) capping Recurring operating margin at its prior-year level; this methodology has been applied to each Reporting entity operating in Argentina. With respect to 2014, adjustment for the full year was recorded in the fourth quarter of 2014. As a reminder, this special treatment of over-inflation in Argentina and its end have no impact on IFRS reported figures.

End of the special treatment of over-inflation in Argentina

In light of the normalization of the economic and monetary situation in Argentina observed since the beginning of 2017 and confirmed in Q3 2017, it is no longer required to limit the inflation of prices and to cap recurring operating margin in that country, as described above. As a result, when reporting third-quarter 2017 sales, Danone has ended its special treatment of over-inflation in Argentina with effect from January 1, 2017.

In the first half of 2017, this treatment had:

- a negative impact on "Like-for-like New Danone" sales growth of -0.3% (-0.2% and -0.4% on Q1 2017 and Q2 2017 respectively);
- a positive +0.3% impact on the change in exchange rates;
- no impact on the improvement of the "Like-for-like New Danone" recurring operating margin.

The following table details Like-for-like New Danone changes for Q1, Q2, and H1 2017 and recaps corresponding figures considering the treatment of over-inflation in Argentina as published previously:

	Like-for-like New Danone as published, taking into account the treatment of over-inflation in Argentina			Like-for-like new Danone		
Changes in sales	**Q1 2017**	**Q2 2017**	**H1 2017**	**Q1 2017**	**Q2 2017**	**H1 2017**
By Reporting Entity						
EDP International	-2.2%	-1.8%	-2.0%	-1.7%	-0.8%	-1.2%
EDP Noram	-2.8%	-2.9%	-2.9%	-2.8%	-2.9%	-2.9%
Specialized Nutrition	5.2%	5.5%	5.4%	5.2%	5.6%	5.4%
Waters	1.7%	0.3%	0.8%	1.8%	0.3%	0.9%
By geographical area						
Europe & Noram	-3.0%	-1.5%	-2.1%	-3.0%	-1.5%	-2.1%
Rest of the World	4.4%	2.3%	3.3%	4.9%	3.1%	4.0%
Total	**0.7%**	**0.2%**	**0.4%**	**0.9%**	**0.6%**	**0.7%**

	Like-for-like New Danone as published, taking into account the treatment of over-inflation in Argentina	Like-for-like New Danone
Changes in recurring operating margin	**H1 2017**	**H1 2017**
By Reporting Entity		
EDP International	-33 bps	-13 bps
EDP Noram	-67 bps	-67 bps
Specialized Nutrition	+320 bps	+316 bps
Waters	+37 bps	+15 bps
By geographical area		
Europe & Noram	+24 bps	+25 bps
Rest of the World	+175 bps	+175 bps
Total	**+91 bps**	**+91 bps**

"Like-for-like New Danone" changes (or "Like-for-like including WhiteWave starting in April 2017" changes) in sales and recurring 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.

Bridge from reported data to like-for-like New Danone data

(in € millions except percentage)	2016 [a]	WhiteWave base effect[b]	Impact of other changes in scope of consolidation	Impact of changes in exchange rates	Like-for-like New Danone growth[c]	2017 [d]
Sales	21,944	12.70%	-1.10%	-1.60%	2.50%	24,677
Recurring operating margin	13.77%	-33 bps	+21 bps	+1 bps	+70 bps	14.36%

(a) Consolidated data as reported by Danone.
(b) WhiteWave base effect: corresponds primarily to the contribution of WhiteWave over the period from April 1 to December 31, 2016 and to adjustments for the impact of using different reference periods between FY 2017 reported data and for FY 2017 like-for-like New Danone data. The contribution of WhiteWave and its companies for the period from April 1-12, 2017 must be deducted as it is effectively included in the like-for-like New Danone changes and excluded from reported data.
(c) Like-for-like growth of Danone and WhiteWave combined, including the contribution of WhiteWave as a whole for the periods from April 1-December 31, 2016 and from April 1-December 31, 2017.
(d) Consolidated data as reported for Danone and WhiteWave combined, including the contribution of WhiteWave as a whole for the period from April 12-December 31, 2017.

Financial data used to calculate "like-for-like New Danone" changes are as follows:

- Financial data post acquisition date are extracted from the historical statements of Danone and WhiteWave combined, prepared in euros under IFRS (thus after allocation of WhiteWave's provisional acquisition price in consolidated financial statements for 2017);
- Financial data prior to the acquisition are extracted from the historical income statements of, respectively, Danone (prepared in euros under IFRS) and WhiteWave (prepared in US dollars under US-GAAP).

However, to ensure comparability with the income statement of Danone and WhiteWave combined, the following adjustments are performed:

- WhiteWave's income statements for periods prior to the closing date have been restated to reconcile them with Danone's accounting principles;
- The effect of the WhiteWave purchase price allocation is also reflected in periods prior to the acquisition.

Data for operations prior to the WhiteWave acquisition are then restated as follows:

Year ended 31st December 2017

(in $ million except percentage)	As reported [a]	Indicators not defined in US GAAP [b]	Application of Danone accounting principles [c]	Purchase price allocation [d]	As restated
Sales	**4,198**	**4,198**	**-1**	**–**	**4,197**
Operating income	**402**	**402**	**1**	**-18**	**385**
Operating margin	9.60%				9.20%
Non-recurring operating income		-21	0	-29 [e]	-50
Recurring operating income		**423**	**1**	**+11 [f]**	**435**
Recurring operating margin		**10.10%**			**10.40%**

(a) WhiteWave financial statements as reported by WhiteWave management, in dollars and under US GAAP.
(b) Indicators not defined in US GAAP used by WhiteWave management: adjusted net sales corresponds to sales and adjusted operating income corresponds to recurring operating income.
(c) Non-material reclassifications.
(d) Based on provisional allocation performed in consolidated financial statements for full-year 2017.
(e) Impact on consolidated income of the valuation at fair value of the inventories outstanding as of WhiteWave acquisition date.
(f) Impact on amortization of the valuation at fair value of depreciable assets (tangible assets and customer relationships).

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 IFRS 3 (Revised) and IAS 27 (Revised) relating to business combinations, the Company also classifies in Other operating income and expenses (i) acquisition costs related to business combinations; (ii) revaluation profit or loss accounted for following a loss of control; and (iii) changes in earn-outs relating to business combinations and subsequent to acquisition date.

Recurring operating margin is defined as the 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.

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.

The recurring income tax rate measures the tax rate related to Danone's recurring performance and corresponds to the ratio of tax income and charges relating to recurring items over recurring pretax income.

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. 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 the 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 intended partial disposal. It is computed as the difference between Danone's interest in Yakult after the transaction and 21.29% applied on a prorated basis to 2017 profit from Yakult as estimated by Danone for its 2017 consolidated financial statements.

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

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 managing net debt.

3.7 DOCUMENTS AVAILABLE TO THE PUBLIC

The by-laws, the minutes of Shareholders' Meetings, reports of the Statutory auditors, and other corporate documents may be consulted at the Company's registered office. Moreover, historical financial information and certain information regarding the organization and businesses of the Company and its subsidiaries are available on Danone's website in the section pertaining to regulated information.

4

FINANCIAL STATEMENTS

4.1 CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement and earnings per share

		Year ended December 31	
(in € millions, except earnings per share in €)	Notes	**2016**	**2017**
Sales	2.4, 5.2	**21,944**	**24,677**
Cost of goods sold		(10,744)	(12,459)
Selling expense		(5,562)	(5,890)
General and administrative expense		(2,004)	(2,225)
Research and Development expense		(333)	(342)
Other income (expense)	5.3	(278)	(219)
Recurring operating income		**3,022**	**3,543**
Other operating income (expense)	6.1	(99)	192
Operating income		**2,923**	**3,734**
Interest income on cash equivalents and short-term investments		130	151
Interest expense		(276)	(414)
Cost of net debt	10.7	(146)	(263)
Other financial income	11.3	67	137
Other financial expense	11.3	(214)	(312)
Income before tax		**2,630**	**3,296**
Income tax expense	8.1	(804)	(842)
Net income from fully consolidated companies		**1,826**	**2,454**
Share of profit of associates	4.8	1	109
Net income		**1,827**	**2,563**
Net income – Group share		**1,720**	**2,453**
Net income – Non-controlling interests		107	110
Net income – Group share, per share	13.4	**2.79**	**3.92**
Net income – Group share, per share after dilution	13.4	**2.79**	**3.91**

Consolidated statement of comprehensive income

(in € millions)	Year ended December 31 2016	2017
Net income – Group share	**1,720**	**2,453**
Translation adjustments	(33)	(1,724)
Cash flow hedge derivatives		
Gross unrealized gains and losses [a]	385	(422)
Tax effects	(134)	18
Available-for-sale financial assets		
Gross unrealized gains and losses	–	7
Amount recycled to profit or loss in the current year	–	–
Tax effects	(1)	2
Other comprehensive income, net of tax	–	–
Items that may be subsequently recycled to profit or loss	**217**	**(2,120)**
Actuarial gains and losses on retirement commitments		
Gross gains and losses	(134)	11
Tax effects	19	(5)
Items not subsequently recyclable to profit or loss	**(116)**	**5**
Total comprehensive income – Group share	**1,821**	**339**
Total comprehensive income – Non-controlling interests	99	79
Total comprehensive income	**1,920**	**418**

(a) In 2017, relates mainly to the reclassification, as a deduction from the acquisition price, of the €368 million foreign exchange gain resulting from the settlement of the hedges of the WhiteWave acquisition price. In 2016, relates mainly to the impact of the effective portion of these hedges.

Consolidated balance sheet

		As of December 31	
(in € millions)	Notes	**2016**	**2017**
Assets			
Goodwill		11,620	18,132
Brands		3,879	6,412
Other intangible assets		304	401
Intangible assets	2.4, 9.1 to 9.3	15,803	24,945
Property, plant and equipment	5.5	5,036	6,005
Investments in associates	4.1 to 4.8	2,730	2,678
Investments in other non-consolidated companies		81	83
Long-term loans and long-term financial assets		208	177
Other financial assets	11.1, 11.2	288	260
Derivatives – assets [a]	12.2, 12.3	148	16
Deferred taxes	8.2	831	722
Non-current assets		**24,836**	**34,627**
Inventories	5.4	1,380	1,668
Trade receivables	5.4	2,524	2,794
Other current assets	5.4	1,061	1,046
Short-term loans		18	14
Derivatives – assets [b]	12.2, 12.3	419	19
Short-term investments	10.1, 10.5	13,063	3,462
Cash and cash equivalents		557	638
Assets held for sale		92	–
Current assets		**19,113**	**9,641**
Total assets		**43,949**	**44,268**

(a) Derivatives used to manage net debt.
(b) Derivatives used to manage net debt. As of December 31, 2016, also included instruments used to hedge the acquisition price of WhiteWave, whose fair value was €377 million.

		As of December 31	
(in € millions)	Notes	**2016**	**2017**
Equity and liabilities			
Share capital		164	168
Additional paid-in capital		4,178	4,991
Retained earnings and others [a]	10.3	12,035	14,723
Cumulative translation adjustments		(1,460)	(3,182)
Accumulated other comprehensive income		(126)	(545)
Treasury shares and DANONE call options [b]	13.2	(1,682)	(1,653)
Equity – Group share		**13,109**	**14,501**
Non-controlling interests	3.5	85	73
Consolidated equity		**13,194**	**14,574**
Financing	10.1 to 10.4	18,438	15,529
Derivatives– liabilities [c]	12.2, 12.3	19	149
Liabilities related to put options granted to non-controlling interests	3.5	315	38
Non-current financial debt		18,771	15,716
Provisions for retirement obligations and other long-term benefits	7.3	959	919
Deferred taxes	8.2	1,090	1,644
Other non-current provisions and liabilities	14.2	885	1,003
Non-current liabilities		**21,705**	**19,282**
Financing	10.1 to 10.4	2,119	3,221
Derivatives- liabilities [c]	12.2, 12.3	8	1
Liabilities related to put options granted to non-controlling interests	3.5	384	569
Current financial debt		2,510	3,792
Trade payables	5.4	3,772	3,904
Other current liabilities	5.4	2,741	2,716
Liabilities directly associated with assets held for sale		26	–
Current liabilities		**9,050**	**10,411**
Total equity and liabilities		**43,949**	**44,268**

(a) Undated subordinated notes.
(b) DANONE call options acquired by the Company.
(c) Derivative instruments used to manage net debt.

Consolidated statement of cash flows

		Year ended December 31	
(in € millions)	Notes	**2016**	**2017**
Net income		**1,827**	**2,563**
Share of profit of associates net of dividends received	4.8	52	(54)
Depreciation, amortization and impairment of tangible and intangible assets	5.5, 9.3	786	974
Increases in (reversals of) provisions	14.2	51	153
Change in deferred taxes	8.2	(65)	(353)
(Gains) losses on disposal of property, plant and equipment and financial investments		(74)	(284)
Expense related to Group performance shares	7.4	24	22
Cost of net financial debt	10.7	149	265
Net interest paid		(148)	(186)
Net change in interest income (expense)		–	80
Other components with no cash impact		13	(15)
Cash flows provided by operating activities, before changes in net working capital		**2,615**	**3,085**
(Increase) decrease in inventories		(24)	(122)
(Increase) decrease in trade receivables		(110)	(190)
Increase (decrease) in trade payables		298	145
Change in other receivables and payables		(127)	40
Change in working capital requirements	5.4	37	(127)
Cash flows provided by (used in) operating activities		**2,652**	**2,958**
Capital expenditure [a]	5.5	(925)	(969)
Proceeds from the disposal of property, plant and equipment [a]	5.5	27	45
Net cash outflows on purchases of subsidiaries and financial investments [b]	2.3	(66)	(10,949)
Net cash inflows on disposal of subsidiaries and financial investments [b]	2.5	110	441
(Increase) decrease in long-term loans and other long-term financial assets		6	(4)
Cash flows provided by (used in) investment activities		**(848)**	**(11,437)**
Increase in share capital and additional paid-in capital		46	47
Purchase of treasury shares (net of disposals) and DANONE call options [c]	13.2	32	13
Issue of perpetual subordinated debt securities	10.3, 10.4	–	1,245
Interest on perpetual subordinated debt securities	10.4	–	–
Dividends paid to Danone shareholders [d]	13.5	(985)	(279)
Buyout of non-controlling interests	3.5	(295)	(107)
Dividends paid		(94)	(86)
Contribution from non-controlling interests to capital increases		6	1
Transactions with non-controlling interests		(383)	(193)
Net cash flows on hedging derivatives [e]		50	(52)
Bonds issued during the period	10.3, 10.4	11,237	–
Bonds repaid during the period	10.3, 10.4	(638)	(1,487)
Net cash flows from other current and non-current financial debt	10.3	(442)	(564)
Net cash flows from short-term investments		(10,531)	9,559
Cash flows provided by (used in) financing activities		**(1,616)**	**8,289**
Effect of exchange rate and other changes [f]		(151)	272
Increase (decrease) in cash and cash equivalents		**38**	**81**
Cash and cash equivalents as of January 1		**519**	**557**
Cash and cash equivalents as of December 31		**557**	**638**
Supplementary disclosures			
Income tax payments during the year		(891)	(1,116)

(a) This expenditure relates to property, plant and equipment and intangible assets used in operating activities.
(b) Acquisition/disposal of companies' shares. In the case of fully consolidated companies, this comprises cash and cash equivalents as of the acquisition/disposal date.
(c) DANONE call options acquired by the Company.
(d) Portion paid in cash.
(e) Derivative instruments used to manage net debt. As of December 31, 2016, also includes and consists almost entirely of cash flows related to the hedging of the WhiteWave acquisition price that expired in 2017.
(f) Effect of reclassification with no impact on net debt.

The cash flows described correspond to items presented in the consolidated balance sheet. However, these flows may differ from changes in assets and liabilities, mainly as a result of the rules for (i) translating transactions in currencies other than the functional currency, (ii) translating the financial statements of companies with a functional currency other than the euro, (iii) changes in the consolidation scope, and (iv) other non-monetary items.

Consolidated statement of changes in equity

(in € millions)	Notes	As of January 1, 2017	Movements during the period: Other comprehensive income	Capital increase	Other transactions involving treasury shares and DANONE call options [b]	Counterpart entry to pre social-tax expense relating to performance shares [c]	Dividends paid to Danone shareholders – portion in shares	Dividends paid to Danone shareholders – portion in cash	Issue of undated subordinated notes	Other transactions with non-controlling interests	Other changes	As of December 31, 2017
Share capital		**164**					3					**168**
Additional paid-in capital		**4,178**		46			766					**4,991**
Retained earnings and others [a]	10.3	**12,035**	2,453			22	(770)	(279)	1,245	(10)	27	**14,723**
Cumulative translation adjustments		**(1,460)**	(1,724)							1	1	**(3,182)**
Gains and losses related to cash flow hedging derivatives, net of tax		**271**	(405)								(26)	**(160)**
Gains and losses related to available-for-sale financial assets, net of tax	12	**41**	9									**50**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	8	**(439)**	5								(2)	**(436)**
Other comprehensive income		**(126)**	(391)	–	–	–	–	–	–	–	(28)	**(545)**
Treasury shares and DANONE call options	13.2	**(1,682)**			28							**(1,653)**
Equity – Group share		**13,109**	**338**	**47**	**28**	**22**	**–**	**(279)**	**1,245**	**(8)**	**–**	**14,501**
Non-controlling interests		**85**	79					(86)		(6)		**73**
Consolidated equity		**13,194**	**417**	**47**	**28**	**22**	**–**	**(365)**	**1,245**	**(14)**	**–**	**14,574**

(a) Undated subordinated notes.
(b) DANONE call options acquired by the Company.
(c) Group performance shares granted to certain employees and corporate officers.

			Movements during the period								
(in € millions)	Notes	**As of January 1, 2016**	**Other comprehensive income**	**Capital increase**	**Other transactions involving treasury shares and DANONE call options [a]**	**Counterpart entry to pre-tax expense relating to performance shares [b]**	**Dividends paid to Danone shareholders – portion in shares**	**Dividends paid to Danone shareholders – portion in cash**	**Other transactions with non-controlling interests**	**Other changes**	**As of December 31, 2016**
Share capital		**164**									**164**
Additional paid-in capital		**4,132**		46							**4,178**
Retained earnings		**11,454**	1,720		(5)	24		(986)	(118)	(56)	**12,035**
Cumulative translation adjustments		**(1,177)**	(33)							(250)	**(1,460)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax		**21**	251								**271**
Unrealized gains and losses related to available-for-sale financial assets, net of tax	12	**42**	(1)								**41**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	3.5	**(323)**	(116)								**(439)**
Other comprehensive income	3.5	**(261)**	**134**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(126)**
Treasury shares and DANONE call options	13	**(1,707)**			28				(2)		**(1,682)**
Equity – Group share		**12,606**	**1,821**	**46**	**23**	**24**	**–**	**(986)**	**(120)**	**(306)**	**13,109**
Non-controlling interests	2.5	**63**	99					(93)	(11)	27	**85**
Consolidated equity		**12,669**	**1,920**	**46**	**23**	**24**	**–**	**(1,079)**	**(131)**	**(279)**	**13,194**

(a) DANONE call options acquired by the Company.
(b) Group performance shares and stock-options granted to certain employees and corporate officers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contents

4

NOTE 1. ACCOUNTING PRINCIPLES

Note 1.1. Bases for preparation

The consolidated financial statements of Danone (the "Company"), its subsidiaries and associates (together, the "Group") as of and for the year ended December 31, 2017 were approved by Danone's Board of Directors on February 15, 2018 and will be submitted for approval to the Shareholders' Meeting on April 26, 2018.

The consolidated financial statements and the Notes to the consolidated financial statements are presented in euros. Unless indicated otherwise, amounts are expressed in millions of euros and rounded to the nearest million. Generally speaking, the values presented are rounded to the nearest unit. Consequently, the sum of the rounded amounts may differ, albeit to an insignificant extent, from the reported total. In addition, ratios and variances are calculated on the basis of the underlying amounts and not on the basis of the rounded amounts.

The preparation of consolidated financial statements requires management to make estimates, assumptions and appraisals that affect the reported amounts in the consolidated balance sheet, consolidated income statement and Notes to the consolidated financial statements. The main such estimates and assumptions relate to:

	Notes
Measurement of intangible assets	9.3
Measurement of investments in associates	4.1, 4.4, 4.7, 4.8
Measurement of deferred tax assets	8.3
Recognition of liabilities related to put options granted to non-controlling interests	1.2, 3.1, 3.5
Determination of the amount of provisions for risks and charges	14.1, 14.2, 14.3
Determination of the amount of rebates, trade supports and other deductions related to agreements with customers	5.1

These assumptions, estimates and appraisals are made on the basis of available information and conditions at the end of the financial period presented. Actual amounts may differ from those estimates, particularly in a climate of economic and financial volatility.

In addition to the use of estimates, Danone's management uses its judgment to define the accounting treatment for certain activities and transactions, when they are not explicitly addressed in IFRS and related interpretations, particularly in the case of the recognition of put options granted to non-controlling interests.

Note 1.2. Accounting framework applied

The Group's consolidated financial statements have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union, which are available on the website of the European Commission (http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).

Main standards, amendments and interpretations whose application is mandatory as of January 1, 2017

No amendment or interpretation whose application is mandatory as of January 1, 2017 had a material impact on the 2017 consolidated financial statements.

Main standards, amendments and interpretations published by the IASB whose application is not mandatory within the European Union as of January 1, 2017

- IFRS 15, *Revenue from Contracts with Customers*;
- IFRS 9, *Financial Instruments*.

Danone did not exercise the option to apply these standards, amendments and interpretations in advance to the consolidated financial statements for the year ended December 31, 2017.

In the case of IFRS 15, Danone conducted a qualitative and quantitative analysis of the main subjects that could affect the financial statements in collaboration with key personnel in the operating entities. Application of IFRS 15 did not have a material impact on revenue recognition on the transition date. The expected impacts correspond mainly to non-material reclassifications between sales and selling expense related to services performed by customers as part of their contractual obligations. Danone has applied IFRS 15 since January 1, 2018 and has elected to restate the comparative financial statements.

IFRS 9 relating to financial instruments makes changes to:

- the conditions governing hedge accounting and the main accounting categories to be used to classify financial assets and liabilities: in view of the nature of Danone's transactions, the impact on the transition date is not material;
- the recognition of credit risk relating to financial assets by using an approach based on expected losses rather than incurred losses: the main impact of this change will be the recognition of impairment losses in respect of trade receivables not yet due. In view of the nature of Danone's activities and customers, the impact on the transition date is not material.

Danone has, since January 1, 2018, applied IFRS 9 in its entirety, including the provisions relating to hedge accounting, which are optional, and has elected not to restate the comparative financial statements.

Main standards, amendments and interpretations published by the IASB whose application is mandatory within the European Union as of January 1, 2019

- IFRS 16, *Leases*.

The impact of this standard on Danone's results and financial position is currently being assessed.

Other standards

None.

Other IASB and IFRIC projects

The Group is also closely monitoring the work of the IASB and the IFRIC, which could lead to a revision of the treatment of put options granted to non-controlling interests.

NOTE 2. ACQUISITION OF THE WHITEWAVE FOODS COMPANY

Note 2.1. Description of the transaction

On July 7, 2016, Danone announced the signing of an agreement to acquire The WhiteWave Foods Company ("WhiteWave"), the global leader in plant-based foods and beverages and organic produce.

The acquisition in cash, for USD 56.25 per share, represented, as of the date of the agreement, a total enterprise value of approximately USD 12.5 billion, including debt and certain other WhiteWave liabilities.

The transaction was unanimously approved by the boards of directors of both companies and by WhiteWave shareholders at the company's special shareholders' meeting held in October 2016.

The authorizations from the European competition authorities (European Commission) and the United States Department of Justice were granted subject to the condition that Danone divests a portion of its growth milk activities in Belgium (representing less than €10 million in sales) and in the American fresh dairy products subsidiary Stonyfield (representing sales of approximately USD 370 million in 2016).

The transaction was finalized on April 12, 2017. In the course of finalizing the transaction, WhiteWave's shares were delisted from the New York Stock Exchange. Danone now holds 100% of the company's share capital.

Note 2.2. Organization of WhiteWave's activities

Danone organized WhiteWave's activities as follows:

- the respective activities of Danone and WhiteWave in North America were combined into a single entity. This entity therefore combines the fresh dairy products activities of Danone and the WhiteWave activities in this region;
- Alpro, WhiteWave's activity in Europe, was combined with Danone's fresh dairy products activity to become a central component of its new plant-based products category, with the aim of expanding their positions and developing them worldwide.

Danone therefore adjusted its internal reporting and now follows these activities through, respectively:

- EDP International Reporting entity, which includes Danone's Fresh Dairy Products activity in Europe, the CIS and ALMA zones (Asia-Pacific/Latin America/Middle East/Africa) as well as WhiteWave's activities in Europe, Latin America and China;
- EDP Noram Reporting entity, which comprises the activities of DanoneWave.

Note 2.3. Acquisition price

The effective transaction price totaled USD 12.1 billion:

- USD 10.4 billion to acquire WhiteWave's outstanding shares, including shares issued through the exercise of stock-options;
- USD 1.7 billion in connection with the early repayment of financial debt subject to a change in control clause. WhiteWave's bond debt totaling USD 500 million was extended.

It should be noted that the full amount of financing needed for the transaction was raised at year-end2016:

- bond issues totaling €6.2 billion and USD 5.5 billion;
- along with short-term hedging transactions to manage financial risk until completion of the acquisition.

The hedging instruments were settled on payment of the acquisition, resulting in a €0.4 billion gain on currency transactions before tax, which was recognized as a reduction in the acquisition price.

Converted into euros on the acquisition date and after taking into account currency hedges, the acquisition price was therefore €11.1 billion.

Note 2.4. Recognition of the transaction

The controlled WhiteWave entities were fully consolidated by Danone as of their acquisition on April 12, 2017.

Preliminary goodwill

This business combination was recognized on a preliminary basis.

	As of the acquisition date [b]
(in € billions)	**2017**
Intangible assets	3.2
Property, plant and equipment	1.3
Inventories	0.3
Other assets	1.1
Fair value of acquired assets [a]	**5.9**
Financial liabilities	0.7
Deferred tax liabilities	1.1
Other liabilities	0.9
Fair value of assumed liabilities [a]	**2.8**
Fair value of purchased net assets	**3.1**
Acquisition price	11.1
Preliminary goodwill	**8.0**

(a) As of the acquisition date.
(b) The assets and liabilities denominated in U.S. dollars have been converted into euros at the rate prevailing as of the acquisition date, *i.e.* EUR 1= USD 1.06.

The fair value adjustments relate mainly to intangible assets and the related deferred taxes.

The main components of the intangible assets were brands with an indefinite useful life and customer relationships. The provisional amount for the brands recognized was €3.0 billion, the most significant being *International Delight*, *Alpro* and *Silk*. The valuation method used was the relief-from-royalty method:

- the royalty rate was determined for each brand, based on benchmarks in the food and beverages sector. It was then adjusted as a result of qualitative analysis of the brand;
- it was applied to the forecast sales for each brand as per the long-term strategic plan;
- the discount rate used corresponded to the transaction's internal rate of return.

In addition, WhiteWave's bond debt was revalued at fair value as of the acquisition date, in accordance with the principles of Revised IFRS 3, on the basis of its listed price, *i.e.* USD 552.5 million.

Goodwill mainly represents the advantages related to this business sector, its growth potential, WhiteWave's positioning in this market, the expected synergies in terms of combining know-how and industrial marketing and human capital.

Other information

Acquisition expenses recognized in Danone's consolidated financial statements totaled €51 million before tax, of which €48 million was recognized in 2016 in Other operating income (expense), with the balance recognized in 2017.

WhiteWave's contribution to 2017 consolidated sales totaled €2.7 billion. Had the transaction been completed on January 1, 2017, the Group's 2017 consolidated sales would have been €25.7 billion, with recurring operating income of €3.6 billion.

Meanwhile, integration expenses for the period totaled €91 million, recognized under Other operating income (expense). These expenses corresponded mainly to transition and reorganization costs.

Note 2.5. Disposal of Stonyfield (EDP Noram, United States)

On July 3, 2017, Danone entered into an agreement with Lactalis for the sale of Stonyfield. The sale took place on August 1, 2017, at a price equivalent to €758 million.

The sale generated a capital gain of €628 million, which was recognized in Other operating income (expense) for the year ended December 31, 2017.

The net amount received after tax in respect of the transaction totaled €427 million and was recognized on the Net cash inflows on disposals of subsidiaries and financial investments line in the consolidated statement of cash flows for the year ended December 31, 2017.

Note 2.6. Early repayment of WhiteWave's bond debt

WhiteWave exercised its early repayment option in respect of the full amount of its USD 500 million bond debt which was due to mature in 2022 and had a coupon of 5.375%. The net, pre-tax impact of this early repayment was USD 76 million, corresponding mainly to the contractual penalty of USD 122 million net of the recycling of the USD 52.5 million revaluation reserve.

These amounts are fully recognized in the income statement for the year ended December 31, 2017 under Other financial income (expense). The USD 122 million cash flow is classified within Cash flows provided by (used in) financing activities in the consolidated statement of cash flows.

NOTE 3. FULLY CONSOLIDATED COMPANIES AND NON-CONTROLLING INTERESTS

Note 3.1. Accounting principles

Fully consolidated companies

The Group fully consolidates all subsidiaries over which it has the ability to exercise exclusive control, whether directly or indirectly. Exclusive control over an investee is assessed (i) by the power the Group has over said investee, (ii) whether it is exposed, or has rights, to variable returns from its relationship with the investee, and (iii) whether it uses its power over the investee to affect the amount of the Group's returns.

Full consolidation enables the recognition of all assets, liabilities and income statement items relating to the companies concerned in the Group's consolidated financial statements, after the elimination of intercompany transactions, the portion of the net income and equity attributable to owners of the Company (Group share) being distinguished from the portion relating to other shareholders' interests (Non-controlling interests). Intercompany balances and all material intercompany transactions between consolidated entities (including dividends) are eliminated in the consolidated financial statements.

Business combinations: acquisitions resulting in control being obtained, partial disposals resulting in control being lost

The accounting treatment of acquisitions resulting in control being obtained and partial disposals resulting in control being lost is as follows:

- when control is obtained, the incidental transaction costs are recognized in the income statement under the heading Other operating income (expense), and presented in the cash flow statement within cash flows from operating activities, in the year in which they are incurred. In addition, price adjustments are initially recognized at their fair value in the acquisition price and their subsequent changes in value are recognized in the income statement under the heading Other operating income (expense), all payments relating to these adjustments are presented in the cash flow statement within cash flows from operating activities;
- when control is obtained (or lost), the revaluation at its fair value of the interest previously held (or the residual interest) is recognized in the income statement under the heading (i) Other operating income (expense) when control is lost, (ii) Share of profit of associates when control is obtained of an entity previously accounted for as an associate, and (iii) Other financial income (expense) when control is obtained of an entity previously accounted for as an investment in a non-consolidated company;
- when control is obtained, non-controlling interests are recognized, either at their share of the fair value of the assets and liabilities of the acquired entity, or at their fair value. In the latter case, the goodwill is then increased by the portion relating to these non-controlling interests. The treatment adopted is selected on an individual basis for each acquisition.

Business combinations may be recognized on a provisional basis, as the amounts allocated to the identifiable assets acquired, liabilities assumed and goodwill may be amended during a maximum period of one year from their acquisition date.

Acquisitions or disposals of interests in controlled companies with no impact on control

Purchases or disposals of interests in controlled companies that do not result in control being obtained or lost are recognized directly in equity under the heading Retained earnings, as transfers between the Group share and the non-controlling interests'share in the consolidated equity, with no impact on profit or loss, and the corresponding cash flows are presented within cash flows relating to financing activities. The same accounting treatment is applied to the costs associated with these transactions.

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Note 3.2. Main changes during the period

2017 fiscal year

(in percentage)	Notes	Reporting entity	Country	Transaction date [(a)]	Ownership as of December 31 2016	Ownership as of December 31 2017
Main companies consolidated for the first time during 2017						
WhiteWave group companies	2	EDP International and EDP Noram	Several countries, mainly United States and Europe	April	–	100.0%
Main consolidated companies with changes in ownership percentage						
Danone-Unimilk group	3.5	EDP International	CIS	October	92.9%	97.6%
Happy Family	3.5	Specialized Nutrition	United States	July	91.9%	100.0%
Main companies no longer fully consolidated as of December 31						
Stonyfield	2.5	EDP Noram	United States	July	100.0%	–

(a) Month in the 2017 fiscal year.

2016 fiscal year

(in percentage)	Reporting entity	Country	Transaction date [(a)]	Ownership as of December 31 2015	Ownership as of December 31 2016
Main companies consolidated for the first time during 2016					
Halayeb	Fresh Dairy Products	Egypt	February	–	100.0%
Main consolidated companies with changes in ownership percentage					
Fan Milk Group's companies	Fresh Dairy Products	West Africa	February	49.0%	51.0%
Danone Spain	Fresh Dairy Products	Spain	March	92.4%	99.7%
Danone-Unimilk group	Fresh Dairy Products	CIS	January	70.9%	92.9%
Centrale Danone	Fresh Dairy Products	Morocco	March	95.9%	99.7%
Main companies no longer fully consolidated as of December 31					
Dumex China [(b)]	Early Life Nutrition	China	May	100.0%	–

(a) Month in the 2016 fiscal year.

(b) Dumex Baby Foods Co. Ltd.

Note 3.3. Fully consolidated companies

The list of companies included in the Group's consolidation scope, whether they are fully consolidated directly or indirectly or recognized as investments in associates as of December 31, 2017, is available on the Group's website (www.danone.com).

Note 3.4. Accounting for acquisitions resulting in control being obtained in 2017 other than WhiteWave

The business combinations carried out in 2017 other than WhiteWave were not material.

Note 3.5. Non-controlling interests

Main companies in terms of net income and consolidated net assets, fully consolidated but not wholly owned

As a result of the buyouts carried out in recent years, non-controlling interests in companies that are fully consolidated but not wholly owned were not material as of December 31, 2017.

Liabilities related to put options granted to non-controlling interests

Accounting principles

The Group granted put options to third parties with non-controlling interests in certain consolidated subsidiaries, with these options giving the holders the right to sell part or all of their investment in these subsidiaries. These financial liabilities do not bear interest.

In accordance with IAS 32, *Financial instruments: presentation*, when non-controlling interests hold put options enabling them to sell their investment to the Group, a financial liability is recognized in an amount corresponding to the present value of the option strike price, and the counterpart of the liability arising from these obligations is:

- on the one hand, a reduction in the carrying amount of the non-controlling interests;
- on the other, a reduction in the equity – Group share for the amount of the liability that exceeds the carrying amount of the corresponding non-controlling interests. This item is adjusted at the end of each reporting period to reflect changes in the strike price of the options and the carrying amount of non-controlling interests. In the absence of specific provisions stipulated in IFRS, the Company has applied the recommendations issued by the AMF (*Autorité des Marchés Financiers*) in November 2009.

Changes during the period

(in € millions)	**2016**	**2017**
As of January 1	862	699
New options and options recognized previously in accordance with IAS 39	–	–
Options exercised [a]	(285)	(111)
Changes in the present value of the options	121	19
As of December 31 [b]	**699**	**607**

(a) Carrying amount at the closing date of the previous period.
(b) Several options, none of which individually exceeds €200 million. In most cases, the strike price is an earnings multiple.

NOTE 4. ASSOCIATES

Note 4.1. Accounting principles

Accounting treatment

All companies in which the Group exercises a significant influence, directly or indirectly, are accounted for using the equity method. Under this method, the Group recognizes in the carrying amount of the shares held in the associated or jointly-controlled entity the acquisition-related cost of the shares adjusted by its proportionate share of changes in the entity's net assets since its acquisition.

Upon the acquisition of investments accounted for using the equity method, the acquisition price of the shares is allocated on a fair value basis to the identifiable assets acquired and liabilities assumed. The difference between the acquisition price and the Group's share in the fair value of the assets acquired and liabilities assumed represents goodwill, which is added to the carrying amount of the shares.

The main components of Net income of associates are:

- the Group's share of the profits or losses of its associates, calculated on the basis of estimates;
- gains or losses on disposals of shareholdings in associates;
- the revaluation reserve resulting from a loss of influence where there is no disposal of shares;
- impairment of investments in associates.

Impairment review

The Group reviews the measurement of its investments in associates when events or circumstances indicate that impairment is likely to have occurred. With regard to listed shares, a significant or prolonged fall in their stock price below their historical stock price constitutes an indication of impairment.

An impairment provision is recognized within Share of profit of associates when the recoverable amount of the investment falls below its carrying amount.

Note 4.2. Main associates in terms of net income and consolidated net assets

As of December 31

(in € millions except percentage)	Notes	Country	Listing market [a]	2016 Ownership	2017 Ownership	2017 Market capitalization[a][b]
Mengniu [c]	4.4	China	Hong Kong	9.9%	9.9%	9,742
Yashili [d]	4.4	China	Hong Kong	25.0%	25.0%	759
Yakult [e]	4.5	Japan	Tokyo	21.3%	21.3%	11,077

(a) If the company is listed.
(b) The amount disclosed is 100% of the company's market capitalization.
(c) INNER MONGOLIA MENGNIU DAIRY (GROUP) CO LTD.
(d) YASHILI INTERNATIONAL HOLDINGS LTD.
(e) YAKULT HONSHA CO LTD.

The Group acquired its stake in Mengniu and Yashili on one hand and Yakult on the other hand under the terms of broader agreements, the main aim of which was operational collaboration and the development of regional categories and markets.

In 2017, these companies accounted for more than 70% in total of Investments in associates (other investments in associates did not, individually, account for more than 10% of the total). In addition, none of these companies accounted for more than 5% of the net income or consolidated net assets.

Note 4.3. Main changes during the period

2017 fiscal year

The Group did not recognize any material changes during the period.

2016 fiscal year

(in percentage)	Country	Transaction date [a]	Ownership as of December 31 2015	Ownership as of December 31 2016
Main companies accounted for using the equity method for the first time during 2016				
Michel et Augustin	France	July	–	40.1%
Main associates with changes in ownership percentage				
–				
Main companies no longer accounted for using the equity method as of December 31				
–				

(a) Month of the 2016 fiscal year.

Note 4.4. Mengniu (EDP International, China) and Yashili (Specialized Nutrition, China)

Background to the acquisition of these equity interests

In 2013, Danone, COFCO and Mengniu announced the signing of agreements to accelerate the development of fresh dairy products in China. Under the terms of these agreements, Danone became a strategic shareholder in Mengniu and a joint venture for the production and sale of fresh dairy products in China was established by the pooling of the respective assets of the two companies. Danone owns 20% and Mengniu 80% of the new joint venture. In 2014, Danone, Mengniu and Yashili decided to extend their strategic alliance into infant milk formula in China. This enabled Danone to hold a 25% stake in Yashili and become its second-largest shareholder behind Mengniu, which owns a 51% stake. Lastly, in 2016, the Dumex activity in China was merged with Yashili, thereby building a strong local infant milk formula brand platform.

Mengniu (EDP International, China)

Accounting treatment of the investment

This investment, which is a strategic investment for the Group, is recognized under Investments in associates, since the Group has significant influence over the financial and operating policies of the Mengniu group as (i) a strategic shareholder in the Mengniu group pursuant to the agreements with COFCO, (ii) its participation in Mengniu's governance, and (iii) the Group's operating involvement in Mengniu's fresh dairy products activities.

Main financial information

(in € millions)	2016 Interim financial statements as of June 30	2016 Financial statements for the year ended December 31	2017 Interim financial statements as of June 30
Non-current assets [a]	4,015	4,000	4,121
Current assets [a]	2,944	2,709	3,102
Equity [a]	3,631	3,483	3,396
Non-current liabilities [a]	986	1,136	1,591
Current liabilities [a]	2,341	2,090	2,236
Sales [a]	3,736	7,316	3,958
Net income [a]	162	(111)	150
Other comprehensive income [a]	(8)	(5)	(6)

(a) Published financial statements prepared in accordance with IFRS. Income statement items have been translated into euros at the average exchange rate for the reporting period. Balance sheet items were translated into euros at the exchange rate in effect at the end of the reporting period.

Impairment review as of December 31, 2017

The Group has not noted any indications of impairment. In particular, the stock price of the Mengniu group is now higher than the average purchase price of its shares.

Impairment review as of December 31, 2016

The Group noted a significant fall in the stock price of Mengniu compared to the average purchase price of its shares, which was due to a financial performance in 2016 below expectations as well as its profit warning issued on December 15, a decline that constituted an indication of impairment.

As of December 31, 2016, the carrying amount of the investment in Mengniu (€786 million) was subjected to an impairment test based on estimated future cash flows. This resulted in no impairment provision being recognized as of December 31, 2016.

Yashili (Specialized Nutrition, China)

This shareholding, acquired under the terms of the Group's strategic agreement with Mengniu, is recognized under Investments in associates. As of December 31, 2017, Danone held 25% of Yashili's share capital, had significant influence over its operating policies and was involved in its governance, in particular through its right to appoint two members of the board of directors and it proposed the candidate for appointment as Chief Executive Officer. Consequently, its shareholding is recognized within Investments in associates.

Impairment review as of December 31, 2017

The Group noted significant volatility in the Yashili stock price in 2017, which remained below the average purchase price of its shares, resulting in a 2017 financial performance impacted by the delay in delivering the expected effects of the strategic changes made by management since 2015.

As of December 31, 2017, the carrying amount of the investment in Yashili (€324 million) was subjected to an impairment test based on estimated future cash flows.

The assumptions used reflect the results expected from the strategic changes made by management and gradually implemented since year-end 2015, *i.e.* dynamic sales growth over the period 2018 to 2022 and a significant increase in profitability. Meanwhile, the assumptions for the discount rate and long-term growth rate were 9.0% and 3.0%, respectively.

Following the impairment test carried out in late 2017, no change was made as of December 31, 2017 to the impairment provision recognized in 2016.

Lastly, the sensitivity analyses on the key assumptions used to calculate this value in use, taken individually, gave the following results:

Assumptions	Indicators	Additional impairment *(in € millions)*
(500) bps	Sales growth (applied each year for five years)	–
(500) bps	Recurring operating margin (applied each year for five years)	(42)
(100) bps	Long-term growth rate	–
+100 bps	Discount rate	

Impairment review as of December 31, 2016

The Group noted a significant fall in the stock price of Yashili compared to the average purchase price paid by the Group for its shares, which was due to the 2016 financial performance falling short of expectations as well as its profit warning issued on December 15, a decline that constituted an indication of impairment.

As of December 31, 2016, the carrying amount of the investment in Yashili (€452 million) was subjected to an impairment test based on estimated future cash flows.

The assumptions used reflect the results expected from the strategic changes made by Yashili's management and gradually implemented since 2015. Their effects are expected to be felt steadily over the 2017 to 2021 period. Meanwhile, the assumptions for the discount rate and long-term growth rate were 9.1% and 3.0%, respectively.

The value in use calculated on these bases showed impairment of €98 million, recorded under Share of profit of associates in 2016. After impairment, Yashili's carrying amount as of December 31, 2016 was €354 million.

Note 4.5. Yakult (EDP International, Japan)

Main characteristics of the investment

Danone has a stake in Yakult and has representatives on the company's board of directors under the terms of its strategic alliance signed in 2004, which aimed at strengthening their global leadership in probiotics and accelerating the growth of both companies in the functional food market, the first phase of which had ended in May 2012.

On April 26, 2013, Danone and Yakult signed a new cooperation agreement to replace the existing strategic alliance. This new agreement calls for existing collaborations to be continued and envisages extending them into areas that are more operational in nature. It does not modify either Danone's equity interest in Yakult or its influence in that company and does not have any impact on the Group's consolidated financial statements, as the company will continue to be accounted for as an associate.

As of December 31, 2017, Danone had 21.3% of the voting rights and two representatives on the company's board of directors. Consequently, its shareholding is recognized within Investments in associates.

It should be noted that, as Yakult's fiscal year closing date is March 31, the amounts prepared for Group consolidation purposes as of December 31 are estimated on the basis of the most recent financial statements published for each fiscal year (interim financial statements for the six months ended September 30, 2016 for 2016 and interim financial statements for the six months ended September 30, 2017 for 2017).

Danone's share in Yakult net income for 2017 fiscal year was estimated at €55.4 million.

New phase in Danone's strategic partnership with Yakult

On February 14th, 2018 Danone has announced a new phase in its partnership with Yakult, thus strengthening their long-term strategic collaboration in probiotics, while optimizing its capital allocation:

- Intensified collaboration to promote and develop probiotics activities;

- Reduced stake in Yakult: in accordance with its continued focus on disciplined capital allocation, Danone announced in parallel its intention to sell part of its stake in Yakult. The intended divestiture will be carried out through:
  - a market transaction launched on February 14th, 2018 by Yakult and expected to settle in March;
  - a share buyback program launched in Yakult, in which Danone will participate.

Following the completion of these transactions, Danone's resulting stake in Yakult's issued share capital is expected to be approximately 7%, subject to market conditions. With this, Danone is expected to remain Yakult's largest shareholder and will continue to sit on the company's Board of Directors.

Main financial information

		2016		2017
(in € millions)	Financial statements for the year ended March 31	Interim financial statements as of September 30	Financial statements for the year ended March 31	Interim financial statements as of September 30
Non-current assets [a]	2,783	2,994	2,989	2,754
Current assets [a]	1,733	1,935	1,916	1,857
Equity [a]	2,857	3,039	3,156	3,016
Non-current liabilities [a]	785	837	793	709
Current liabilities [a]	873	1,053	956	886
Sales [a]	3,074	1,562	3,129	1,588
Net income [a]	227	124	249	144
Other comprehensive income [a]	(121)	(260)	(103)	56

(a) Published financial statements prepared in accordance with Japanese GAAP. Income statement items have been translated into euros at the average exchange rate for the reporting period. Balance sheet items have been translated into euros at the exchange rate in effect at the end of the reporting period.

Carrying amount

	As of December 31	
(in € millions)	2016	2017
Carrying amount	785	824

Note 4.6. Carrying amount and changes during the period

				2016			2017
(in € millions)	Notes	Net goodwill	Group's share in net assets and net income	Total	Net goodwill	Group's share in net assets and net income	Total
As of January 1		**1,414**	**1,468**	**2,882**	**1,290**	**1,440**	**2,730**
Acquisitions, influence acquired during the year and capital increase	4.3	24	10	34	12	24	36
Disposals and losses of influence during the year and changes in ownership percentage	4.3	(38)	58	21	(1)	(1)	(2)
Share of profit of associates before impact of disposals, revaluation and other	4.8	–	104	104	–	114	114
Dividends paid		–	(53)	(53)	–	(55)	(55)
Translation adjustments		(12)	18	6	(95)	(111)	(206)
Impairment		(98)	–	(98)	–	–	–
Adjustment of the Group's share in net assets		–	(165)	(165)	–	61	61
As of December 31		**1,290**	**1,440**	**2,730**	**1,207**	**1,472**	**2,678**

Note 4.7. Impairment review of Investments in associates other than Mengniu and Yashili

Impairment review as of December 31, 2017

Following the impairment review of other investments in associates, the Group did not recognize any impairment.

Impairment review as of December 31, 2016

Following the impairment review of other investments in associates, the Group did not recognize any impairment.

Note 4.8. Share of profit of associates

	Year ended December 31	
(in € millions)	**2016**	**2017**
Share of profits of associates before gains (losses) on disposal, revaluation and other	104	114
Impairment charges	(98)	–
Gains (losses) on disposal, revaluation and other	(5)	(5)
Total	**1**	**109**

NOTE 5. INFORMATION CONCERNING THE GROUP'S OPERATING ACTIVITIES

Note 5.1. Accounting principles

Sales

The Group's sales mainly comprise sales of finished products. They are recognized in the income statement when the risks and benefits incident to ownership are transferred.

Sales are stated net of trade discounts and customer rebates, as well as net of costs relating to trade support and listing or linked to occasional promotional actions invoiced by customers. These amounts are estimated when net sales are recognized, on the basis of agreements with the customers concerned.

Cost of goods sold

The cost of goods sold mainly comprises industrial costs (including raw material costs, depreciation of industrial assets and personnel costs relating to production activity) and certain logistics and transportation costs.

Selling expense

Selling expenses mainly comprise marketing expense and consumer promotions as well as sales force overheads.

General and administrative expense

General and administrative expenses mainly comprise other personnel and administrative costs.

Research and Development expense

Development costs are generally expensed as incurred due to the very short time between the date on which technical feasibility is demonstrated and the date on which the products are launched.

Certain development costs are recognized under assets in the consolidated balance sheet (see Note 9 of the Notes to the consolidated financial statements).

Note 5.2. Operating segments

General principles

The key indicators reviewed and used internally by the primary operational decision-makers (the Chairman and Chief Executive Officer, Emmanuel FABER, and the Chief Financial Officer, Strategy and Information Systems, Cécile CABANIS) to assess operational performance are:

- Sales;
- Recurring operating income;
- Recurring operating margin, which corresponds to the ratio of Recurring operating income to Sales.

In order to reflect the recent evolutions of Danone with the setup of a new company organization creating optimal conditions for the growth, efficiency and integration of WhiteWave, the Company reviewed the organization of its Reporting entities as well as the geographic areas of its activities in the first half of 2017.

Reporting by Reporting entity

Among the key indicators reviewed and used internally by the primary operational decision-makers, only Sales, Recurring operating income and Recurring operating margin are monitored by Reporting entity, while the other indicators are monitored at Group level. The main decision-makers monitor the four Reporting entities that now make up the Danone company organization:

- EDP International, which comprises Danone's Fresh Dairy Products activities in Europe, the CIS and ALMA zones, as well as WhiteWave's activities in Europe, Latin America and China;
- EDP Noram, which includes the Fresh Dairy Products activities of Danone and WhiteWave in North America after they were combined into a single entity called DanoneWave with a common management organization;

- the Specialized Nutrition Reporting entity, which combines the Early Life Nutrition and Advanced Medical Nutrition Businesses under common management. These Businesses have similar long-term economic characteristics, and this reorganization seeks to promote synergies and accelerate their potential;
- the Waters Reporting entity continues to be presented as before.

Reporting by geographical area

Starting in the first half of 2017, reporting is broken down into the following two geographical areas:

- the Europe and Noram segment combines Europe region and Noram region (United States and Canada) as reported in 2016, since these regions now have similar characteristics, given the predominant role played by the Essential Dairy and Plant-Based Reporting entities in both regions, and their economic and geo-political environments which are also very similar;
- Rest of the World, combining the ALMA and CIS regions, as reported in 2016.

The aggregate figures by operating segment for the comparable period are therefore presented below in a comparable manner.

Information by Reporting entity

Year ended December 31

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
	2016	2017	2016	2017	2016	2017
EDP International	8,229	8,424	731	760	8.9%	9.0%
EDP Noram	2,506	4,530	351	556	14.0%	12.3%
Specialized Nutrition	6,634	7,102	1,419	1,685	21.4%	23.7%
Waters	4,574	4,621	521	541	11.4%	11.7%
Group total	**21,944**	**24,677**	**3,022**	**3,543**	**13.8%**	**14.4%**

(a) Sales to third parties.

Information by geographical area

Sales, Recurring operating income and Recurring operating margin

Year ended December 31

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
	2016	2017	2016	2017	2016	2017
Europe and Noram [b]	10,933	13,193	1,842	2,048	16.8%	15.5%
Rest of the World	11,011	11,484	1,180	1,495	10.7%	13.0%
Group total	**21,944**	**24,677**	**3,022**	**3,543**	**13.8%**	**14.4%**

(a) Sales to third parties.
(b) Including net sales of €2,104 million generated in France in 2017 (€2,174 million in 2016).

Top ten countries contributing to sales

Year ended December 31

(in percentage)	2016	2017
United States	11%	18%
France	10%	9%
China	7%	7%
Russia	7%	7%
Indonesia	6%	5%
United Kingdom	5%	5%
Argentina	4%	4%
Mexico	5%	4%
Spain	5%	4%
Germany	4%	4%

Non-current assets: Property, plant and equipment and intangible assets

	As of December 31	
(in € millions)	**2016**	**2017**
Europe and Noram [a]	11,532	22,517
Rest of the World	9,307	8,433
Group total	**20,839**	**30,950**

(a) Including €2,159 million in France as of December 31, 2017 (€2,011 million as of December 31, 2016).

Note 5.3. Other components of recurring operating income

Other income (expense)

		Year ended December 31	
(in € millions)	Notes	**2016**	**2017**
Employee benefits [a]	7.2, 7.3	(164)	(165)
Various taxes [b]		(56)	(59)
Restructuring costs [c]		(42)	(60)
Capital gains on disposals of property, plant and equipment and intangible assets		7	3
Other [d]		(23)	62
Total		**(278)**	**(219)**

(a) Employee profit-sharing, Group performance shares and stock-options, defined benefit retirement plans and other employee benefits.
(b) Comprises notably sales taxes.
(c) Excluding restructuring of the Group's activities in Argentina and of EDP International Reporting entity mainly in Europe and Latin America.
(d) Comprises mainly currency translation differences, asset impairment, the effects of provisions, notably for doubtful receivables, compensations received from insurance companies and several other components.

Note 5.4. Working capital

Accounting principles

Inventories

Inventories and work-in-progress are recognized at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

Trade receivables

Trade receivables are recognized at their nominal value. Impairment provisions are recognized when their recovery appears uncertain. Methods used for determining such provisions are based mainly on an historical analysis of overdue payments.

The fair value of Trade receivables is considered to be equivalent to their carrying amount due to the high degree of liquidity of these items.

Transactions in foreign currencies

When they are not hedged, transactions denominated in foreign currencies are translated using the exchange rate prevailing on the date of the transaction. At period-end, trade receivables and trade payables denominated in foreign currencies are translated using exchange rates on that date. Foreign exchange gains and losses arising from transactions in foreign currencies are recognized under the heading Other income (expense) in the consolidated income statement.

When transactions denominated in foreign currencies are hedged, the hedging impact is recognized in the same item as the hedged element. As a result, all such transactions are recognized at the hedged spot rate, swap points being recognized under the heading Other financial income (expense).

Carrying amount

	As of December 31	
(in € millions, except percentage)	**2016**	**2017**
Goods purchased for resale	66	77
Raw materials and supplies	655	745
Semi-finished goods and work-in-progress	130	164
Finished goods	617	779
Non-refundable containers	46	38
Impairment provisions	(134)	(134)
Inventories, net	1,380	1,668
Trade and other receivables from operations	2,622	2,905
Impairment provisions	(99)	(111)
Trade receivables, net	2,524	2,794
State and local authorities	695	707
Derivatives – assets [a]	67	47
Other	298	292
Total other current assets	1,061	1,046
Total current assets	**4,964**	**5,508**
Trade payables	(3,772)	(3,904)
Year-end rebates payable to customers	(1,032)	(1,143)
State and local authorities	(293)	(181)
Personnel costs, including social security charges	(872)	(935)
Derivatives– liabilities [a]	(44)	(35)
Other	(500)	(422)
Total other current liabilities	(2,741)	(2,716)
Total current liabilities	**(6,513)**	**(6,620)**
Working capital	**(1,549)**	**(1,112)**
As a percentage of consolidated sales	7.1%	4.5%

(a) Fair value of derivatives used to hedge operational currency risk, most of which are implemented over a horizon of less than one year.

Credit risk on trade receivables

Credit risk exposure

Credit risk represents the risk of financial loss for the Group if a customer or counterparty should fail to meet its contractual payment obligations. The customer payment term is generally 30 days and the Group's main customers are essentially in the mass retail sector where credit risk is considered low.

Due to the number of customers located in diverse geographical areas and the fact that its main customers are in the mass retail sector and despite the current economic situation, the Group believes that it is neither exposed to significant credit risk, nor dependent on any single customer.

Sales to the Group's largest customers and overdue receivables for which no impairment provision has been recognized

	Year ended December 31	
(in percentage)	**2016**	**2017**
Portion of consolidated sales made to the Group's largest customers		
Group's largest customer	4.9%	5.4%
Group's five largest customers	13.0%	12.6%
Group's ten largest customers	19.0%	19.1%
Portion of overdue trade receivables for which no impairment provision has been recognized [a]	**5.8%**	**6.4%**

(a) More than 30 days overdue.

The increase between 2016 and 2017 was mainly due to transactions for which payment was delayed for administrative reasons but with no risk of non-payment.

Trade receivables derecognized in connection with the non-recourse factoring programs

	As of December 31	
(in € millions)	**2016**	**2017**
Total trade receivables derecognized in connection with the non-recourse factoring program [a]	107	23

(a) These relate to several Group subsidiaries that use non-recourse factoring programs (with transfer of risks and benefits).

Reverse factoring programs

The Group uses reverse factoring programs in the normal course of its business.

These programs are implemented within a strict framework, notably with respect to:

- use and function as a payment tool;
- exclusively for approved invoices;
- payment by Danone respecting the invoice terms, notably due dates, in accordance with applicable regulations and practices;
- at no cost to Danone.

The amounts to be paid using these payment tools are not reclassified. They remain commitments to suppliers and are carried as operating liabilities under Trade payables until paid by Danone, which has the effect of clearing the commitment.

Several of the Group's subsidiaries in various parts of the world are involved in these programs, none of which is individually material

Note 5.5. Property, plant and equipment and capital expenditure

Accounting principles

Property, plant and equipment acquired by the Group are recognized at cost of acquisition or at construction cost.

Assets used by the Group under finance leases are recognized as Property, plant and equipment in the consolidated balance sheet, when, in substance, the terms of the lease transfer to the Group essentially all of the risks and rewards associated with the ownership of the asset. The asset is recognized for an amount that corresponds to the lower of fair value and the discounted value of future lease payments. The assessment of the level of risks and rewards transferred is based on an analysis of the lease agreement. The financial debt associated with the leased asset is recognized as a liability in the consolidated balance sheet under Financial debt.

Interest on borrowings to finance the construction of property, plant and equipment until their operational start date is considered to be an integral part of the cost price of the property, plant and equipment, provided that the criteria of IAS 23, *Borrowing Costs* are met.

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives as follows:

- buildings: 15 to 40 years;
- equipment, furniture and fixtures: 5 to 20 years;
- other: 3 to 10 years.

The depreciation charges in respect of property, plant and equipment are allocated to various headings in the income statement on the basis of the nature and utilization of the assets concerned.

Refundable containers

Refundable containers (including, in particular, jugs in the Waters Reporting entity) are recognized at cost. They are depreciated on a straight-line basis, based on available statistics for each Group entity, over the shorter of the following lengths of time:

- physical useful life, taking into account the internal and external breakage rates and wear and tear;
- commercial useful life, taking into account planned or likely modifications of containers.

When the amount of the refund changes, the liability for deposits received is measured based on the new amount.

Carrying amount and changes during the period

(in € millions)	Land and buildings	Machinery and equipment	Other and assets in progress	Total 2016	Land and buildings	Machinery and equipment	Other and assets in progress	Total 2017
Gross amount								
As of January 1	**2,541**	**5,994**	**1,917**	**10,452**	**2,758**	**6,547**	**2,006**	**11,312**
Capital expenditure [a]	64	189	721	974	108	134	776	1,018
Disposals	(19)	(86)	(42)	(147)	(19)	(54)	(78)	(151)
Reclassification of assets held for sale	47	(8)	4	43	11	33	4	48
Changes in consolidation scope	(45)	(22)	(12)	(78)	420	727	294	1 441
Translation adjustments	34	87	(29)	92	(172)	(455)	(136)	(763)
Impairment	(14)	(72)	(52)	(138)	(22)	(201)	(39)	(262)
Other [b]	150	466	(501)	115	268	486	(837)	(84)
As of December 31	**2,758**	**6,547**	**2,006**	**11,312**	**3,352**	**7,216**	**1,990**	**12,558**
Depreciation								
As of January 1	**(1,058)**	**(3,737)**	**(904)**	**(5,701)**	**(1,190)**	**(4,107)**	**(979)**	**(6,276)**
Depreciation charges and impairment	(122)	(432)	(130)	(684)	(125)	(470)	(142)	(737)
Disposals	13	77	41	130	14	47	46	108
Reclassification of assets held for sale	(37)	(3)	(6)	(46)	(6)	(20)	(2)	(28)
Changes in consolidation scope	30	20	8	58	(27)	(214)	(28)	(269)
Translation adjustments	(14)	(46)	26	(34)	48	236	61	346
Impairment	11	60	49	120	15	182	37	234
Other	(12)	(46)	(63)	(121)	(6)	22	52	69
As of December 31	**(1,190)**	**(4,107)**	**(979)**	**(6,276)**	**(1,276)**	**(4,323)**	**(954)**	**(6,553)**
Carrying amount								
As of December 31	**1,569**	**2,440**	**1,027**	**5,035**	**2,076**	**2,894**	**1,036**	**6,005**
Including assets in progress			*668*	*668*			*673*	*673*

(a) Excluding property, plant and equipment acquired under finance leases and presented under the Other heading.
(b) Comprises mainly property, plant and equipment acquired under finance leases.

Impairment review of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or circumstances indicate that the recoverable amount of the asset (or group of assets to which it belongs) may be impaired:

- the recoverable amount corresponds to the higher of the market value and value in use;
- value in use is estimated on the basis of the discounted cash flows that the asset (or group of assets to which it belongs) is expected to generate over its estimated useful life in the conditions of use determined by the Group;
- market value corresponds to the estimated net selling price that could be obtained by the Group in an arm's length transaction.

An impairment provision is recognized when the recoverable amount of the asset proves to be lower than its carrying amount.

Capital expenditure during the period

	Year ended December 31	
(in € millions, except percentage)	**2016**	**2017**
Related cash flows	(925)	(969)
As a percentage of sales	*4.2%*	*3.9%*

Note 5.6. Off-balance sheet commitments relating to operating activities

Commitments given in 2017

		Amount of financial flows for the period				
(in € millions)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022 and after**
Commitments to purchase goods and services [a]	(4,252)	(2 397)	(780)	(478)	(281)	(317)
Capital expenditure commitments	(197)	(187)	(9)	–	–	(1)
Operating lease commitments	(748)	(223)	(139)	(101)	(65)	(220)
Guarantees and pledges given	(25)	(22)	(1)	–	–	(2)
Other	(55)	(34)	(11)	(6)	(3)	(2)
Total	**(5,278)**	**(2 863)**	**(939)**	**(585)**	**(349)**	**(542)**

(a) Commitments relating mainly to purchases of milk, dairy ingredients and other food raw materials.

Commitments given in 2016

		Amount of financial flows for the period				
(in € millions)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021 and after**
Commitments to purchase goods and services [a]	(2,995)	(1,960)	(541)	(261)	(95)	(139)
Capital expenditure commitments	(226)	(199)	(18)	(9)	–	–
Operating lease commitments	(694)	(213)	(132)	(102)	(68)	(179)
Guarantees and pledges given	(23)	(23)	–	–	–	–
Other	(46)	(26)	(11)	(8)	–	–
Total	**(3,984)**	**(2,421)**	**(702)**	**(380)**	**(163)**	**(318)**

(a) Commitments relating mainly to purchases of milk, dairy ingredients and other food raw materials.

Other commitments

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business, notably as a result of guarantees given on disposals since 1997. In some cases, damages and interest are sought. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

Note 5.7. Financial risks associated with operating activities

The Group's financial risk policy and its organization are described in Note 12.1 of the Notes to the consolidated financial statements.

Foreign exchange risk

Due to its international presence, the Group could be exposed to foreign exchange rate fluctuations in the context of its operating activities.

Risk identification

The Group mainly operates on a local basis and consequently in the currency of the country in which it is operating, thereby incurring no currency risk. However, the location of some of the Group's production units may result in intercompany billings in foreign currencies. This applies particularly to the Specialized Nutrition Reporting entity and, to a lesser extent, to EDP Noram excluding WhiteWave and EDP International Reporting entities. Similarly, some raw materials are billed or indexed in foreign currencies, in particular as regards the Waters, EDP International and EDP Noram Reporting entities. Lastly, the Group is also developing some export activities. The sales and operating margin of some subsidiaries are therefore exposed to fluctuations of foreign exchange rates against their functional currency.

Risk monitoring and management

Pursuant to its financial currency risk hedging policy, the Group's residual exposure (after hedging) is not significant during the hedging period.

As of December 31, 2017, the main hedged currencies in terms of value included the British pound, Australian dollar, Chinese yuan, Mexican peso, Brazilian real, Russian ruble and U.S. dollar (see Note 12.2 of the Notes to the consolidated financial statements).

Commodities risk

Danone's raw materials needs consist mainly of:

- materials needed to produce food and beverage products, mainly milk and fruits (the "food raw materials"). On a value basis, milk represents the main raw material purchased by Danone. These purchases consist mainly of liquid milk, for which the operating subsidiaries typically enter into agreements with local producers or cooperatives. Liquid milk prices are set locally, over contractual periods that vary from one country to another. The main other food raw materials are fruit-based preparations and sugar;
- product packaging materials, in particular plastics and cardboard ("packaging"). Packaging purchases are managed through global and regional purchasing programs making it possible to optimize skills and volume effects. Prices are influenced by supply and demand at the global and regional levels, economic cycles, production capacities and oil prices;
- energy supplies. They account for only a limited portion of the Company's overall purchases.

Danone's strategy increasingly focuses on the upstream portion of its activities and in particular its supply of raw materials, not only to manage its costs but also to make it a genuine source of value added and differentiation relative to the competition.

The price trends of major raw materials may affect the structure of Danone's results. In that context, the Company manages raw materials cost volatility through the following measures:

- continuous productivity gains: Danone strives in particular to optimize its use of raw materials (reductions in production waste, lighter packaging and more effective use of milk sub-components in the Group's various products) and take advantage of pooled purchasing for its various subsidiaries. In 2013, for example, the Company established centralized purchasing for EDP International and EDP Noram Reporting entities;
- implementation of a purchasing policy ("Market Risk Management") that consists of defining rules for securing the physical supply and price setting with suppliers and/or on financial markets when they exist. The monitoring of exposures and the implementation of this policy are carried out for each raw materials category by the Company's central purchasing team. The buyers typically negotiate forward purchase agreements with suppliers, since no financial markets exist that would allow full hedging of the volatility of Danone's main raw materials purchase prices. Forward purchase agreements are monitored at the Company level at the end of each year.

Sensitivity of net income to changes in prices of the two main categories of raw materials purchased by the Group

Impact on the cost of raw materials for the fiscal year concerned of an increase/decrease in their price applied uniformly across all countries, throughout that fiscal year, using like-for-like exchange rates (projected annual rate determined by Danone for the 2017 fiscal year).

	Year ended December 31 at like-for-like exchange rates	
	2016	**2017**
(in € millions)	**Gain (loss)**	**Gain (loss)**
Increase of 5%		
Liquid milk, milk powder and other milk-based ingredients	(119)	(124)
Plastics, including PET	(78)	(81)
Decrease of 5%		
Liquid milk, milk powder and other milk-based ingredients	119	124
Plastics, including PET	78	81

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NOTE 6. EVENTS AND TRANSACTIONS OUTSIDE THE GROUP'S ORDINARY ACTIVITIES

Note 6.1. Other operating income (expense)

Accounting principles

Other operating income (expense) is defined under Recommendation 2013-03 of the French CNC relating to the format of consolidated financial statements prepared under international accounting standards, and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to Danone's 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 incurred or estimated costs related to major crises and major litigation. Furthermore, in connection with Revised IFRS 3 and Revised IAS 27, Danone also classifies in Other operating income (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 the acquisition date.

Other operating income (expense) in 2017

In 2017, the net Other operating income of €192 million consisted mainly of the following items:

(in € millions)	Notes	**Related income (expenses)**
Capital gain on disposal of Stonyfield	2.5	628
Compensation received following the decision of the Singapore arbitration court in the Fonterra case	14.3	105
Territorial risks, mainly in certain countries in the ALMA region		(148)
Costs associated with the integration of WhiteWave [a]	2.4	(118)
Impairment of several intangible assets in Waters and Specialized Nutrition Reporting entities	9.3	(115)
Costs relating to the restructuring of EDP International Reporting entity in certain countries [b]		(78)
Restructuring of the Group's activities in Argentina as a result of the economic climate		(39)

(a) Integration costs for €(91) million and impact on income of inventory revaluations performed in connection with the purchase price allocation for €(27) million.
(b) Mainly concerns the adaptation of EDP International Reporting entity in Europe and Latin America.

Other operating income (expense) in 2016

In 2016, the net Other operating expense of €(99) million consisted mainly of the following items:

(in € millions)	**Related income (expenses)**
Profit on disposal of the Dumex activity in China [a]	91
Costs associated with the WhiteWave acquisition project	(57)
Danone 2020 transformational plan	(51)
Impairment of intangible assets	(31)
Restructuring of the Group's activities in Argentina as a result of the economic climate	(12)

(a) Corresponds mainly to the recycling of unrealized currency translation differences.

NOTE 7. NUMBER OF EMPLOYEES, PERSONNEL COSTS AND EMPLOYEE BENEFITS

Note 7.1. Number of employees at fully consolidated companies

Number of employees as of December 31 and breakdown by Reporting entity and geographical area

	As of December 31	
	2016	**2017**
Total number of employees	**99,187**	**104,843**
By geographical area		
Europe and North America	26%	31%
North America	2%	7%
Europe	24%	24%
Rest of the World	74%	69%
Asia, Pacific and Middle East	22%	20%
China	9%	8%
CIS	11%	9%
Africa	8%	9%
Latin America	24%	23%
Total	**100%**	**100%**
By Reporting entity		
EDP International	37%	36%
EDP Noram	2%	6%
Specialized Nutrition	20%	20%
Waters	38%	35%
Corporate functions	3%	3%
Total	**100%**	**100%**

Note 7.2. Personnel costs of fully consolidated companies

	Year ended December 31	
(in € millions)	**2016**	**2017**
Salaries and social security charges [a]	(3,433)	(3,614)
Retirement obligations – defined benefit plans [b]	(33)	(39)
Expenses relating to Group performance shares and stock-options	(25)	(24)

(a) Salaries after social security charges. Also comprises the contributions in respect of defined contribution retirement plans.
(b) Service cost.

Note 7.3. Retirement obligations and other long-term benefits

General principles

The Group contributes to employee retirement benefit plans in accordance with the laws and usual practices of countries in which its subsidiaries operate. As a result of contributions paid under such plans to private or state sponsored pension funds, the Group has no actuarial liability in that respect.

The Group also has contractual obligations for supplementary retirement plans, severance pay, retirement indemnities and personal protection plans. The related actuarial commitments are taken into account either through the payment of contributions to independently-managed funds responsible for their service and the fund administration, or through provisions.

Accounting principles

Defined contribution retirement plans

Contributions due under defined contribution plans are expensed as incurred. These expenses are allocated to different headings in the consolidated income statement.

Defined benefit retirement plans

The Group's obligations relating to defined benefit retirement plans are calculated using the projected unit credit method and by taking into account several actuarial assumptions, including employee turnover, salary increases and employees' expected active lives.

The carrying amounts of these plans on the consolidated balance sheet correspond to the actuarial value of the obligations, as defined above, less the fair value of the plan assets (retirement funds to which the Group contributes, for example). They are presented under the heading Provisions for retirement obligations and other long-term benefits.

In addition, the expected return on plan assets is measured on the basis of the discount rate used to estimate the actuarial value of retirement commitments.

Actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions that are used to calculate the obligations net of the assets (including the difference between the expected return and the actual return on plan assets) are fully recognized within Other comprehensive income.

The recognized costs and income of defined benefit plans correspond mainly to:

- the cost of services provided during the year and of prior services (where relevant) recognized within Recurring operating income;
- the accretion of the present value of the obligations, net of the expected return on plan assets, recognized within Other financial income (expense).

Other long-term benefits

Other long-term benefits may be granted by certain Group companies to their employees, such as personal protection coverage and long-service awards. The Group's obligations in respect of these benefits are determined by applying a similar method to that used to determine the obligations relating to post-employment defined benefit plans.

The amounts recognized in the balance sheet in respect of these plans correspond to the present value of the obligations, as detailed above. They are presented under the heading Provisions for retirement obligations and other long-term benefits.

The actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions used to calculate obligations are recognized in full within Recurring operating income of the fiscal year in which they are incurred.

Defined benefit retirement plans

Provisions for retirement obligations and other long-term benefits

	As of December 31	
(in € millions)	**2016**	**2017**
Defined benefit retirement plans	932	898
Other long-term benefits	27	21
Total	**959**	**919**

Defined benefit retirement plans and other post-employment benefits

Carrying amount of gross obligations

	As of December 31	
(in percentage)	**2016**	**2017**
Retirement plan for senior managers	33%	33%
Other	16%	17%
France	49%	50%
Germany	13%	12%
Indonesia	8%	8%
Belgium	5%	7%
United States	7%	7%
Ireland	7%	5%
Other [a]	11%	11%
Total	**100%**	**100%**

(a) Several countries, none of which represent more than 5% of the Group's gross obligations.

Group's principal obligation

The Group's principal defined benefit retirement plan obligations involve the Retirement plan for senior managers in France. This retirement plan, which was set up in 1976 to retain key managers, may also include certain senior executives who were "Group Directors" on December 31, 2003, at which date the plan was closed to new beneficiaries. On December 31, 2017, 115 Group Directors were members of this plan (excluding plan beneficiaries who had already claimed their pension benefits), compared to 170 potential beneficiaries in 2003.

General principles

This plan provides for a pension based on years of service and the amount of final salary, under the condition that the beneficiary is still in Danone's employment at the time of retirement. The pension:

- is paid after deducting certain pensions corresponding:
  - with respect to a first category of senior executives, to the full amount of retirement benefits they acquired over the course of their professional career;
  - with respect to a second category of senior executives, to the full amount of retirement benefits that they acquired due to the implementation of a Company non-contributory supplementary retirement plan;
- and may reach a maximum of 65% of final salaries.

In the event of leaving Danone before the age of 55 or in the event of death before retirement, the employee loses all benefits under this plan, it being specified that if the employee is laid off after the age of 55, the plan benefits are preserved, subject to the beneficiary not taking any salaried position in the future.

Other obligations

Most of the other retirement plans introduced by the Group relate only to a given subsidiary in a given country. Consequently, the Group is required to manage several different plans in a given country. None is material.

Carrying amount of provisions (gross obligations net of plan assets)

	As of December 31					
	2016			2017		
(in € millions)	**Retirement plan for senior managers**	**Other plans**	**Total**	**Retirement plan for senior managers**	**Other plans**	**Total**
Vested rights with projected salaries	484	968	1 452	481	969	1 449
Fair value of plan assets	(156)	(364)	(520)	(165)	(386)	(551)
Vested rights net of fair value of plan assets	**328**	**604**	**932**	**316**	**583**	**898**
Impact of ceiling on assets	–	–	–	–	–	–
Obligations for which provisions have been recorded on the balance sheet	**328**	**604**	**932**	**316**	**583**	**898**

In addition, the total amount of contributions/benefits to be paid in 2018 in connection with these plans is estimated at €46 million.

Actuarial assumptions

Methodology

The Group defines the actuarial assumptions by country and/or subsidiary.

The discount rates used in 2017 were obtained on the basis of investment grade (AA rating) bond yields of private issuers for durations equivalent to that of the commitment in the corresponding monetary areas. The level of quality used is assessed on the basis of the rating obtained from the leading financial rating agencies. In the case of illiquid markets, the discount rate is determined using government bonds of equivalent maturity to the term of the assessed plans.

Retirement plan for senior managers

Main actuarial assumptions

Year ended December 31

	Retirement plan for senior managers	
(in percentage, except for ages in number of years)	**2016**	**2017**
Discount rate	1.7%	1.8%
Expected return on plan assets	1.7%	1.8%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Sensitivity analysis of the key assumption, the discount rate

Year ended December 31

	Retirement plan for senior managers	
	2016	**2017**
(in € millions)	**Increase (decrease)**	**Increase (decrease)**
50 bps increase	(47)	(44)
50 bps decrease	53	51

Changes in carrying amount of provisions

	2016				2017			
(in € millions)	**Vested rights**	**Plan assets**	**Impact of ceiling on assets**	**Obligations provisioned**	**Vested rights**	**Plan assets**	**Impact of ceiling on assets**	**Obligations provisioned**
As of January 1	**1,255**	**(486)**	**–**	**769**	**1,452**	**(520)**	**–**	**932**
Service cost	33	–	–	33	39	–	–	39
Interest cost	38	–	–	38	35	–	–	35
Expected return on plan assets	–	(13)	–	(13)	–	(10)	–	(10)
Other	(1)	–	–	(1)	(19)	–	–	(19)
Expense for the year	69	(13)	–	57	56	(10)	–	46
Payments made to retirees	(44)	27	–	(18)	(51)	25	–	(26)
Contributions to plan assets	–	(19)	–	(19)	–	(39)	–	(39)
Changes in demographic assumptions	(2)	–	–	(2)	1	–	–	1
Changes in economic assumptions	134	–	–	134	(9)	–	–	(9)
Experience effects	41	(35)	–	6	10	(8)	–	1
Actuarial gains and losses	173	(35)	–	138	2	(8)	–	(7)
Translation adjustments	(2)	7	–	5	(35)	12	–	(22)
Other	1	–	–	1	26	(11)	–	15
As of December 31	**1,452**	**(520)**	**–**	**932**	**1,449**	**(551)**	**–**	**898**

Defined benefit retirement plan assets

The investment policy for plan assets depends, for each company, on the employees' age structure and the expected return on the various asset classes.

Plan assets of retirement plan for senior managers

	As of December 31	
	Retirement plan for senior managers	
(in € millions, except percentage)	**2016**	**2017**
Fair value of plan assets	**(156)**	**(165)**
Main class of plan assets		
Bonds [a] [b]	91%	89%
Equities [b]	3%	4%
Real estate and other asset classes [b]	6%	7%

(a) These assets are diversified and, in particular, exposure to individual sovereign risk is limited.
(b) Do not include any financial instruments issued by the Group.

Defined contribution retirement plans

Contributions paid as part of defined contribution plans are recognized under Recurring operating income.

Note 7.4. Group performance shares and stock-options granted to certain employees and corporate officers

Group policy

The Group has awarded long-term compensation in the form of Group performance shares since 2010 and awarded such compensation in the form of stock-options until 2010. Around 1,500 directors and senior executives, as well as the corporate officers, have benefitted from these arrangements.

General principles applicable to Group performance shares and termination of the stock-options program

The Group's long-term compensation takes the form of Group performance shares (Company shares subject to performance conditions). Group performance shares were introduced in 2010 by the Shareholders' Meeting held on April 22, 2010 to replace the stock-option program that was consequently closed.

Group performance shares (GPS) are shares in the Company that are subject to performance conditions, set by the Shareholders' Meeting for each plan. In the case of all outstanding plans, the performance conditions are based on aspects of the Company's performance. The GPS are also subject to continuing employment conditions. The vesting period is four years.

General principles applicable to stock-options

Stock-options are options to purchase shares in the Company that were granted to certain employees and corporate officers up until the Combined Shareholders' Meeting of April 22, 2010. No stock-options have been granted since that date and the last plans expired in 2017. As was the case in 2016, no expense was recognized in 2017 in respect of the stock-options.

Group performance shares and stock-options in effect

	Year ended December 31	
(in number of shares)	**2016**	**2017**
Group performance shares		
As of January 1	**1,987,707**	**2,299,567**
Shares granted during the year [a]	624,828	644,420
Shares that lapsed or were cancelled during the year	(90,538)	(243,884)
Shares delivered during the year	(222,430)	(385,113)
As of December 31 [b]	**2,299,567**	**2,314,990**
Stock-options		
As of January 1	**1,345,171**	**333,016**
Options that lapsed or were cancelled during the year	(117,116)	(39,644)
Options exercised during the year	(895,039)	(293,372)
As of December 31	**333,016**	**–**

(a) If the continuous employment and performance conditions are fully met, the number of shares granted in respect of the 2017 fiscal year could reach 676,741.
(b) If the continuous employment and performance conditions are fully met, the number of Group performance shares could reach 2,347,311 in respect of the year ended December 31, 2017.

Accounting treatment of Group performance shares

Accounting principles

The fair value of Group performance shares is calculated on the basis of assumptions made by the Group's management. The corresponding charge is spread over the vesting period (4 years). To the extent that performance conditions are based on internal performance, charges recognized in respect of shares that lapse due to the failure to achieve said performance conditions are written back in the income statement for the period in which it is probable they will lapse.

They are taken into account in calculating the dilution as described in Note 13.4 of the Notes to the consolidated financial statements.

Valuation

	Year ended December 31	
(in € per share except number of shares)	**2016**	**2017**
Number of shares granted during the year	624,828	644,420
Fair value of Group performance shares granted during the year [a]	58.8	57.5
Average DANONE share price during the year	63.4	65.7

(a) Fair value as of the grant date.

Expense related to Group performance shares including taxes

	Year ended December 31	
(in € millions)	**2016**	**2017**
Group performance shares	(25)	(24)
Total expense	**(25)**	**(24)**

Note 7.5. Company Savings Plan

General and accounting principles

Employees of the Group's French entities can, on an annual basis, subscribe a capital increase in the Company through a Company Savings Plan. The purchase price of the shares corresponds to 80% of the average DANONE share price over the 20 listing days preceding the meeting of the Board of Directors that approves the plan.

The benefit granted to the employees is calculated based on the fair value of the shares on the grant date. The fair value is calculated after taking into account the five-year holding period on these shares and the market parameters applicable to employees, in particular the borrowing rate.

The corresponding charge is recorded under Other income (expense) for the year at the time of the capital increase.

Capital increase reserved for employees as part of the Company Savings Plan

In 2017, under the terms of the Company Savings Plan, Danone implemented a capital increase involving 982,913 new shares issued at a price of €47.44 per share.

NOTE 8. INCOME TAX

Note 8.1. Income tax

Income before tax and tax expense

	Year ended December 31	
(in € millions except tax rate in percentage)	**2016**	**2017**
Income before tax	**2,630**	**3,296**
Current tax (expense) income	(869)	(1,131)
Deferred tax (expense) income	65	289
Current and deferred tax (expense) income	**(804)**	**(842)**
Effective tax rate	30.6%	25.5%
Amount (paid) received during the year	(891)	(1,116)

Tax rate and tax systems

French tax system

Danone forms a tax group with most of its French subsidiaries in which it owns, directly or indirectly, more than 95% of the share capital, enabling taxable profits and losses to be offset subject to certain limits and conditions.

The statutory tax rate for companies with sales exceeding €3 billion was raised to 44.43% in 2017 following the introduction of an exceptional tax contribution on companies. Since this measure applies only in 2017, the standard tax rate used to calculate the effective tax rate was retained at 34.43%.

Other tax systems

Similar tax grouping arrangements exist in other countries, in particular in the United States, the Netherlands, the United Kingdom, Germany and Spain.

In the case of the United States, the tax reform enacted in December 2017 reduced the tax rate from 35% to 21% as from 2018, resulting in a €285 million decrease in deferred tax liabilities with a corresponding tax income.

Effective tax rate

In 2017, the Group effective tax rate was 25.5%, lower than the 2016 rate due to the inclusion of non-recurring items related to the favorable impacts on the measurement of the deferred tax balances of the changes made to the tax rates in several countries.

As is the case with the Group's business activity (see breakdown of sales by country in Note 5.2 of the Notes to the consolidated financial statements), the Group's current and deferred tax expense is also relatively well distributed across several countries, with no single dominant country.

Difference between effective tax rate and 34.43% statutory tax rate in France

		Year ended December 31	
(in percentage)	Notes	**2016**	**2017**
Statutory tax rate in France		34.4%	34.4%
Differences between French and foreign tax rates [a]		(10.8)%	(9.5)%
Tax on dividends and royalties [b]		2.9%	1.0%
Permanent differences		1.3%	1.4%
Tax loss carryforwards [c]	8.3	0.8%	3.7%
Tax adjustments and unallocated taxes [d]		3.8%	(5.3)%
Impact of capital gains and losses on disposal and asset impairment [e]	2.5	(1.1)%	1.3%
Other differences		(0.7)%	(1.5)%
Effective income tax rate		**30.6%**	**25.5%**

(a) Various countries, none of which generates a significant difference with the French tax rate.
(b) In 2017, this comprises the repayment of the 3% dividends tax.
(c) In 2017, this comprises the impacts of the deferred tax asset impairment in certain Latin American countries.
(d) In 2017, this corresponds mainly to the favorable impacts of the change in the tax rates in the United States and France on the measurement of the deferred tax balances.
(e) In 2017, this corresponds mainly to the unfavorable impact of the gain on the disposal of Stonyfield. In 2016, it corresponded mainly to the positive impact of the recycling to profit of the unrealized foreign exchange gains and losses in respect of the disposal of the Dumex activity in China.

Note 8.2. Deferred taxes

Accounting principles

Deferred taxes are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except for the cases specified in IAS 12, *Income Taxes*. Deferred taxes are calculated using the liability method, applying the last enacted income tax rates expected to be applicable when the temporary differences will be reversed.

In addition, temporary differences are reflected in the consolidated financial statements as deferred tax assets or liabilities systematically in the case of associates and on the basis of the most likely scenario as regards the reversal of the differences, *i.e.* distribution of reserves or disposal of the entity concerned, in the case of fully consolidated subsidiaries.

Deferred tax assets and liabilities are offset, when the tax entity has a legal right to offset.

Lastly, the Company and its subsidiaries may be subject to tax audits. A provision is recognized in the consolidated financial statements whenever it is probable that a tax reassessment will be made.

Carrying amount

		As of December 31	
(in € millions)	Notes	**2016**	**2017**
Breakdown by type of deferred tax			
Property, plant and equipment and intangible assets		(1,151)	(1,708)
Tax loss carryforwards	8.3	469	294
Provisions for retirement obligations and other long-term benefits		242	211
Employee profit-sharing provisions		17	13
Restructuring provisions		10	11
Other		154	258
Net deferred taxes		**(259)**	**(922)**
Deferred tax assets		831	722
Deferred tax liabilities		(1,090)	(1,644)
Net deferred taxes		**(259)**	**(922)**

Changes during the period

(in € millions)	Notes	2016	2017
As of January 1		**(224)**	**(259)**
Changes recognized in Other comprehensive income		(89)	10
Changes recognized in profit or loss		52	367
Changes in consolidation scope	3.2, 4.4	17	(1, 114)
Other		(15)	74
As of December 31		**(259)**	**(922)**

Note 8.3. Tax loss carryforwards

Accounting principles

Deferred tax assets relating to tax loss carryforwards and temporary differences are recognized in the consolidated balance sheet when it is more likely than not that these taxes will be recovered. At each closing, the Group reviews the unused tax losses and the amount of deferred tax assets recognized on the balance sheet. In some countries in which losses can be carried forward indefinitely, the Group takes into consideration long-term recovery horizons when justified in light of forecast taxable profits.

Carrying amount

	As of December 31	
(in € millions)	2016	2017
Tax losses – recognized portion		
Recognized tax loss carryforwards [a] [b]	1,623	1,275
Tax savings [c]	469	303
Tax losses – unrecognized portion		
Tax loss carryforwards and tax credits not yet used [a]	468	512
Potential tax savings	118	147

(a) Basis amount.
(b) In 2017, they mainly come from the French consolidated tax group.
(c) Corresponds to deferred tax assets based on tax loss carryforwards

Consumption horizon

Most of the tax losses as of December 31, 2017 can be carried forward indefinitely. The probable consumption horizon for most of these losses is less than ten years.

NOTE 9. INTANGIBLE ASSETS

Note 9.1. Accounting principles

Goodwill

When control of a company is acquired, the fair value of the consideration given to the seller is allocated to the acquired identified assets and the liabilities and contingent liabilities assumed, which are measured at fair value. The difference between the consideration given to the seller and the Group's share of the fair value of the acquired identified assets and the liabilities and contingent liabilities assumed represents goodwill. When the option of recognizing non-controlling interests at fair value is applied, a corresponding premium is allocated to goodwill. Goodwill is recognized in the consolidated balance sheet as an asset under the heading Goodwill.

Goodwill arising from the acquisition of a foreign entity is recognized in the functional currency of the entity acquired and translated at the exchange rates prevailing on the closing date.

Goodwill is not amortized but is tested for impairment at least annually.

For the purposes of impairment testing, goodwill is allocated to the Cash generating units (CGU) or groups of CGUs most likely to benefit from the synergies of the business combination and to the lowest level at which goodwill is monitored by the Group. The CGUs correspond to subsidiaries or groups of subsidiaries that are included in the same Reporting entity and that generate cash flows largely independent from those generated by other CGUs.

Brands with indefinite useful lives

Acquired brands that are distinguishable, having a significant value, are supported by advertising expense and having indefinite useful lives are recorded under the heading Brands in the consolidated balance sheet. The valuation of these brands is generally determined with the assistance of valuation specialists, taking into account various factors, including brand awareness and their contribution to earnings. These brands, which are legally protected, are not amortized but are tested for impairment annually or more frequently if signs of impairment exist (see hereafter).

Other brands

Other acquired brands that are deemed to have finite useful lives are presented under the heading Brands in the consolidated balance sheet. They are amortized on a straight-line basis over their estimated useful lives, which do not exceed 60 years. The amortization charges in respect of brands with finite useful lives are allocated to various headings in the income statement on the basis of the nature and utilization of the brands concerned.

Development costs

Development costs are only recognized under assets in the consolidated balance sheet if all the recognition criteria set by IAS 38, *Intangible Assets* are met before the products are launched on the market. They are amortized over the term of their legal protection granted to the Group as from the date the corresponding products are launched on the market.

Development costs are generally expensed as incurred (see Note 5.1 of the Notes to the consolidated financial statements).

Technologies, development costs and other intangible assets

The following elements are recognized in the balance sheet under the heading Other intangible assets:

- acquired technologies, which are generally valued with the assistance of specialized consultants and amortized over the average duration of the patents;
- acquired development costs meeting the criteria for the recognition of an intangible asset in accordance with IAS 38, *Intangible Assets* (see above);
- other acquired intangible assets are recognized at their acquisition cost. They are amortized on a straight line basis over their estimated economic lives, which do not exceed 40 years.

The amortization charges in respect of these assets are allocated to various headings in the income statement on the basis of their nature and utilization.

Note 9.2. Carrying amount and changes during the period

		2016				2017			
(in € millions)	Notes	Goodwill	Brands [a]	Other intangible assets	Total	Goodwill	Brands [a]	Other intangible assets	Total
Gross value									
As of January 1		**11,653**	**3,848**	**856**	**16,357**	**11,620**	**3,898**	**908**	**16,426**
Changes in consolidation scope	2.2, 2.5, 3.2	(63)	(79)	–	(142)	7,949	3,025	185	11,160
Capital expenditure		–	–	58	58	–	–	66	66
Disposals		–	–	(41)	(41)	–	–	(10)	(9)
Translation adjustments		20	(16)	8	13	(1,392)	(425)	(49)	(1,867)
Impairment	9.3	(31)	–	–	(31)	(48)	(67)	(15)	(130)
Reclassification of assets held for sale		67	79	(1)	145	–	–	1	1
Other [b]	3.5	(25)	66	26	66	2	–	17	19
As of December 31		**11,620**	**3,898**	**908**	**16,426**	**18,132**	**6,432**	**1,103**	**25,666**
Amortization									
As of January 1		**–**	**(14)**	**(564)**	**(579)**	**–**	**(19)**	**(603)**	**(623)**
Charges		–	(2)	(68)	(70)	–	(2)	(91)	(93)
Disposals		–	(1)	31	30	–	–	23	23
Other		–	(2)	(2)	(4)	–	1	(30)	(29)
As of December 31		**–**	**(19)**	**(603)**	**(623)**	**–**	**(20)**	**(701)**	**(722)**
Carrying amount									
As of December 31		**11,620**	**3,879**	**304**	**15,803**	**18,132**	**6,412**	**401**	**24,945**

(a) Includes brands with indefinite useful lives and the other brands.
(b) As of December 31, 2017, includes mainly the impact of completing in 2017 the allocation of the acquisition price of transactions undertaken in 2016.

Note 9.3. Impairment review

Methodology

The carrying amounts of goodwill and brands with indefinite useful lives are reviewed for impairment at least annually and whenever events or circumstances indicate that they may be impaired. These events or circumstances are linked to significant, unfavorable and lasting changes that have an impact on the economic environment and the assumptions or targets set at the time of acquisition.

Impairment tests are carried out on all property, plant and equipment and intangible assets of the CGUs and groups of CGUs. When the carrying amount of all the property, plant and equipment and intangible assets of the CGUs and groups of CGUs becomes greater than their recoverable amount, an impairment provision is recognized and first charged against goodwill.

The recoverable amount of the CGUs or groups of CGUs to which the tested assets belong is the higher of the fair value net of disposal costs, which is generally estimated on the basis of earnings multiples, and the value in use, which is assessed with reference to expected future discounted cash flows of the CGU or group of CGUs concerned.

Annual impairment testing of brands with indefinite useful lives is based on an individual recoverable amount established using the royalties method, with the exception of certain brands for which the Group has a third-party valuation. In the case of the major brands, the Group re-estimates the royalty rate of the brands concerned in accordance with a method applied each year and based on the brand's parameters including awareness of the brand, its profitability, market shares, etc.

The cash flows used to determine value in use of the CGUs or groups of CGUs and the recoverable amount of the brands with indefinite useful lives are derived from the annual budgets and strategic plans of the CGUs or groups of CGUs, which are drawn up by Management and cover a period of three years, and are extended, where appropriate, on the basis of the most recent forecasts, to:

- five years for the CGUs and groups of CGUs in EDP International Reporting entity that had been established before the acquisition of WhiteWave, and for the Waters Reporting entity;
- nine years for the Specialized Nutrition Reporting entity, to better reflect the expected development of its activity on the estimation of the value in use. The Group uses projections over nine years to better reflect the Reporting entity's growth over this period, since the actual growth rate of these CGUs and groups of CGUs exceeds the long-term growth rate that the Group applies to each of these CGUs.

Future cash flows beyond that period are extrapolated using a long-term growth rate that is specific to each CGU or group of CGUs:

- the operational assumptions used to calculate the terminal value are in line with the last year of projections described above in terms of sales and recurring operating margin;
- the long-term growth rate is determined for each CGU or group of CGUs taking into account its average growth rate in recent years and its geographical area (macro-economic fundamentals, demographics, etc.).

Finally, future cash flows are discounted using the weighted average cost of capital method, according to which the cost of debt and the after-tax cost of equity are weighted based on their respective proportions in the business sector concerned. It is calculated for the Group and increased, for certain CGUs or groups of CGUs, by a premium to take into account the risk factors affecting certain countries.

Impairment tests carried out as of December 31, 2017

Assets of companies in the WhiteWave group

Since the allocation of the acquisition price had not been finalized at the reporting date, the value of these assets is provisional. As Danone had not identified any indications of impairment, they were not tested for impairment as of December 31, 2017.

Other assets

The impairment tests on the assets in EDP International, EDP Noram excluding WhiteWave, Waters and Specialized Nutrition Reporting entities were carried out on the basis of the CGUs as defined as of December 31, 2016.

Carrying amount and assumptions concerning long-term growth rate and discount rate in respect of the CGUs or groups of CGUs and of the assets

As of December 31

	Carrying amount of goodwill and brands with indefinite useful lives		Long-term growth rate [h]		Discount rate after tax [h]	
(in € millions)	2016	2017	2016	2017	2016	2017
EDP International and EDP Noram						
Centrale Danone	921	866	3.5%	3.0%	9.1%	8.2%
Danone CIS [a]	349	323	3.0%	3.0%	9.0%	7 to 12%
Europe [b]	567	564	0%	0%	7 to 15%	6 to 12%
Other CGUs [c]	680	504	0 to 3%	0 to 3%	7 to 13%	6 to 17%
Total EDP International and EDP Noram	**2,517**	**2,257**				
• of which, goodwill	1,821	1,650				
• of which, brands with indefinite useful lives [d]	696	606				
Waters						
Danone Waters France	428	428	1%	1%	6.9%	6.4%
Other CGUs [e]	340	268	0 to 3%	0 to 3%	7 to 13%	6 to 11%
Total Waters	**767**	**696**				
• of which, goodwill	569	502				
• of which, brands with indefinite useful lives [d]	198	194				
Specialized Nutrition						
Early Life Nutrition Asia	2,755	2,509	2.5%	2.5%	7.9%	7.8%
Early Life Nutrition Rest of the World	4,956	4,750	2.5%	2.5%	8.3%	8.3%
Advanced Medical Nutrition	4,199	4,044	2.5%	2.5%	7.7%	7.8%
Other CGUs	193	170	2.5%	2.5%	7.4%	6.9%
Total Specialized Nutrition	**12,103**	**11,473**				
• of which, goodwill	9,230	8,765				
• of which, brands with indefinite useful lives [d]	2,873	2,708				
Assets of companies in the WhiteWave group [g]		**10,014**				
• of which, goodwill	–	7,214				
• of which, brands with indefinite useful lives	–	2,800				
Total	**15,387**	**24,440**				
• of which, goodwill	11,620	18,132				
• of which, brands with indefinite useful lives	3,767	6,309				

(a) Consists mainly of Russia and Ukraine.

(b) Covers the Reporting entity's entire activity in Europe.

(c) More than 10 CGUs, the largest of which is the EDP Noram CGU, none of which exceeded €300 million as of December 31, 2017 or December 31, 2016.

(d) Several brands, none of which is material individually.

(e) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €200 million as of December 31, 2017 or December 31, 2016.

(f) Consists of several brands, the largest of which are *Nutricia* and *Milupa*.

(g) Since the allocation of the acquisition price had not been finalized at the reporting date, their value is provisional and, in the absence of any indications of impairment, they were not tested for impairment in 2017. As is the case for the other CGUs, the assets are stated in this table at their value as of December 31, 2017.

(h) Applicable to those CGUs whose recoverable amount is determined on the basis of their value in use, *i.e.* the CGUs corresponding to the companies consolidated before 2016.

Goodwill of the groups of CGUs in the Specialized Nutrition Reporting entity

As of December 31, 2017, the recoverable amount exceeded the carrying amount by €3.1 billion in the case of the Advanced Medical Nutrition group of CGUs, €3.7 billion in the case of the Early Life Nutrition Rest of the World group of CGUs and €5.9 billion in the case of the Early Life Nutrition Asia group of CGUs.

In addition, an analysis of the sensitivity of the value in use to the key assumptions was carried out for each of the three groups of CGUs. The key assumptions used in the valuation model used by the Group are (i) the growth of sales, (ii) the recurring operating margin (corresponding to the ratio of recurring operating income to sales), (iii) the long-term growth rate used to calculate the terminal value, and (iv) the discount rate.

Results of sensitivity analysis

	Year ended December 31			
	Impact on recoverable amount *(in € billions)*		Annual decrease to make recoverable amount equal carrying amount *(in percentage)*	
	2016	2017	2016	2017
Sales – 50 bps decrease [(a)]				
Early Life Nutrition Asia	(0.2)	(0.3)	(9)	(26)
Early Life Nutrition Rest of the World	(0.3)	(0.3)	(6)	(9)
Advanced Medical Nutrition	(0.2)	(0.3)	(5)	(9)
Recurring operating margin – 100 bps decrease [(b)]				
Early Life Nutrition Asia	(0.3)	(0.4)	(9)	(17)
Early Life Nutrition Rest of the World	(0.5)	(0.4)	(7)	(10)
Advanced Medical Nutrition	(0.3)	(0.3)	(6)	(11)
Long-term growth rate – 50 bps decrease				
Early Life Nutrition Asia	(0.3)	(0.5)		
Early Life Nutrition Rest of the World	(0.4)	(0.4)		
Advanced Medical Nutrition	(0.3)	(0.4)		
Discount rate – 50 bps increase				
Early Life Nutrition Asia	(0.3)	(0.7)		
Early Life Nutrition Rest of the World	(0.4)	(0.7)		
Advanced Medical Nutrition	(0.3)	(0.6)		

(a) Decrease applied, each year, to the assumed growth in sales, including the final year, based on (i) the 2017 projections for tests performed in 2016, and (ii) the 2018 projections for the tests performed in 2017.

(b) Decrease applied, each year, to the assumed recurring operating margin, including the final year, based on (i) the 2017 projections for tests performed in 2016, and (ii) 2018 projections for tests performed in 2017.

Goodwill of other CGUs

As of December 31, 2017, the CGUs of EDP International Reporting entity established before the acquisition of WhiteWave and the Waters Reporting entity represented in total 20% of the carrying amount of the Group's goodwill and comprised more than 20 CGUs located in diverse geographical areas and in different countries.

As of December 31, 2017, following the impairment review of intangible assets with indefinite useful life of these CGUs, the Group recognized impairment on two CGUs in the Waters Reporting entity totaling €47 million, which were recognized in Other operating income (expense) for the period.

As of December 31, 2016, following the impairment review of intangible assets with indefinite useful life of these CGUs, the Group recognized impairment on a Waters Reporting entity CGU in the amount of €31 million.

Brands with indefinite useful lives

The Group's main brands that were tested for impairment were *Nutricia* and *Milupa*. As of December 31, 2017, they represented more than 25% of the carrying amount of the Group's brands with indefinite useful lives. The other brands are spread over all Reporting entities and located in diverse geographical areas and different countries and none represented individually more than 5% of the carrying amount of the Group's brands with indefinite useful lives as of December 31, 2017.

Impairment review of the main brands with indefinite useful lives

As of December 31, 2017, the Group reviewed the value of the *Nutricia* and *Milupa* brands in accordance with the methodology and the valuation model described above and on the basis of assumptions based on those of the groups of CGUs concerned. This review did not result in the recognition of any impairment provisions.

In addition, analysis of the sensitivity of the value in use to the key assumptions was carried out on each of these other main brands. The key assumptions involved in the valuation model used by the Group are (i) the growth in sales, (ii) the royalty rate, (iii) the long-term growth rate used to calculate the terminal value, and (iv) the discount rate.

The following changes, deemed reasonably possible, in the key assumptions do not alter the findings of the impairment review, *i.e.* the absence of any impairment:

- 50 bps decrease in sales (decrease applied, each year, to the assumptions concerning growth in sales, including the final year, on the basis of the 2018 projections);
- 50 bps decrease in the royalty rate;
- 50 bps decrease in the long-term growth rate;
- 50 bps increase in the discount rate.

Other brands with indefinite useful lives

As of December 31, 2017, following the impairment review of the other brands with indefinite useful lives, the Group recognized, under Other operating income (expense) for the period, an impairment provision in respect of certain brands in EDP International and Specialized Nutrition Reporting entities in the aggregate amount of €68 million.

As of December 31, 2016, following the impairment review of the other brands with indefinite useful lives, the Group did not recognize any impairment provision.

NOTE 10. FINANCING AND FINANCIAL SECURITY, NET DEBT AND COST OF NET DEBT

Note D.1. Accounting principles

Financing

Debt instruments are recognized in the consolidated balance sheet (i) under the amortized cost method, using their effective interest rate, or (ii) at their fair value.

When the fair value risk of a debt is hedged by a derivative, the changes in the fair value of the hedged component of said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to the heading Other financial income (expense), which thereby offsets the changes in fair value of the derivative instrument.

When future cash flows of a debt are hedged by a derivative, the changes in the fair value of the effective portion of the derivative hedging said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to consolidated equity, and is recycled to profit or loss when the hedged item (the interest flows relating to the hedged debt) impacts the consolidated net income.

Hybrid financing

Since the contractual terms of the perpetual subordinated debt securities issued by Danone do not stipulate any redemption or coupon payment obligation (payment of a coupon is mandatory mainly in the event of the payment of a dividend to Danone's shareholders):

- they are classified as equity instruments;
- the related coupons are recognized as a deduction from consolidated equity, net of the related tax income. In the consolidated statement of cash flows, they are included in Cash flows provided by (used in) financing activities, the related tax being included in Cash flows provided by (used in) operating activities.

Short-term investments

Short-term investments comprise marketable securities and other short-term investments.

Marketable securities comprise highly liquid instruments with short maturities that are easily convertible into a known amount of cash. They are measured as securities held for trading within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement* and are carried at their fair value.

Other short-term investments are measured at their fair value as securities held for trading within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement.*

Changes in the fair value of short-term investments are recognized directly under the heading Interest income in the consolidated income statement.

Translation of transactions denominated in foreign currencies

At period-end, trade receivables and trade payables denominated in foreign currencies are translated using exchange rates on that date. Foreign exchange gains and losses arising from the translation of borrowings or other instruments denominated in foreign currencies that are used to hedge long-term investments denominated in the same currencies are recognized in consolidated equity under the heading Cumulative translation adjustments.

Note 10.2. Liquidity risk and management policy

Risk identification

Danone does not use debt in either a recurring or a significant way in connection with its operating activities. Operating cash flows are generally sufficient to finance the Group's business operations and organic growth.

Danone may, however, take on additional debt to finance acquisitions or, occasionally to manage its cash cycle, particularly when dividends are paid to the Company's shareholders.

The Company's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources.

Liquidity risk arises mainly from the maturities of its (i) interest-bearing liabilities (bonds, bank debt, etc.), and (ii) non-interest-bearing liabilities (liabilities related to put options granted to non-controlling interests), and from payments on derivative instruments.

As part of its debt management strategy, Danone regularly seeks new financing to refinance its existing debt.

In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, Danone is exposed to liquidity risk involving limited amounts in those countries.

More generally, it is possible that in the context of a systemic financial crisis, Danone may not be able to access the financing or refinancing it needs on the credit or capital markets, or to access such finance on satisfactory terms, which could have an adverse impact on its financial situation.

In addition, Danone's ability to access financing and its interest expense could depend in part on its credit rating by financial rating agencies. The Company's short- and long-term debt ratings and any potential deterioration therein could result in higher financing costs and affect its access to financing.

Lastly, most of the financing agreements entered into by the Company (bank lines of credit and bonds) include a change of control provision, which offers creditors a right of early repayment in the event a change in control of the Company causes its rating by the financial rating agencies to fall below investment grade.

Risk monitoring and management

Under its refinancing policy, Danone reduces its exposure to financing risk by (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium-term financing, (iv) maintaining financing sources available at all times, (v) spreading maturities on the basis of projected need and cash flow generation, and (vi) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts.

In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, certain Group companies may, for operational reasons, be required to borrow from local sources. From a Group perspective, the amounts borrowed are relatively small, whether considered individually or in total, given that the level of operating cash flow is generally sufficient to finance their operations and organic growth.

Use of its financing sources

The Group's policy consists of keeping its financing sources available and managing them at the Company level. The Group may need to use (i) its commercial paper program and syndicated credit facility to manage its cash cycle, notably when paying out the dividend to Danone shareholders, and (ii) alternatively, its commercial paper and EMTN programs or its syndicated credit facility to optimize its financing cost while still ensuring its financial security, such that the maturity and currency of its financing raised may vary without changing the net debt level or the Group's financial security.

Note 10.3. Financing structure and changes during the period

Financing classified as debt

(in € millions)	As of December 31, 2016	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impact of accrued interest [d]	Impact of changes in exchange rates and other non-cash impacts [c]	Non-current portion becoming current	Changes in consolidation scope	As of December 31, 2017
Financing managed at Company level									
Bonds – non-current portion	18,113	–	(544)	–		(750)	(2,156)	521	15,184
Bonds – current portion	934	–	(943)	–		8	2,156	–	2,156
Short-term debt instruments [a]	788	–	–	(65)		(4)	–	–	719
Total	19,835	–	(1,487)	(65)	–	(746)	–	521	18,058
Other financing arrangements [b]									
Non-current portion	325	–	–	10		95	(102)	17	345
Current portion	397	–	–	(509)	80	130	102	147	347
Total	722	–	–	(499)	80	225	–	164	692
Total	**20,557**	**–**	**(1,487)**	**(564)**	**80**	**(521)**	**–**	**685**	**18,750**

(a) As of December 31, 2016 and 2017, these were included in Current financial debt.
(b) Subsidiaries' bank financings, other financing arrangements and debts in respect of finance leases.
(c) Mainly the net changes in finance leases.
(d) Net flows of accrued interest as of December 31, 2016 (included in cash flows provided by operations), and accrued interest in respect of the period.

Financing classified as equity

As part of its permanent focus on optimizing its capital structure, Danone launched a hybrid perpetual bond issue totaling €1.25 billion, taking advantage of the exceptionally attractive market conditions.

This issuance contributes to the diversification of Danone's sources of funding and strengthened its capital structure, providing balance sheet flexibility for the execution of its strategy.

The issue consists of a euro-denominated undated bond, offering a first 1.75% coupon, with a first call date on June 23, 2023. The bonds, fully accounted as equity in accordance with IFRS, received an equity credit of 50% from Moody's and Standard & Poor's.

Note 10.4. Group's financing and financial security managed at the Company level

See also Notes 2.1 and 2.2 of the Notes to the consolidated financial statements.

Structure of the Group's main financing and its financial security

As of December 31

	2016		2017	
(in € millions)	**Principal amount**	**Amount used**	**Principal amount**	**Amount used**
Bank financing [a]				
Syndicated credit facility [b]	2,000	–	2,000	–
Committed credit facilities [c]	1,519	–	1,450	–
Capital markets financing [a]				
EMTN financing [d] [e]	21,000	13,020	21,000	17,340
U.S. dollar bonds [e]	NA	6,027	NA	5,294
Hybrid financing	NA	–	NA	1,250
Short-term debt instruments	3,000	788	3,000	719

(a) The Group's financial structure and financial security are managed at the Company level.
(b) Syndicated credit facility (revolving) maturing in December 2021.
(c) A portfolio of back-up facilities entered into with major credit institutions, with maturities ranging from 2017 to 2021.
(d) Euro Medium Term Notes.
(e) Bonds issued by the Company are disclosed on the Group's website.

Main financing transactions in 2017

Year ended December 31

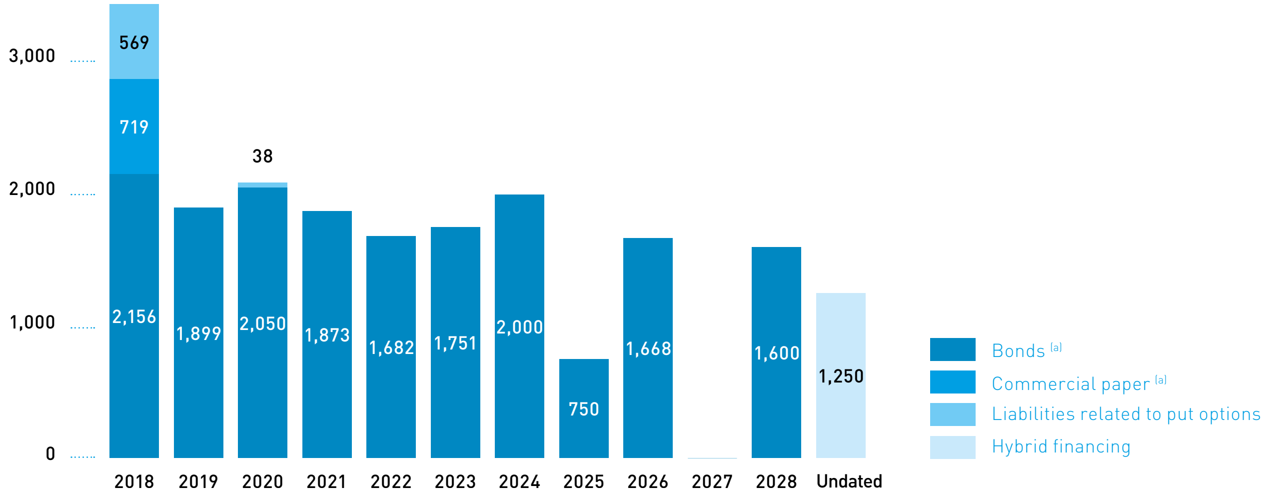
	2017		
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
Hybrid financing	EUR	1,250	Undated
Repayments			
WhiteWave bond	USD	553	2022
Eurobonds	EUR	750	2017
Yen private placement	JPY	11,000	2017
Euro private placement	EUR	95	2017

Main financing transactions in 2016

	Year ended December 31		
		2016	
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
	EUR	1,350	2018
	EUR	1,000	2020
	EUR	1,000	2022
	EUR	1,250	2024
	EUR	1,600	2028
Euro bonds		**6,200**	
	USD	1,200	2019
	USD	800	2021
	USD	1,500	2023
	USD	2,000	2026
U.S. dollar bonds		**5,500**	
Repayments			
Swiss franc bonds	CHF	225	2016
Euro bond	EUR	500	2016

Repayment schedule for financial debt managed at Company level and put options granted to non-controlling interests

Projected cash outflows related to the contractual repayment of the principal amount based on the assumption of non-renewal
(in € millions)



(a) Includes the value of derivatives hedging bonds and commercial paper.

Projected cash outflows related to the contractual repayment of interest on the financial assets and liabilities managed at the Company level, including premiums to be paid on derivative financial instruments based on the assumption of non-renewal

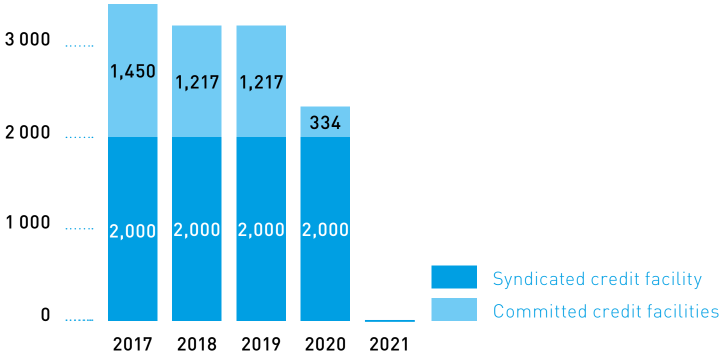
(in € millions)	Cash flows 2018	Cash flows 2019	Cash flows 2020	Cash flows 2021	Cash flows 2022 and after
Interest on debt [a]	(280)	(269)	(248)	(223)	(575)
Flows on derivatives [a] [b] [c]	59	57	42	42	153

(a) The floating interest rates are calculated on the basis of the rates applicable as of December 31, 2017.
(b) Net contractual flows, including premiums payable, net flows payable or receivable relating to the exercise of options in the money at year-end.
(c) Concerns derivative instruments used to manage net debt, assets and liabilities.

Sources of financing available at any time

The sources of financing available at any time established by the Group are composed mainly of available committed credit facilities and a syndicated credit facility carried by the Company.

(in € millions)



Company rating

As of December 31

	2016		2017	
	Moody's	Standard and Poor's	Moody's	Standard and Poor's
Short-term rating [a]				
Rating	–	A-2	–	A-2
Long-term rating [b] [c]				
Rating	Baa1 [c]	BBB+	Baa1 [c]	BBB+
Outlook	Stable	Negative [d]	Stable	Negative [d]

(a) Rating given to the Company's commercial paper program.
(b) Rating on the Company's debt with a maturity of more than one year.
(c) Rating reviewed on September 8, 2016.
(d) Rating reviewed on July 8, 2016 and outlook attributed on September 21, 2016.

Note 0.5. Short-term nvestments

Carrying amount

		As of December 31	
(in € millions)	Note	**2016**	**2017**
Money market funds		12,682	3,085
Including funds (French SICAV) associated with the WhiteWave acquisition project	2.2	*11,429*	-
Bank deposits, negotiable debt instruments and other short-term investments		380	377
Total		**13 063**	**3 462**

Counterparty risk in respect of short-term investments

The Group invests primarily in money market funds (French OPC *monétaires*) or short-term money market funds (French OPC *monétaires court terme*), which are highly liquid, diversified and not rated.

Bank deposits, negotiable debt instruments and other short-term instruments are subscribed from first-tier financial institutions.

Note 10.6. Net debt

	As of December 31	
(in € millions)	**2016**	**2017**
Non-current financial debt	18,771	15,716
Current financial debt	2,510	3,792
Short-term investments	(13,063)	(3,462)
Cash and cash equivalents	(557)	(638)
Derivatives – assets – Non-current [a]	(148)	(16)
Derivatives – assets – Current [a]	(42)	(19)
Net debt	**7,472**	**15,372**

(a) Used solely to manage net debt. The net debt has not been restated in respect of the portion of the derivatives (assets) used to hedge the WhiteWave acquisition price, *i.e.* €377 million as of December 31, 2016. As of December 31, 2017, these hedging instruments were settled on payment of the acquisition.

Changes in net debt in 2017

Danone's net debt totaled €15,372 million as of December 31, 2017, €7,900 million higher than as of December 31, 2016.

The main reasons for this variation were the acquisition of WhiteWave and the disposal of Stonyfield. It included €607 million of put options granted to non-controlling shareholders, *i.e.* €92 million lower than as of December 31, 2016.

Changes in net debt in 2016

Danone's net debt totaled €7,472 million as of December 31, 2016, €327 million lower than as of December 31, 2015.

Note 10.7. Cost of net debt

Accounting principles

Cost of net debt comprises mainly interest charges (calculated at the effective interest rate) on current and non-current financing and the effects of the derivatives relating to said financing.

Interest income comprises mainly interest received and, if applicable, the effects of the measurement at fair value through profit or loss of the short-term investments and cash and cash equivalents.

The related cash flows are presented within Cash flows provided by (used in) operating activities.

Cost of net debt in 2017

During 2017, cost of net debt increased in absolute terms from €(146) million in 2016 to €(263) million in 2017, reflecting the additional charges associated with financing the WhiteWave acquisition.

Note 10.8. Financial risks associated with the net debt and the financing activity

Interest rate risk

Interest rate risk exposure

The Group is exposed to interest rate risk on its financial liabilities as well as its cash and cash equivalents. Through its interest-bearing debt, the Group is exposed to the risk of interest rate fluctuations that affect the amount of its financial expense.

In addition, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, interest rate fluctuations may have an impact on the Group's consolidated results and consolidated equity.

The Group has implemented a policy to monitor and manage this interest rate risk in connection with its net debt management, as described in Note 12.3 of the Notes to the consolidated financial statements.

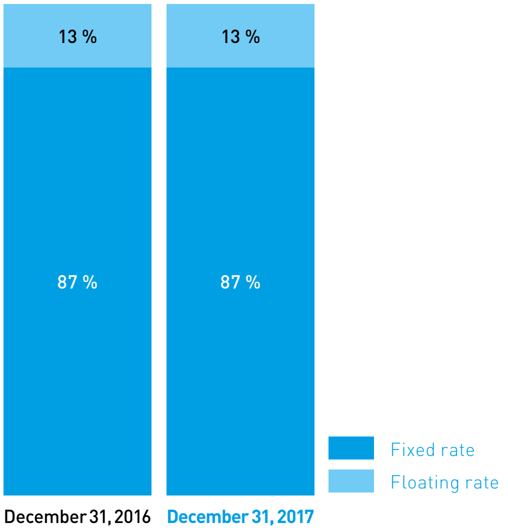
Sensitivity of net income to changes in the cost of net debt resulting from changes in the short-term interest rate

Sensitivity to interest rate changes reflects the following factors:

- financial debt net of short-term investments, cash and cash equivalents. It excludes the financial liabilities related to put options granted to non-controlling interests as these are not interest-bearing;
- active interest rate hedges as of December 31.

Hedged and unhedged portion of net debt in respect of an increase in short-term interest rates

Net debt breakdown between fixed and floating rates



Sensitivity of the cost of net debt to changes in the short-term interest rate

In 2017 as in 2016, the impact of changes in short-term interest rates would not have had a significant impact on the cost of the Group's net debt.

Financial currency risk

Due to its international presence, the Group could be exposed to foreign exchange rate fluctuations in relation to its financing activities: in application of its risk centralization policy, the Group manages multi-currency financings and liquidities.

In application of its financial currency risk hedging policy, the Group's residual exposure (after hedging) is not material.

As part of these policies, the Group uses cross-currency swaps as described in Note 12.3 of the Notes to the consolidated financial statements.

NOTE 11. OTHER FINANCIAL INVESTMENTS, OTHER FINANCIAL INCOME (EXPENSE)

Note 11.1. Accounting principles

Investments in other non-consolidated companies

Investments in other non-consolidated companies are measured as available-for-sale investments within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*. They are recognized at fair value in the consolidated balance sheet, with changes in fair value recognized under consolidated equity in Accumulated other comprehensive income, except for unrealized losses that are considered to be significant or prolonged, which are recognized directly in profit or loss in Other financial income (expense).

Fair value

For listed companies, fair value is assessed according to the stock price as of the end of the period.

For unlisted companies, fair value is assessed based on recent transactions entered into with third parties, put or call options negotiated with third parties or external appraisals.

When such elements do not exist, the fair value of investments in unlisted companies is deemed to be equivalent to the acquisition cost of these investments.

Gains or losses on disposal of non-consolidated investments are recognized under the heading Other financial income (expense) in the consolidated income statement.

Other long-term financial assets

Other long-term financial assets mainly comprise bonds and money-market funds and security deposits required by the tax regulations of certain countries in which the Group operates.

Bonds and money-market funds are classified as available-for-sale financial assets within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*. They are recognized at fair value in the consolidated balance sheet, with changes in fair value recognized under consolidated equity in Accumulated other comprehensive income, except for unrealized losses that are considered to be significant or prolonged, which are recognized directly in profit or loss in Other financial income (expense). Their fair value is calculated on the basis of listed prices on active markets.

Long-term loans

Long-term loans are measured at amortized cost using the effective interest rate method within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement.*.

Note 11.2. Other financial investments

Main changes during the period

In 2017 as in 2016, the Group did not carry out any material transactions.

Carrying amount

	As of December 31	
(in € millions)	**2016**	**2017**
Investments in non-consolidated companies	81	83
Bonds and money-market funds [a]	122	98
danone.communities	13	13
Other [b]	52	50
Other long-term financial assets	187	162
Long-term loans	21	15
Other financial assets	**288**	**260**

(a) Bonds and money-market funds held as the counterpart to certain "damage and personal protection" risk provisions.
(b) Comprises mainly security deposits required by the tax regulations of some countries in which the Group operates.

Note 11.3. Other financial income and other financial expense

Accounting principles

Other financial income and other financial expense correspond to financial income and expense other than income and expense related to net financial debt. They include, in particular, the following:

- the ineffective portion of the hedges, in particular hedges of currency risk related to operations and hedges in respect of the acquisition or disposal of companies or other equity investments in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*;
- the impact of the accretion of the present value of commitments net of the expected return on plan assets of retirement commitments and other long-term benefits;
- bank commissions, including commissions for the non-use of committed credit facilities (recognized in Other financial expense);
- gains or losses on disposals of Investments in Other non-consolidated companies and Other long-term financial assets.

NOTE 12. ORGANIZATION OF FINANCIAL RISKS AND DERIVATIVES MANAGEMENT

Note 12.1. Organization of financial risks management

As part of its normal business, the Group is exposed to financial risks, especially foreign currency, financing and liquidity, interest rate, counterparty risks, securities-related risks and commodity risks.

The Group's policy consists of (i) minimizing and managing the impact that its exposure to financial market risks could have on its results and, to a lesser extent, on its balance sheet, (ii) monitoring and managing such exposure centrally, (iii) whenever the regulatory and monetary frameworks so allow, executing financial transactions locally or centrally, and (iv) using derivative instruments only for the purpose of economic hedging.

Through its Treasury and Financing Department, which is part of the Group Finance Department, the Group possesses the expertise and tools (trading room, front and back office software) to act on different financial markets following the standards generally implemented by first-tier companies. In addition, the Internal Control and Internal Audit Departments review the organization and procedures applied. Lastly, a monthly treasury and financing report is sent to the Group Finance Department, enabling it to monitor the decisions taken to implement the previously approved management strategies.

The Group is also exposed to price volatility and to a potential shortage of the commodities that it purchases, mainly to produce its finished products. To manage this exposure, the Group has implemented a commodity purchasing policy (Market Risk Management). This policy as well as the impact of a price change in the two main commodity categories on the Group's annual cost of purchases are presented in Note 5.7 of the Notes to the consolidated financial statements.

Note 12.2. Accounting principles

Derivatives are recognized in the consolidated balance sheet at their fair value:

- derivatives used to manage net debt and hedges of net investments in foreign operations are recognized in the financial debt or current and non-current asset lines;
- foreign exchange derivatives related to operations are recognized in the heading Derivatives – assets within Other receivables or in the heading Derivatives – liabilities within Other current liabilities.

When derivatives are designated as fair value hedges of assets or liabilities in the consolidated balance sheet, changes in the fair value of both the derivatives and the hedged items are recognized in profit or loss in the same period.

When derivatives are designated as hedges of net investments in foreign operations, changes in the fair value of the derivatives are recognized in equity under Cumulative translation adjustments.

When derivatives are designated as future cash flow hedges, changes in the value of the effective portion of the derivative are recognized in equity under Accumulated other comprehensive income. This effective portion is recycled to profit or loss, in the same heading, when the hedged item itself is recognized in profit or loss. However, changes in the value of the ineffective portions of derivatives are recognized directly in profit or loss, in the heading Other financial income (expense). Changes in the fair value of derivative financial instruments that do not meet the conditions for classification as hedging instruments are recognized directly in profit or loss for the period, in a heading within operating income or financial income depending on the nature of the hedge.

Note 12.3. Derivatives

Group's policy

Operational currency risk management

The Group's policy is to hedge its highly probable commercial transactions so that, as of December 31, its residual exposure in respect of the whole of the following fiscal year is significantly reduced. However, when the hedging conditions of certain currencies have deteriorated (less availability, high cost, etc.), the Group may be required to limit the hedging of its highly probable commercial transactions in its currencies, by not hedging or only partially hedging the exposure. The Group uses forward currency contracts and currency options to reduce its exposure.

The execution of the hedging policy for currency risk related to operations consists of providing the necessary hedges to subsidiaries through a centralized management system, or, in the case of subsidiaries where such hedges are legally prohibited, through a monitoring and control process.

The Group mainly applies cash flow hedge accounting.

Based on pending transactions as of December 31, 2017, the Group's residual exposure after hedging of exchange risks on its highly probable commercial operating transactions is significantly reduced for 2018, the main currencies partially hedged being the Russian ruble, the Brazilian real and the Turkish lira.

Management of currency risk related to financing activities and translation risk on net assets

The Group has established a policy for monitoring and hedging the net situation of certain subsidiaries, with regular assessments of risks and opportunities to use hedging instruments.

The Group's policy consists of maintaining the debtor and/or surplus cash positions of Danone and its subsidiaries in their respective functional currencies. Furthermore, in compliance with its policy of managing risks centrally, the Group may manage multi-currency borrowings and surplus cash.

As part of these policies, the Group therefore uses cross-currency swaps.

Net debt management

In connection with its net debt management, the Group has implemented a policy to monitor and manage interest rate risk in order to limit the volatility of its financial income (expense) through the use of hedging instruments.

These derivatives are mainly interest rate swaps and sometimes collars. All these instruments are plain vanilla. The interest rate derivatives are contracted to manage interest rate risk and are either eligible for hedge accounting or not in accordance with IAS 39.

Hedging acquisitions and disposals of companies or other equity investments

The Group's policy is, generally, not to hedge amounts payable or receivable in connection with acquisitions or disposals of companies or other equity investments. However, in certain circumstances, the Group may decide to hedge certain transactions. This was the case in particular for the WhiteWave acquisition project (see Note 2.3 of the Notes to the consolidated financial statements).

Portfolio of derivatives

Notional and fair value amounts

	As of December 31					
			2016			2017
(in € millions)	Notional	Fair value	Of which, recognized in equity	Notional	Fair value	Of which, recognized in equity
Used to hedge operational currency risk	**(1,554)**	**20**	**42**	**(1,815)**	**10**	**31**
Cash flow hedge – currency options	(253)	2	7	(229)	(3)	–
Cash flow hedge – forward currency contracts	(1,278)	19	36	(1,588)	13	30
No hedge accounting applied	(23)	(1)	–	2	–	–
Used to manage net debt	**6,896**	**148**	**86**	**4,262**	**(126)**	**(16)**
Fair value hedge	750	26	–	2,274	8	–
Cash flow hedge	2,142	121	71	2,052	(141)	(18)
Net investment hedge	111	15	15	89	3	3
No hedge accounting applied	3,893	(14)	–	(154)	4	–
Used to hedge WhiteWave's acquisition price	**7,612**	**377**	**356**	**–**	**–**	**–**
Cash flow hedge	7,612	377	356	–	–	–
No hedge accounting applied	–	–	–	–	–	–
Total	**12,954**	**546**	**485**	**2,447**	**(116)**	**15**

Additional information

Operational currency risk management

Net notional amount of derivative instruments hedging main currencies

	As of December 31					
			2016			2017
(in € millions)	Forward contracts, net [a]	Currency options, net [b]	Total	Forward contracts, net [a]	Currency options, net [b]	Total
(Sales)/Purchases of currencies						
GBP [c]	(511)	(158)	(669)	(485)	(189)	(674)
MXN [c]	(258)	–	(258)	(153)	–	(153)
USD [c]	260	(40)	220	62	(17)	44
AUD [c]	(115)	(31)	(146)	(324)	–	(324)
RUB [c]	(96)	–	(96)	(63)	–	(63)
BRL [c]	(81)	–	(81)	(93)	–	(93)
CNY [c]	(110)	–	(110)	(190)	–	(190)
Other [c]	(389)	(24)	(413)	(341)	(23)	(364)
Total	**(1,301)**	**(253)**	**(1,554)**	**(1,586)**	**(229)**	**(1,815)**

(a) Spot portion of notional amount, based on closing rates.
(b) Spot portion of notional amount, includes in- and out-of-the-money options.
(c) Transactions denominated with the EUR or other currencies as counterpart.

Sensitivity of equity and net income to changes in fair value

A change in the fair value of the derivative financial instruments hedging the operating currency risk, induced by a change in foreign exchange rates, could impact the Group's equity and net income. The impact recognized in profit or loss relates to:

- the time value and swap point variations, when they are excluded from the hedging relationship;
- transactions to which hedge accounting is not applied.

Sensitivity to a change in the euro against currencies exposed to exchange rate fluctuations

	As of December 31			
		2016		2017
(in € millions)	Equity	Gain (loss)	Equity	Gain (loss)
10% increase in EUR [a]				
GBP [b]	60	(2)	57	(2)
MXN [b]	1	–	1	–
USD [b]	14	2	24	–
AUD [b]	12	–	28	–
RUB [b]	7	–	3	–
BRL [b]	2	1	1	–
10% decrease in EUR [a]				
GBP [b]	(65)	(2)	(57)	(2)
MXN [b]	(2)	–	(1)	–
USD [b]	(20)	1	(27)	–
AUD [b]	(14)	–	(34)	–
RUB [b]	(8)	–	(4)	–
BRL [b]	(2)	(1)	(1)	–

(a) Increase/decrease in EUR applied to transactions that are outstanding and at constant interest rate volatility.
(b) Transactions denominated with the EUR or other currencies as counterpart. In the case of transactions denominated in currencies other than the EUR, the increase or decrease in the EUR is applied to the base currency and the secondary currency.

These instruments and the hedged items typically have maturities of less than one year. Consequently the cash flows related to these instruments will, for the most part, be recognized in the consolidated income statement in 2018.

Gains and losses related to fair value changes recognized in profit or loss

Gains and losses recognized in profit or loss involve the following items:

- the ineffective portion, during the year, of the changes in fair value of instruments designated as cash flow hedges: in 2017 as in 2016, the amounts are not material;
- the effective portion deferred in equity the previous year of instruments designated as cash flow hedges and recycled to income during the year: in 2017 as in 2016, the amount recycled corresponded to the portion of hedges recorded in equity as of December 31 of the previous year, with these hedges having for the most part a maturity of less than one year.

Management of currency risk related to financing activities and translation risk on net assets

Sensitivity of equity and net income to changes in fair value

A change in the fair value of these derivative financial instruments induced by a change in foreign exchange rates at the reporting date would not have a significant impact on the Group's equity or net income. Changes in the foreign exchange rates of the financial instruments are offset by changes in the foreign exchange rates on loans and borrowings in hedged currencies or on net foreign investments.

Net debt management

Sensitivity of equity and net income to changes in fair value

A change in the fair value of interest rate derivatives induced by a change in the yield curve recognized at the reporting date would have the following impact on the Group's equity and net income:

- impacts recognized in equity relate to the effective portion of the instruments eligible to be used as hedges of future cash flows;
- impacts recognized in profit or loss relate to the ineffective portion of the instruments eligible to be used as hedges of future cash flows, as well as to the impact of the change in fair value of the instruments not qualifying as hedges.

Sensitivity to a change applied to the entire yield curve

In 2017 as in 2016, a rate change applied to the yield curve would not have a material impact on consolidated equity or net income.

Gains and losses related to fair value changes and shown through profit or loss

Gains and losses shown through profit or loss are related to:

- the ineffective portion, during the year, of the change in fair value of instruments designated as cash flow hedges;
- the effective portion deferred in equity the previous year of instruments designated as cash flow hedges and recycled to income during the year.

In 2017 as in 2016, the corresponding amounts are not material.

Note 12.4. Counterparty risk

Counterparty risk inherent to financial risk management

Risk identification
The Group is exposed to counterparty risk, especially on banking counterparties, as part of its financial risk management activities.

As part of its normal activities, the Group has financial institutions as counterparties, mainly to manage its cash and foreign exchange rate and interest rate risks. The failure of these counterparties to comply with one or more of their commitments could adversely affect the Group's financial situation.

Risk management
The Group's overall exposure to counterparty risk has been significantly reduced through the centralization of financial risks and implementation of centralized applications as well as its cash management policy of minimizing and managing surpluses.

The Group's banking policy aims to apply deposit limits per counterparty and emphasizes the importance of its credit rating quality by concentrating its transactions among first-tier counterparties that (i) have credit ratings at least in the BBB+ category; (ii) possess international branch networks and (iii) provide it with financing. Moreover, in order to invest its short-term surpluses, the Group mainly invests in either money-market funds (French OPC *monétaires*) or short-term money-market funds (French OPC *monétaires court terme*), which are not rated. These funds are very liquid and diversified. The other short-term investments are made in accordance with the Group's above-mentioned banking policy.

Finally, in certain countries, the Group may be obliged to conduct transactions with local banks that have lower credit ratings.

Exposure related to short-term investments
See Note 10.4 of the Notes to the consolidated financial statements.

Exposure related to derivative instruments

	As of December 31	
(as a percentage of the total fair value as of December 31) [a]	**2016**	**2017**
Counterparty rating (Standard & Poor's)		
AAA, AA and A	85%	92%
BBB, BB and B	15%	8%
Unrated	–	–

(a) Total, when positive, of fair values of outstanding derivatives by counterparty as of December 31.

Fair value associated with derivatives counterparty risk
The valuation associated with derivatives counterparty risk is calculated on the basis of historical default probabilities derived from the calculations of a leading rating agency, to which a recovery rate is applied. As of December 31, 2017 and December 31, 2016, the impact associated with the adjustment required by IFRS 13 is not material.

Note 12.5. Equity securities risk

		As of December 31	
(in € millions)	Notes	**2016**	**2017**
Risk on Company shares			
Treasury shares and DANONE call options [a]	13.3	1,682	1,653
Risk on other shares			
Investments in associates	4	2,730	2,678
Investments in other non-consolidated companies	11.2	81	83

(a) DANONE call options acquired by the Company.

Note 12.6. Reconciliation of the consolidated balance sheet by class and accounting category

(in € millions)	Assets recorded at fair value	Assets available for sale	Loans and receivables	Liabilities recorded at fair value	Liabilities at amortized cost	Carrying amount	Fair value	Fair value level [b]
As of December 31, 2017								
Financial assets								
Investments in other non-consolidated companies	–	83	–	–	–	83	83	1-3
Long-term loans and other long-term financial assets	–	162	15	–	–	177	177	1-3
Derivatives- assets	35	–	–	–	–	35	35	2
Trade receivables [a]	–	–	2,794	–	–	2,794	2,794	-
Other current assets [a]	47	–	999	–	–	1,046	1,046	-
Short-term loans	–	–	14	–	–	14	14	-
Money market funds	3,085	–	–	–	–	3,085	3,085	1
Other short-term investments	377	–	–	–	–	377	377	2
Cash and cash equivalents	638	–	–	–	–	638	638	1
Carrying amount of financial assets by category	**4,182**	**245**	**3,822**	**–**	**–**	**8,249**	**8,249**	
Financial liabilities								
Financing	–	–	–	2,329	16,422	18,750	19,279	2
Derivatives- liabilities	–	–	–	150	–	150	150	2
Trade payables [a]	–	–	–	–	3,904	3,904	3,904	-
Other current liabilities [a]	–	–	–	35	2,681	2,716	2,716	-
Carrying amount of financial liabilities by category	**–**	**–**	**–**	**2,514**	**23,007**	**25,520**	**26,049**	
As of December 31, 2016								
Financial assets								
Investments in other non-consolidated companies	–	81	–	–	–	81	81	1-3
Long-term loans and other long-term financial assets	–	187	21	–	–	208	208	1-3
Derivatives- assets	567	–	–	–	–	567	567	2
Trade receivables [a]	–	–	2,524	–	–	2,524	2,524	-
Other current assets [a]	67	–	994	–	–	1,061	1,061	-
Short-term loans	–	–	18	–	–	18	18	-
Money market funds	12,682	–	–	–	–	12,682	12,682	1
Other short-term investments	380	–	–	–	–	380	380	2
Cash and cash equivalents	557	–	–	–	–	557	557	1
Carrying amount of financial assets by category	**14,254**	**268**	**3,557**	**–**	**–**	**18,079**	**18,079**	
Financial liabilities								
Financing	-	–	–	783	19,774	20,557	21,226	2
Derivatives- liabilities	–	–	–	27	–	27	27	2
Trade payables [a]	–	–	–	–	3,772	3,772	3,772	-
Other current liabilities [a]	–	–	–	44	2,697	2,741	2,741	-
Carrying amount of financial liabilities by category	**–**	**–**	**–**	**854**	**26,243**	**27,097**	**27,766**	

(a) The carrying amount corresponds to the fair value given the short-term nature of these items.
(b) Valuation hierarchy used to assess fair value.

Valuation hierarchy in accordance with IFRS 7, *Financial instruments – Disclosures*

Level 1

Fair value is based on (unadjusted) prices listed on active markets for identical assets and liabilities.

Level 2

Fair value is based on data other than listed prices as per level 1, which are observable for the asset or liability concerned, directly or indirectly.

Level 3

Fair value is based on data relating to the asset or liability which are not based on observable data on active markets.

For asset and liability derivative instruments recognized at fair value, the Group uses measurement techniques that include data observable on the market, notably for interest rate swaps, forward currency purchases and sales, or currency options. The model integrates diverse data such as spot and forward exchange rates and the yield curve.

NOTE 13. DANONE SHARES, DIVIDEND, EARNINGS PER SHARE

Note 13.1. Accounting principles

DANONE shares

DANONE shares held by the Company and its fully consolidated subsidiaries are recognized as a reduction in consolidated equity, under the heading Treasury shares and DANONE call options, and are measured at effective cost.

DANONE call options

DANONE call options are options held by the Company to purchase DANONE shares to hedge certain of its stock-option plans granted to certain employees and corporate officers. They do not constitute financial assets but are instead equity instruments in accordance with IAS 32, *Financial instruments: Presentation*. They are recognized upon acquisition as a deduction from consolidated equity, under the heading Treasury shares and DANONE call options. They are measured at effective cost, *i.e.* the premium paid plus transaction expense, and are not subsequently remeasured.

Note 13.2. Transactions and changes involving DANONE shares

2017 changes involving treasury shares in terms of transactions and use according to the Company's purpose

		Changes during the period					
(in number of shares)	**As of December 31, 2016**	**Buyback**	**Exercise of DANONE call options**	**Sales/ Transfers**	**Delivery following exercise of stock-options**	**Delivery of Group performance shares**	**As of December 31, 2017**
Acquisition transactions	**30,769,360**	–	–	–	–	–	**30,769,360**
Liquidity agreements	**–**	–	–	–	–	–	–
Hedging of performance shares and stock-options	**2,359,838**	–	76,279	–	(293,372)	(385,113)	**1,757,632**
Cancellation of shares	**–**	–	–	–	–	–	**–**
Shares held by the Company	**33,129,198**	**–**	**76,279**	**–**	**(293,372)**	**(385,113)**	**32,526,992**
Shares held by Danone Spain	**5,780,005**	–	–	–	–	–	**5,780,005**
Total shares held by the Group	**38,909,203**	**–**	**76,279**	**–**	**(293,372)**	**(385,113)**	**38,306,997**

2017 changes involving DANONE call options, in terms of transactions

		Changes during the period			
(in number of shares, except percentage)	**As of December 31, 2016**	**Acquisitions**	**Expired options**	**Exercises**	**As of December 31, 2017**
Number of call options	**76,279**	–	–	(76,279)	**–**
Percentage of the Company's share capital as of December 31	**0.01%**				**–**

Note 13.3 Outstanding DANONE shares

Year ended December 31

		2016			2017		
(in number of shares)	Notes	Share capital	Treasury shares	Outstanding	Share capital	Treasury shares	Outstanding
As of January 1		654,951,200	(39,726,175)	615,225,025	655,892,000	(38,909,203)	616,982,797
Dividend in shares	13.5	–	–	–	13,835,487	–	13,835,487
Other capital increases	7.5	940,800	–	940,800	982,913	–	982,913
Changes in treasury shares	13.2	–	816,972	816,972	–	602,206	602,206
As of December 31		**655,892,000**	**(38,909,203)**	**616,982,797**	**670,710,400**	**(38,306,997)**	**632,403,403**

Note 13.4. Earnings per share – Group share

Accounting principles

Earnings per share correspond to the ratio of Net income – Group share adjusted for hybrid financing divided by the Number of shares. Pursuant to IFRS, the income used to calculate Earnings per share is adjusted for the coupon related to the hybrid financing accrued for the period and presented net of tax. The Number of shares corresponds to the average number of outstanding shares during the year, after deducting the treasury shares held by the Company and its fully consolidated subsidiaries.

Earnings per share after dilution (or diluted earnings per share) correspond to the ratio of Net income – Group share adjusted for hybrid financing divided by the Diluted number of shares. The Diluted number of shares corresponds to the Number of shares increased by the net impact, when it is positive, of the following two elements:

- the increase in the weighted average number of shares that would result from the acquisition of Group performance shares, taking into account only those shares whose performance conditions are met as of the closing date.
- the reduction in the number of shares that could theoretically be acquired, in accordance with the treasury stock method specified by IAS 33, *Earnings per Share*.

Earnings per share

Year ended December 31

(in € per share, except for number of shares)	Notes	2016	2017
Net income – Group share		1,720	2,453
Coupon relating to hybrid financing, net of tax		–	2
Adjusted net income – Group share		1,720	2,451
Number of outstanding shares			
As of January 1		615,225,025	616,982,797
Effects of changes during the year	13.3	1,757,772	15,420,606
As of December 31		616,982,797	632,403,403
Average number of outstanding shares			
• Before dilution		616,442,041	625,986,636
Dilutive impact			
Dividend in shares		–	968,125
Group performance shares and stock-options		258,577	166,505
Other capital increases		–	–
• After dilution		616,700,618	627,121,266
Net income, Group share, per share			
• Before dilution		2.79	3.92
• After dilution		2.79	3.91

Note 13.5. Dividend

Distributable reserves of the parent company Danone

The legally distributable reserves of subsidiaries and associated companies may differ from their reported retained earnings as a consequence of (i) consolidation adjustments applied to their separate financial statements, and (ii) the laws applicable in the countries in which the Group operates.

In the case of the Group, under French law, dividends can only be paid out of the net income for the year and the distributable reserves of the parent company Danone.

Payment of the 2016 dividend with the option of payment in shares

The Shareholders' Meeting of April 27, 2017 held in Paris approved the proposed dividend relating to the 2016 fiscal year of €1.70 per share and decided that each shareholder could choose to receive the dividend payment in cash or in DANONE shares.

The period to make this choice was open from May 5, 2017 (inclusive) to May 19, 2017 (inclusive). At the end of this period, 74.01% of the rights were exercised in favor of the 2016 dividend payment in shares.

	Year ended December 31, 2017		
(in € millions, except number of shares)	**Number of outstanding shares**	**Consolidated shareholders' equity**	**Consolidated cash flows**
Portion paid in shares			
Portion paid in newly-issued shares [a]	13,835,487	–	–
Fractional shares	–	(14)	(14)
Portion paid in cash [b]	–	(265)	(265)
Total	**13,835,487**	**(279)**	**(279)**

(a) *I.e.* 2.11% of Danone's share capital based on the share capital as of April 30, 2017.
(b) Excluding share of the dividend paid to Danone Spain, *i.e.* €10 million.

It should be noted that the issue price of the new shares used for the dividend payment was €55.64. It corresponds to 90% of the average Euronext opening list prices during the 20 trading days preceding the date of the Shareholders' Meeting less the amount of the dividend, rounded up to the next euro cent.

These shares carry dividend rights as of January 1, 2017 and are identical in all respects to the previously issued shares.

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NOTE 14. OTHER NON-CURRENT PROVISIONS AND LIABILITIES AND LEGAL AND ARBITRATION PROCEEDINGS

Note 14.1. Accounting principles

Other non-current provisions and liabilities consist mainly of:

- provisions;
- investment subsidies.

Other non-current provisions and liabilities also include the short-term portion due in less than one year since it is deemed immaterial.

Provisions are recognized:

- when the Group has a present obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Group. The timing or amount of the net outflow may be uncertain, but the amount must be estimated in a reliable manner;
- on the basis of management's best estimate, as of the reporting date, of the outflow of resources deemed probable to cover these obligations.

A provision is reversed when it no longer appears probable that the corresponding payment or an outflow of resources will occur (provision not used).

Note 14.2. Carrying amount and changes during the period

		Movements during the period						
(in € millions)	**As of December 31, 2016**	**Changes in scope**	**Increase**	**Reversal of provisions used**	**Reversal of provisions not used**	**Translation adjustments**	**Other**	**As of December 31, 2017**
Tax and territorial risks	445	33	241	(11)	(83)	(20)	(32)	572
Employee-related and commercial disputes and other provisions	380	34	98	(43)	(43)	(15)	(46)	366
Restructuring provisions	60	–	41	(24)	(11)	(1)	–	64
Total [a]	**885**	**67**	**380**	**(78)**	**(137)**	**(35)**	**(78)**	**1,003**

(a) The current portion totaled €38 million as of December 31, 2017 (€62 million as of December 31, 2016).

Changes to Other provisions and non-current liabilities during 2017 were as follows:

- increases result primarily from lawsuits against the Company and its subsidiaries in the normal course of business;
- reversals of used provisions occur when corresponding payments are made. Reversals of unused provisions relate mainly to reassessments and situations where some risks ceased to exist. They relate to several provisions, none of which is material individually;
- other changes correspond primarily to reclassifications.

As of December 31, 2017, provisions for tax risks, and commercial, employee-related, and other disputes included several provisions for legal, financial, tax and territorial risks, mainly in certain countries in the ALMA region, as well as provisions for multi-year variable compensation granted to some employees, with these provisions established in the context of the normal course of business.

Also as of this date, Danone believes that it is not subject to known risks that could, individually, have a material impact on its financial situation or profitability.

Note 14.3. Legal and arbitration proceedings

In general, the Company and its subsidiaries are parties to legal proceedings arising in the normal course of business, in particular by competition authorities in certain countries. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

Proceedings relating to the false alarm given by Fonterra with respect to certain ingredients supplied to the Group in Asia in 2013

Danone has reviewed its recourse and compensation options and decided to initiate proceedings in the New Zealand High Court, as well as arbitration proceedings in Singapore to bring all facts to light and to obtain compensation for the harm it has suffered. Proceedings are still in progress.

On November 30, 2017, the Singapore arbitration court awarded Danone damages of €105 million (excluding costs and interest to be determined subsequently) to be paid immediately by Fonterra as compensation for the costs suffered as a result of the Fonterra food safety failures of 2013.

The full amount of this €105 million income was therefore recognized in 2017, in Other operating income (expense) in the income statement and in Cash flows provided by operating activities in the consolidated statement of cash flows.

Other proceedings

To the best of Danone's knowledge, no other governmental, court or arbitration proceedings are currently ongoing that are likely to have, or have had in the past 12 months, a material impact on Danone's financial position or profitability.

NOTE 15. RELATED PARTY TRANSACTIONS

Note 15.1. Accounting principles

The main related parties are the associated companies and the members of the Executive Committee and members of the Board of Directors.

Note 15.2. Transactions with associates

Transactions with these companies are generally carried out at arm's length. They mainly involve:

- management fees and royalties paid to the Group;
- services, mainly logistics;
- financing.

As in 2016, the amounts pertaining to 2017 are not material.

Note 15.3. Compensation and benefits granted to members of the Executive Committee and Board of Directors

Compensation paid

	Year ended December 31	
(in € millions)	**2016**	**2017**
Compensation paid to corporate officers and members of the Executive Committee [a]	17.0	14.9
Attendance fees paid to Directors [b]	0.8	0.7
Total	**17.8**	**15.6**
Severance pay	–	–
Carrying amount of shares subject to performance conditions granted during the year [c]	7.8	7.1

(a) Annual and multi-year fixed and variable compensation (gross amount excluding employer contributions), of which the variable portion totaled €7.3 million in 2017 (€7.9 million in 2016).

(b) Amount paid to eligible Directors, in respect of the retirement plan for their benefit for positions they held previously in the Group.

(c) The carrying amount represents the full estimated value as of the grant date in accordance with IFRS 2 on the assumption that the performance conditions have been satisfied.

Danone's commitment to the corporate officers and Executive Committee members with respect to the retirement plan

As of December 31, 2017, the portion of the total amount of Danone's obligation relating to Danone's corporate officers and Executive Committee members under this defined benefit retirement plan amounted to €23 million.

In addition, the corporate officers benefit also from the executives' supplementary retirement plan (defined contribution retirement plan set up for executives whose gross annual compensation is greater than or equal to three times the French social security ceiling). Contributions for this plan in respect of 2017 amounted to €15,103 and €16,476 for Mr. Franck RIBOUD and Mr. Emmanuel FABER respectively. The plan rules stipulate that the benefit derived from this plan will be deducted in full from the possible defined benefit retirement plan.

Loans and guarantees

In 2017, as in 2016, no loan or guarantee was granted or established by the Company or its subsidiaries on behalf of Executive Committee members.

Note 15.4. Related party agreements

See section 6.6 *Related party agreements and commitments*.

NOTE 16. SUBSEQUENT EVENTS

Note 16.1 New phase in Danone's strategic partnership with Yakult

See Note 4.5 of the Notes to the consolidated financial statements.

Note 6.2 Other subsequent events

To the Company's knowledge, no other material events occurred after the approval date of the 2017 consolidated financial statements (approved by the Board of Directors on February 15, 2018).

NOTE 17. FEES TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

(in € millions except percentage)	PricewaterhouseCoopers Audit				Ernst & Young Audit			
	2016 fees		2017 fees		2016 fees		2017 fees	
Statutory audits: certification of the individual and consolidated financial statements	4.7	89%	5.0	79%	4.6	72%	5.4	84%
Services other than the certification of the financial statements	0.6	11%	1.3	21%	1.8	28%	1.0	16%
Total [a]	**5.3**	**100%**	**6.3**	**100%**	**6.4**	**100%**	**6.4**	**100%**

(a) Fees invoiced in foreign currencies have been translated into euros on the basis of the annual average exchange rates used by Danone.

In 2017, the fees of the Statutory auditors of the parent company and its French subsidiaries in respect of the certification or limited review of the individual and consolidated financial statements totaled €2.5 million (€2.1 million in 2016), of which €1.1 million for PricewaterhouseCoopers Audit (€0.9 million in 2016) and €1.4 million for Ernst & Young Audit (€1.2 million in 2016).

The fees of the Statutory auditors of the parent company and its French subsidiaries for services other than the certification of the financial statements for the year ended December 31, 2017 totaled €1.2 million (€2 million in 2016), of which €0.4 million for PricewaterhouseCoopers Audit (€0.4 million in 2016) and €0.8 million for Ernst & Young Audit (€1.6 million in 2016) and included in particular fees for due diligence performed in connection with proposed corporate acquisitions or disposals, which totaled €0.2 million for PricewaterhouseCoopers Audit (€0.3 million in 2016) and €0.6 million for Ernst & Young Audit (€1.4 million in 2016).

The fees of the Statutory auditors' networks for services other than the certification of the financial statements to certain foreign subsidiaries of Danone totaled €1.1 million (€0.4 million in 2016), of which €0.9 million for PricewaterhouseCoopers Audit (€0.2 million in 2016) and €0.2 million for Ernst & Young Audit (€0.2 million in 2016) and included in particular fees for tax services related notably to the review of technical documentation or the technical analysis of tax positions adopted by certain foreign subsidiaries.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the Statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Danone for the year ended 31 December 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from 1 January 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Recognition of revenue.

RISK IDENTIFIED	OUR RESPONSE
As indicated in Note 5.1 to the consolidated financial statements, the Danone Group's sales are stated net of trade discounts and customer rebates (including costs relating to trade support and listing agreements or occasional promotional actions invoiced by retailers). Revenue measurement therefore involves making estimates related to such agreements or actions. We deemed the valuation of trade discounts and rebates to be a key audit matter given: • the Group's broad customer base across different countries and with varying contractual relationships (based on sales volumes, promotional agreements or trade practices), • the materiality of trade discounts and rebates, and • the complexity of estimating these amounts at the year end.	We assessed the consistency of the revenue recognition methods applied by the Danone Group with international financial reporting standards (IFRS). Given the large number of sales transactions carried out by the Group's various entities, we examined the internal control procedures relating to the estimation of trade discounts and rebates as part of the revenue recognition process and tested the key controls in the main operating entities. We also performed substantive tests to assess: • whether amounts to be refunded to customers were being measured correctly and recognized on the reporting date by (i) reconciling the estimates with the contractual data in the information systems used to manage trade terms and conditions or in the contracts with the relevant customers, and (ii) examining the assumptions used, where applicable, with regard to actions taken or specific situations and customary trade practices; • whether revenue was being recognized in the appropriate period by (i) testing the transactions booked after the reporting date to identify any non-accrued discounts and rebates and (ii) analysing the change in accruals and their breakdown by age.

Goodwill, brands and investments in associates

RISK IDENTIFIED	OUR RESPONSE
As at 31 December 2017, goodwill amounted to 18,132 million euros, brands with indefinite useful lives amounted to 6,309 million euros and investments in associates amounted to 2,678 million euros. These assets are subject to impairment tests, at least once a year in the case of goodwill and brands with indefinite useful lives, and whenever there is an indication of impairment in the case of investments in associates. The recoverable amounts of these assets or groups of assets are generally estimated on the basis of the discounted cash flows method or market values in the case of goodwill and investments in associates, and according to the royalties method for brands, as explained in Notes 4 and 9 to the consolidated financial statements. The impairment tests are based on estimates and on management's judgment concerning (i) the allocation of these assets to cash generating units (CGUs) in the case of goodwill (ii) the estimation of the future performance of the assets or CGUs and (iii) the determination of the discount and long-term growth rates. We therefore deemed the measurement of goodwill, brands and investments in associates, in particular the investment in Yashili due to the narrow difference between the estimated recoverable amount and net carrying amount, to be a key audit matter.	*Goodwill and brands* We examined the processes set up to allocate the goodwill to CGUs or groups of CGUs, in order to identify any indications of loss in value and to perform the cash flow projections underlying the impairment tests. For a sample of CGUs and brands, identified on the basis of quantitative and qualitative factors, we examined the main methods and assumptions used to determine recoverable value, including: • the forecast cash flows: the assumptions relating to the growth of the business and market shares were corroborated by the market analyses available. We also compared the main assumptions with past performance and assessed the trends between past forecasts and actual figures; • the long-term growth rates, the discount rates and the royalty rates, with the support of our financial valuation experts. We also analysed the sensitivity of the test results to the main assumptions used by management and examined the disclosures provided in the notes to the consolidated financial statements. *Investments in associates* We assessed the approach adopted and the data used by the Company (market valuation, recent performance and forecast results) to identify any indications of loss in value. For Yashili, we examined the main assumptions used to determine the recoverable amount, as well as the disclosures provided in the notes to the consolidated financial statements, implementing the procedures described above for goodwill and brands.

Tax assets and liabilities – provisions for tax risks

RISK IDENTIFIED	OUR RESPONSE
Danone operates in many different tax jurisdictions throughout the world. Consequently, the Company and its subsidiaries may be subject to audits or questioning by local tax authorities. The situations where outflows of resources are considered probable give rise to provisions measured on the basis of facts known in the jurisdiction concerned and the probability of tax reassessments as assessed by management. As stated in Note 14 to the consolidated financial statements, the provisions for territorial tax risks amount to 572 million euros as at 31 December 2017, including 241 million euros provisioned during the financial year. As at 31 December 2017, the amount of 294 million euros is recognized in the consolidated balance sheet in respect of the deferred tax assets relating to tax loss carryforwards as set out in Note 8 to the consolidated financial statements. The recoverability of these deferred tax assets resulting from tax loss carryforwards is based primarily on the ability of the entities concerned to meet their targets defined in the business plans drawn up by management. In addition, as stated in Note 8.1 to the consolidated financial statements, the recent changes to French tax regulations concerning Corporate Income Tax and the US tax reform have had an impact on the calculation of current and deferred taxes. The recognition of tax assets and liabilities and provisions for tax risks constitutes a key audit matter, given the following: (i) the judgment required to assess the recoverability of deferred taxes and the probable outflows of resources related to tax disputes, and (ii) the materiality of the impacts of changes made to tax legislation during the financial year.	We examined the procedures implemented within the Group to identify the main tax risks, as well as management's assessments of these risks. We also relied on the opinions of third parties, past and current experience with the tax authorities in the jurisdictions concerned, and the expertise of our tax specialists in order to assess the assumptions used by management to determine the provisions for tax risks. We examined the deferred tax calculations for the most significant entities. In this respect, our work consisted primarily in the following: (i) comparing the consistency of the assumptions concerning the use of the tax loss carryforwards against future taxable profits with those derived from management's business projections, used in particular within the scope of the impairment tests on goodwill, and (ii) examining the accounting implications of the changes to tax legislation.

Accounting treatment of the WhiteWave Foods Company acquisition

RISK IDENTIFIED	OUR RESPONSE
Danone acquired The WhiteWave Foods Company ("WhiteWave") on April 12, 2017 for 12.1 billion US dollars after hedging. The Group consolidated the entities acquired on the date on which it obtained control, which gave rise to the recognition of intangible and tangible assets of 4.5 million euros and provisional goodwill of 8 million euros, as described in Note 2 to the consolidated financial statements. We deemed the accounting treatment and presentation of this transaction to be a key audit matter given the significant amount of assets acquired and liabilities assumed, and the judgment required in identifying and measuring those assets and liabilities in accordance with the provisions of IFRS 3 and, in particular, estimating the fair value of tangible and intangible assets and the measurement of contingent liabilities.	We examined the calculation of the acquisition price after the impact of exchange rate hedges. We also performed specific audit procedures on WhiteWave's opening balance sheet at 12 April 2017 covering the main entities in the United States and Belgium, with a view to assessing (i) the allocation of income statement items to the pre- and post-acquisition periods, and (ii) the impacts of converting from US GAAP to IFRS as adopted in the European Union. As regards the measurement of the fair value of intangible and tangible assets acquired, with guidance from our financial valuation experts, we assessed the methods used and management's main assumptions, including business plans, discount rates, long-term growth rates and royalty rates used. We assessed the measurement of the liabilities assumed, including liabilities arising from tax risks, with guidance from our tax experts. Lastly, we examined the disclosures provided in the notes to the consolidated financial statements.

Verification of the information pertaining to the Group presented in the management report

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Danone by the Shareholders' Meetings held on 28 April 2016 for Ernst & Young et Autres and on 21 May 1992 for PricewaterhouseCoopers Audit.

As at 31 December 2017, Ernst & Young et Autres and PricewaterhouseCoopers Audit were in the second year and the twenty-sixth year of total uninterrupted engagement, respectively. Ernst & Young Audit previously acted as Statutory Auditor of Danone from 2010 to 2015.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements presenting a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- Evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris La Défense, March 5, 2018

The Statutory auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

4.2 FINANCIAL STATEMENTS OF DANONE SA, THE PARENT COMPANY

FINANCIAL STATEMENTS OF DANONE SA

Income statement

		Year ended December 31	
(in € millions)	Notes	**2016**	**2017**
Net sales		648	609
Other income		31	59
Total operating income	3	**679**	**668**
Personnel costs	4	(244)	(317)
Other operating expense	5	(632)	(524)
Total operating expense		**(876)**	**(841)**
Net operating expense		**(197)**	**(173)**
Income from equity interests		1,596	223
Interest on loans and receivables and similar income		61	229
Interest on borrowings and similar expense		(171)	(279)
Other financial income (expense)		(1)	88
Net financial income	6	**1,485**	**261**
Net income before non-recurring items and tax		**1,288**	**88**
Net non-recurring income (expense)	7	**1**	**(12)**
Income tax	8	59	100
Net income		**1,347**	**176**

Balance sheet

Assets

As of December 31

(in € millions)	Notes	2016 Net amount	2017 Gross amount	2017 Depreciation, amortization and provisions	2017 Net amount
Intangible assets		34	116	(68)	48
Property, plant and equipment		16	34	(17)	17
Equity interests		21,855	28,203	(82)	28,121
Other long-term financial assets		6,686	5,973	–	5,973
Financial assets	9	28,541	34,176	(82)	34,094
Non-current assets		**28,591**	**34,326**	**(167)**	**34,159**
Short-term loans and receivables	10	293	372	(1)	371
Marketable securities	11	11,535	81	–	81
Cash and cash equivalents		63	–	–	–
Current assets		**11,891**	**453**	**(1)**	**452**
Deferrals and prepaid expense		476	813	–	813
Total assets		**40,957**	**35,592**	**(168)**	**35,424**

Equity and liabilities

As of December 31

(in € millions)	Notes	2016	2017
Share capital		164	168
Share premium		3,975	4,787
Revaluation adjustment		4	4
Other reserves		3,781	3,781
Retained earnings		3,974	4,263
Net income for the year		1,347	176
Regulated provisions		2	2
Equity	**12**	**13,247**	**13,181**
Other equity	14		1,250
Other provisions for risks and charges	13	59	66
Bonds	14	18,961	17,395
Other financial debt	14	6,065	719
Other liabilities	15	2,424	2,061
Deferrals and accrued expenses		201	752
Total equity and liabilities		**40,957**	**35,424**

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY DANONE

The financial statements of the parent company Danone ("the Company") for the year ended December 31, 2017 were approved by Danone's Board of Directors on February 15, 2018 and will be submitted for approval to the Shareholders' Meeting on April 26, 2018. Danone and its consolidated subsidiaries constitute "the Group".

Unless indicated otherwise, amounts are expressed in millions of euros and rounded to the nearest million. Generally speaking, the values presented in the financial statements of the parent company Danone and in the Notes to the financial statements of the parent company Danone are rounded to the nearest unit. Consequently, the sum of the rounded amounts may differ, albeit to an insignificant extent, from the reported total. In addition, ratios and variances are calculated on the basis of the underlying amounts and not on the basis of the rounded amounts.

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NOTE 1. ACCOUNTING PRINCIPLES

The Company's financial statements are prepared in accordance with French statutory and regulatory provisions and generally accepted accounting principles.

The main accounting methods used are detailed hereafter.

Property, plant and equipment and ntangible assets

Property, plant and equipment and intangible assets are valued at acquisition cost (including acquisition-related costs) and are amortized or depreciated on a straight-line basis according to the duration of their estimated use, as follows:

Buildings	15 to 20 years
Fixtures and fittings	8 to 10 years
Other property, plant and equipment	4 to 10 years
Software	1 to 7 years

Long-term financial assets

Financial assets comprise Equity interests and Other long-term financial assets.

Equity interests are shares in companies, the long-term holding of which is deemed to be useful for the Company's activity, notably because it enables the Company to exercise an influence on or control over the issuing company. Investments that do not meet this definition are classified as Other long-term financial assets.

Equity interests are recognized at acquisition cost, including acquisition-related costs, which are amortized over five years as of the date of acquisition. For tax purposes, these assets are subject to accelerated tax amortization rates. An impairment provision is recognized when the recoverable amount of Equity interests is below their carrying amount.

Recoverable amount is determined using various criteria including;

- market value;
- value in use based on forecast discounted cash flows;
- revalued equity.

Assumptions, estimates or appraisals used to determine the net realizable value are made on the basis of available information and conditions at the end of the financial period presented, which may differ from the reality, particularly in an economically and financially volatile context. Impairment provisions are recognized as Other financial income (expense), with the exception of reversals of impairment in connection with disposals of equity interests, which are recognized as Non-recurring income (expense). Gains or losses on disposals of equity interests are recognized as Non-recurring income (expense).

Other long-term financial assets consist mainly of a portion of the DANONE treasury shares held in connection with the authorizations given by the Shareholders' Meeting (see hereafter) and long-term loans and receivables granted by the Company.

DANONE treasury shares

DANONE shares repurchased by the Company are recognized under the heading:

- Other long-term financial assets, when they are repurchased in connection with corporate acquisitions or to be cancelled;
- Marketable securities, when they are repurchased to hedge Group performance share plans under which shares are allocated to certain Danone employees and corporate officers.

They are recognized at acquisition cost, excluding acquisition-related costs. On disposal, the cost of the DANONE shares sold is calculated by allocation category in accordance with the weighted average cost method, this cost being calculated individually for each plan for the shares held to hedge Group performance share plans.

DANONE shares recognized as Other long-term financial assets

In the case of DANONE shares recognized as Long-term financial assets that are not to be cancelled, an impairment provision is recognized when their recoverable amount (assessed at the average price for the last month of the fiscal year) falls below their carrying amount.

DANONE shares recognized as Marketable securities

Hedging of out-of-the-money Group performance share plans

In the case of treasury shares allocated to hedge plans that cannot be exercised (it is probable that the performance conditions will not be met), a provision for impairment is recognized when the market value of the shares (assessed at the average price for the last month of the fiscal year) is less than their carrying amount.

Hedging of in-the-money Group performance share plans

In the case of treasury shares allocated to hedge plans that can be exercised (it is probable that the performance conditions will be met), a provision for impairment is not recognized. However, a provision for risks and charges is, where necessary, recognized in respect of these plans and corresponds to the carrying amount of the shares allocated to said plans.

The provision is booked prorata to the rights vesting period. It is recognized in Personnel costs in the income statement.

Loans and receivables

Loans and receivables are stated at their nominal value. An impairment provision is recognized when the recoverable amount is less than the carrying amount.

Recognition of transactions in foreign currencies

Expense and income in foreign currencies are recorded at their exchange value in euros at the date of the transaction.

Liabilities, receivables and cash denominated in foreign currencies are recorded in the balance sheet at their exchange value in euros at the year-end rate. The differences resulting from translation at this latter rate are recorded in the balance sheet in the line items Deferrals and prepaid expense and Deferrals and accrued expense in the case of liabilities and receivables. A provision for risks is recognized for non-hedged unrealized exchange losses.

Marketable securities

Marketable securities comprise a portion of the treasury shares and other investments made by the Company.

The gross value of Marketable securities corresponds to the acquisition cost excluding acquisition-related costs. When the market value of each category of securities of the same nature is lower than the acquisition cost, a provision for impairment is recognized equal to the difference. For further information about treasury shares reclassified as Marketable securities, see the above section *DANONE shares recognized as Marketable securities*.

Bonds

Bonds consist in borrowings raised by Danone, on debt and capital markets, notably under its EMTN (Euro Medium Term Note) program, through public issues and private placements, denominated in euros or foreign currencies. Bonds denominated in foreign currencies may be maintained in those currencies or swapped into euros ; bonds are recognized at their nominal value, translated at the closing exchange rate.

Derivatives

Danone hedges part of its bonds denominated in foreign currencies by cross-currency swaps. Since January 1, 2017, the Company has applied Regulation 2015-05, issued by the French Accounting Standards Authority (*Autorité des Normes Comptables* – ANC) on financial instruments to all material hedging transactions. Implementation of this change of accounting method did not have a material impact on the presentation of the financial statements or their comparability with those for the 2016 fiscal year.

In addition, Danone Corporate Finance Services, a wholly-owned subsidiary, also carries out interest rate hedging transactions on behalf of the Company in respect of certain borrowings and commercial paper (*Billets de trésorerie*) issued by the Company.

Provisions for risks and charges

Provisions are recognized for identified risks and charges of uncertain timing or amount, when the Company has an obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Company.

For further information about provisions against Group performance share plans, see the above section *DANONE shares recognized as Marketable securities*.

Retirement commitments

Supplementary retirement commitments and severance pay borne by the Company are presented within Off-balance sheet commitments (see Note 17 and Note 18 of the Notes to the financial statements of the parent company Danone).

NOTE 2. HIGHLIGHTS OF THE YEAR

- As part of its permanent focus on optimizing its capital structure, Danone successfully launched a hybrid perpetual bond issue worth €1.25 billion, taking advantage of the exceptionally attractive market conditions. The issue consisted of a euro-denominated perpetual bond offering a first 1.75 % coupon, with a first call date on June 23, 2023. This hybrid issue is fully recognized under Other equity.
- Danone, via its direct and indirect subsidiaries, acquired the company WhiteWave on April 12, 2017. The hedging instruments booked for this transaction as of December 31, 2016 were released for the payment of the acquisition, resulting in a currency gain of €74 million recognized as financial income;
- Danone recapitalized certain subsidiaries for a total amount of €6,267 million in order to refinance the acquisition of shares;
- The Shareholders' Meeting held in Paris on April 27, 2017 approved the proposed dividend for 2016 of €1.70 per share, and decided that each shareholder could choose to receive the dividend payment in cash or in DANONE shares. 74.1 % of the rights were exercised in favor of dividend payment in shares. The total cash dividend paid to shareholders who did not choose the payment in shares option was €275 million.

NOTE 3. OPERATING INCOME

Operating income comprises mainly the billing of direct and indirect subsidiaries for services rendered by the Company to those subsidiaries. It totaled €609 million in 2017 (€648 million in 2016).

Other operating income totaled €58 million (€31 million in 2016) and comprised mainly the reimbursement of insurance income and the reversal of a provision for risks and charges relating to hedging of the stock-option and Group performance share plans granted by the Company.

NOTE 4. PERSONNEL COSTS AND COMPENSATION OF THE MEMBERS OF THE MANAGEMENT BODIES AND THE BOARD OF DIRECTORS

Personnel costs

Personnel costs comprise the gross compensation of the Company's employees and senior executives and the related social charges as well as the charges relating to the stock-option plans and Group performance share plans under which shares are allocated to certain Danone employees and corporate officers subject to performance conditions.

Company's share of the compensation paid to the members of the Board of Directors and the Executive Committee

	Year ended December 31	
(€ millions)	**2016**	**2017**
Compensation paid to corporate officers and members of the Executive Committee [a]	10	11
Attendance fees paid to non-executive members of the Board of Directors [b]	1	1
Total	**11**	**12**

(a) Recognized in Personnel costs.
(b) Recognized in Other operating expense.

See Note 17 of the Notes to the financial statements of the parent company Danone.

NOTE 5. OTHER OPERATING EXPENSE

Other operating expense comprised mainly fees paid to external service providers and charges for rent and services provided and totaled €524 million in 2017 (€632 million in 2016). The decrease as compared with 2016 was due mainly to the one-off costs associated with the WhiteWave acquisition project.

NOTE 6. NET FINANCIAL INCOME (EXPENSE)

Net financial income totaled €261 million in 2017 (€1,485 million in 2016).

Income from equity interests

Income from equity interests consisted mainly of dividends received from the Company's equity interests. In 2017, these dividends amounted to €223 million (€1,596 million in 2016). In 2016, the Company had received an advance payment of dividend of €650 million.

Interest on loans and receivables and similar income

Interest on loans and receivables and similar income comprised interest received on the loans and receivables granted to the company DanoneWave of €194 million, the companies Zywiec Zdroj and Danone Poland totaling €9 million, the company PLF Est Europe of €2 million and interest received from cross currency swaps of €24 million.

Interest on borrowings and similar expense

As of December 31

(€ millions)	**2016**	**2017**
Bonds [a]	155	263
Medium-term loan from and current account with Danone Finance International [a]	14	7
Short-term borrowings from indirect subsidiaries [a]	4	13
Commercial paper [a]	2	(4)
Total	**175**	**279**

(a) Interest paid and accrued in respect of the year.

Other financial income (expense)

As regards Other financial income (expense), the Company generated net income of €88 million in 2017, comprising mainly the allocation of a provision on equity interests. The rise as compared with 2016 was due mainly to a currency gain of €74 million generated by the unwinding of hedging instruments for the acquisition of WhiteWave.

NOTE 7. NET NON-RECURRING INCOME (EXPENSE)

In 2017, Danone generated net non-recurring expense of €12 million, which consisted mainly of costs related to the organization of Danone and its direct and indirect subsidiaries.

In 2016, Danone had generated net income of €1 million, consisting mainly of provision reversals.

NOTE 8. INCOME TAX

Tax group

The Company forms a tax group with the French subsidiaries in which it holds, directly or indirectly, a stake of more than 95 %.

Companies that were members of the tax group in 2017

	As of December 31, 2017
ALPRO FRANCE	DANONE RESEARCH
BLEDINA	FERMINVEST
COMPAGNIE GERVAIS DANONE	HELDINVEST 11
DAN INVESTMENTS	HELDINVEST 9
DANOBUREAU	HOLDING INTERNATIONALE DE BOISSONS
DANONE [a]	LES PRES RIENT BIO
DANONE BABY AND MEDICAL HOLDING	NUTRICIA NUTRITION CLINIQUE SAS
DANONE CORPORATE FINANCE SERVICES	PRODUITS LAITIERS FRAIS ESPAGNE
DANONE DAIRY ASIA	PRODUITS LAITIERS FRAIS EST EUROPE
DANONE FINANCE INTERNATIONAL	PRODUITS LAITIERS FRAIS SUD EUROPE
DANONE MANIFESTO VENTURE EUROPE	SOCIETE ANONYME DES EAUX MINERALES D'EVIAN
DANONE NUTRICIA AFRICA & OVERSEAS	SOCIETE DES EAUX DE VOLVIC
DANONE PRODUITS FRAIS France	

(a) The Company.

The subsidiaries that are members of the tax group recognize and pay their tax to the Company as if they were taxed separately, in compliance with the rules set by the French tax authorities.

The savings (or additional charges) – based on the difference between the sum of the tax charges recorded by the different subsidiaries of the tax group and the tax charge resulting from the computation of the consolidated tax results of the tax group – are recognized in the income statement under Income tax. The amount booked in this line for 2017 relates mainly to these savings and the repayment of the 3 % dividends tax.

At year end 2017, the tax group recorded taxable income. As of December 31, 2017, tax loss carry-forwards accumulated within the tax group in France amounted to €995 million, compared with €1,277 million as of December 31, 2016.

Other nformation

In accordance with Article 39.4 of the French Tax Code, in 2017 the Company recognized €0.5 million as taxable income in respect of tourism vehicle depreciation and rental.

The application of Article 39.5 of the French Tax Code did not result in any add-backs to taxable income in 2016.

As of December 31, 2017, items likely to result in a reduction of future tax liabilities consisted mainly of accrued charges. They totaled €750 million and would reduce future tax charges by €258 million.

NOTE 9. FINANCIAL ASSETS

Carrying amount and changes during the period

		Changes during the period			
(€ millions)	As of December 31, 2016	Increase [a]	Decrease	Reclassification, translation	As of December 31, 2017
Gross amount					
Equity interests	21,936	6,267			28,203
Long-term loans and receivables	5,095		(209)	(498)	4,387
DANONE treasury shares [b]	1,578				1,578
Other	14		(7)		7
Other financial assets	6,686	–	(216)	(498)	5,973
Total	**28,622**	**6,267**	**(216)**	**(498)**	**34,176**
Provisions [c]	(81)	(3)	2		(82)
Net total	**28,541**	**6,263**	**(214)**	**(498)**	**34,094**

(a) See Note 2 of the Notes to the financial statements of the parent company Danone.
(b) Portion of DANONE treasury shares recognized as Long-term financial assets (See Note 1 of the Notes to the financial statements of the parent company Danone).
(c) Consists mainly of provisions for impairment of Equity interests.

Equity nterests

Equity interests held in portfolio as of December 31, 2017

(in € millions, except percentages)	Share Capital [a]	Other equity [a][c]	Share of equity held	Number of shares held	Carrying amount of shares held – Gross	Carrying amount of shares held – Net	Maximum authorized amount of guarantees, security interests and endorsements given by the Company	Previous year's sales [b]	Previous year's net income (loss) [b]	Dividends received by the Company during the year
Subsidiaries (at least 50% of the share capital held by the Company)										
French investments										
DANONE CORPORATE FINANCE SERVICES	142	125	100%	8,875,000	179	179	–	–	13	–
COMPAGNIE GERVAIS DANONE	9,685	900	100%	384,330,458	9,315	9,315	–	–	63	–
DANONE BABY AND MEDICAL HOLDING	13,619	217	100%	13,618,704,074	13,615	13,615	–	–	54	–
DAN INVESTMENTS	82	(2)	100%	4,100,000	82	76	–	–	(3)	–
HOLDING INTERNATIONALE DE BOISSONS	324	902	100%	161,768,722	1,116	1,116	–	–	(27)	–
Foreign investments										
DANONE SINGAPORE HOLDINGS PTE LTD	158	(4)	61%	173,987,816	118	118	–	–	25	15
FPS DANONE COMMUNITIES		11	64%	14,392	7	7	–	–	–	–
DANONE ASIA PTE LTD	1,385	310	88%	2,288,111,264	1,263	1,263	–	–	186	170
DANONE FINANCE NETHERLANDS	8	1	100%	800,000	94	26	–	–	–	–
Investments in associates (at least 10% to 50% of the share capital held by the Company)										
NV DANONE SA	983	883	23%	21,988	400	400	–	326	37	–
DANONE FINANCE INTERNATIONAL	965	4,971	33%	4,034,154	2,012	2,004	2,000	–	58	38
Total					**28,200**	**28,117**				

(a) Amounts related to foreign companies are translated at the year-end exchange rate.
(b) Amounts related to foreign companies are translated using the average exchange rate for the year.
(c) Excluding net income (loss) for the year.

Foreign currency loans

Foreign currency loans are translated at the closing rate, resulting in the recognition of translation differences at the year end, which are presented in the balance sheet under Deferrals and prepaid expense and Deferrals and accrued expense.

	As of December 31, 2017			
(in € millions, except Nominal value in foreign currency, in currency millions)	**Nominal value in foreign currency**	**Historical value**	**Translation difference**	**Carrying amount**
Yen	32,000	283	237	237

NOTE 10. SHORT-TERM LOANS AND RECEIVABLES

As of December 31, 2017, this balance sheet item comprised mainly €345 million of receivables due to the Company within less than one year, including tax receivables totaling €116 million (€98 million as of December 31, 2016) and receivables from customers totaling €125 million (€82 million as of December 31, 2016).

NOTE 11. MARKETABLE SECURITIES

Carrying amount and changes during the period

(€ millions)	As of December 31, 2016	Changes during the period: Increase	Decrease (exercised) [c]	Reallocation	Reclassification	As of December 31, 2017
DANONE shares						
DANONE shares hedging stock-option plans [a]	34		(7)		(27)	–
DANONE shares hedging Group performance shares [a]	57		(16)		27	68
Total	**91**	**–**	**(23)**	**–**	**–**	**68**
DANONE call options	3		(3)			–
Short-term investment	11,429	475	(11,904)			–
danone.communities [b]	13					13
Total	**11,536**	**475**	**(11,930)**	**–**	**–**	**81**

(a) Portion of DANONE treasury shares recognized as Marketable securities (see Note 1 of the Notes to the financial statements of the parent company Danone).
(b) danone.communities is a mutual fund (French SICAV) aimed at financing social projects through an investment vehicle that generates a return comparable to the money market rate.
(c) Decrease related to the WhiteWave acquisition (see Note 2 of the Notes to the financial statements of the parent company Danone).

NOTE 12. EQUITY

Carrying amount and change during the period

(€ millions)	As of December 31, 2016: Before allocation	As of December 31, 2016: After allocation [b]	Net income	Changes during the period: Capital decrease	Changes during the period: Capital increase [c]	As of December 31, 2017: Before allocation
Share Capital	164	164	–	–	4	168
In number of shares [a]	*655,892,000*	*655,892,000*	–	–	*14,818,400*	*670,710,400*
Share premium	3,975	3,975	–	–	812	4,787
Legal reserve	16	16	–	–	–	16
Other reserves	3,769	3,769	–	–	–	3,769
Retained earnings	3,974	4,263	–	–	–	4,263
Net income for the year	1,347	–	176	–	–	176
Regulated provisions	2	2	1	–	–	3
Total	**13,247**	**12,189**	**177**	**–**	**816**	**13,182**

(a) Ordinary shares with a par value of €0.25.
(b) Following shareholder approval at the Shareholders' Meeting of April 27, 2017, €1,115 million of the amount available for allocation of net income from the year ended December 31, 2016 was allocated to the dividend, and the remainder to retained earnings.
(c) Issue carried out on June 1, 2017 for the payment of the dividend in shares for €3.5 million, and on June 8, 2017 under the terms of the Company savings plan (*Plan d'Épargne Entreprise*) for €0.3 million.

NOTE 13. PROVISIONS FOR RISKS AND CHARGES

Carrying amount and changes during the period

(€ millions)	As of December 31, 2016	Changes during the period			As of December 31, 2017
		Allocation	Reversal	Reversal, unused	
Provisions in respect of stock-option and Group performance share plans [a]	47	23	(26)	–	44
Other provisions	12	13	(3)	–	22
Total	**59**	**36**	**(29)**	**–**	**66**

(a) Provisions in respect of stock-option plans hedged by DANONE call options and Group performance share plans.

NOTE 14. BONDS, OTHER EQUITY AND OTHER FINANCIAL DEBT

Bonds and Other equity

Carrying amount of bonds

(€ millions)	As of December 31	
	2016	2017
Nominal value	18,896	17,331
Accrued interest	65	64
Total	**18,961**	**17,395**

Bonds issued by the Company are disclosed on the Group's website.

Most of the financing agreements entered into by the Company (bank credit facilities and bonds) include a change of control provision, which offers creditors a right of early repayment in the event a change in control of the Company causes its rating by the financial rating agencies to fall below investment grade.

2017 transactions

(in millions of currency)	Year ended December 31 2017		
	Currency	Nominal	Maturity
New financing			
Hybrid financing (Other equity)	EUR	1,250	Indefinite
Repayments			
Yen bonds	JPY	98	2017
Euro bonds	EUR	845	2017

Bonds: fixed rate/floating rate breakdown (after hedging where applicable) and changes during the period

(€ millions)	As of December 31, 2016	Changes during the period: New borrowings	Repayment	Change in accrued interest	Revaluation	As of December 31, 2017
Fixed rate portion						
Bonds	16,846	–	(943)	–	(622)	15,281
Accrued interest	65	–	–	(1)	–	64
Floating rate portion						
Bonds	2,050	–	–	–	–	2,050
Accrued interest	–	–	–	–	–	–
Total	**18,961**	**–**	**(943)**	**(1)**	**(622)**	**17,395**

Breakdown by currency with interest accrued as of the reporting date

As of December 31, 2017

(in € millions except Nominal value in foreign currency, in currency millions)	Nominal value in foreign currency	Historical value	Translation difference	Carrying amount
Bonds denominated or swapped into euros				
Euro	11,845	11,845	11,845	11,845
U.S. dollar	6,350	5,719	5,313	5,313
Bonds denominated in other currencies				
Yen	32,000	283	237	237
Total		**17,847**	**17,395**	**17,395**

Portfolio of cross-currency swaps and short-term currency swaps hedging certain foreign-currency denominated bonds

As of December 31, 2017

(in € millions, except Nominal value in foreign currency, in currency millions)	Nominal value in foreign currency	Historical value in euros
Euro - U.S. Dollar	2,346	2,052
Total		**2,052**

In addition, as specified in Note 1 of the Notes to the financial statements of the parent company Danone, Danone Corporate Finance Services, a wholly-owned subsidiary, also carries out interest rate hedging transactions in respect of certain bonds issued by the Company.

Other financial debt

Fixed rate/floating rate breakdown and changes during the period

		Changes during the period				
(in € millions)	As of December 31, 2016	New borrowings	Repayment	Change in accrued interest	Revaluation	As of December 31, 2017
Fixed rate portion						
Loan from Danone Finance International	–	–	–	–	–	–
Floating rate portion						
Commercial paper [a]	782	–	(63)	–	–	719
Short-term loan from subsidiaries	5,283	–	(5,283)	–	–	–
Other	–	–	–	–	–	–
Total	**6,065**	**–**	**(5,346)**	**–**	**–**	**719**

(a) Changes in commercial paper are net changes

Maturity of Bonds and Other financial debt

	As of December 31	
(in € millions)	2016	2017
Due date less than 1 year	7 064	2 939
Due date between 1 and 5 years	8 108	9 132
Due date more than 5 years	9 854	6 017
Total	**25 026**	**18 088**

NOTE 15. OTHER LIABILITIES

Composition of Other liabilities

	As of December 31	
(in € millions)	2016	2017
Amounts owed by the Company to certain subsidiaries and affiliates	1,842	1,602
Trade payables	61	17
Unrealized foreign exchange gains	205	–
Accrued expenses	316	442
Total	**2,424**	**2,061**

Composition of Accrued charges

	As of December 31	
(in € millions)	2016	2017
Services provided	192	196
Personnel costs	89	2
Social charges	30	128
Tax liabilities	3	5
Financial debt	2	111
Total	**316**	**442**

NOTE 16. NET DEBT

Composition of net debt

	As of December 31	
(in € millions)	**2016**	**2017**
Bonds	18,961	17,395
Other financial debt	6,065	719
Amounts owed by the Company to certain subsidiaries and affiliates [(a)]	1,842	1,602
Total debt	**26,868**	**19,716**
Amounts owed to the Company by certain subsidiaries and affiliates [(b)]	–	–
Marketable securities	11,535	81
Cash	63	–
Total cash and cash equivalents	**11,598**	**81**
Total net debt	**15,270**	**19,635**

(a) Portion of the amounts owed by the Company to subsidiaries and affiliates presented in Other liabilities.
(b) Portion of amounts owed to the Company by subsidiaries and affiliates presented in Short-term loans and receivables.

Change during the period

Other financial debt and marketable securities decreased this year with the unwinding of the various financing transactions carried out as part of the WhiteWave acquisition.

NOTE 17. POST-EMPLOYMENT BENEFIT COMMITMENTS AND COMMITMENTS TO MANAGEMENT BODIES AND THE BOARD OF DIRECTORS

Post-employment benefit commitments

	As of December 31	
(in € millions)	**2016**	**2017**
Supplementary benefits in addition to defined benefit retirement plans [(a)]		
Gross commitments	579	581
Commitments net of retirement plan assets	390	382

(a) Commitments measured using the actuarial method.

These net commitments are presented off-balance sheet (see Note 18 of the Notes to the financial statements of the parent company Danone). The main commitment involves the retirement plan granted to some Danone senior managers.

Retirement plan granted to some Danone senior managers

Commitments measured using the actuarial method

	As of December 31	
	Retirement plan for senior managers	
(in € millions)	**2016**	**2017**
Gross commitments	484	481
Commitments net of plan assets	328	316

The €3 million decrease in commitments net of plan assets was due mainly to the rise in discount rates.

Main actuarial assumptions

	Year ended December 31	
	Retirement plan for senior managers	
(as a percentage, except for age in years)	**2016**	**2017**
Discount rate	1.7%	1.8%
Expected return on plan assets	1.7%	1.8%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Commitments to management bodies and the Board of Directors

Post-employment benefit commitments for corporate officers and Executive Committee members

	As of December 31	
(in € millions)	**2016**	**2017**
Supplementary benefits in addition to defined benefit retirement plans [a]		
Gross commitments	58	23

(a) Commitments measured using the actuarial method.

Severance pay for Executive Committee members

Severance pay for members of the Executive Committee in certain cases where they cease to continue their terms of office or exercise their functions were set at twice the annual gross compensation (fixed, variable, and in-kind) they received over the 12 months preceding the date on which they cease to continue their functions, and, in the case of the Company's two corporate officers, the Board of Directors decided on February 15, 2018 that the severance pay would be subject to the fulfillment of defined performance conditions.

NOTE 18. OFF-BALANCE SHEET COMMITMENTS

Main commitments given directly and indirectly by the Company

	As of December 31	
(in € millions)	**2016**	**2017**
Put options held by non-controlling interests over some of the Company's direct and indirect equity interests [a]	699	607
Post-employment benefits [b]	390	382
Rents	78	65
Services provided	6	157
Derivative instruments [c]	7,143	2,079
Security interests [d]	2,000	2,000
Guarantees [e]	750	14
Total	**11,066**	**5,304**

(a) Commitments given directly or indirectly by the Company (see details hereafter in section *Put options over the Company's direct and indirect equity interests*).
(b) Net commitments in respect of defined benefit retirement plans (see Note 17 of the Notes to the financial statements of the parent company Danone).
(c) Corresponds to cross-currency swaps for €2,052 million and forward currency agreements for €27 million.
(d) The Company acted as joint and several guarantor for Danone Finance International.
(e) The Company may grant a guarantee or security interest for the various financial risk management transactions to be carried out by its subsidiary Danone Corporate.

Put options over the Company's direct and indirect equity interests

The Company or certain of its direct or indirect subsidiaries granted put options to third parties with non-controlling interests in certain consolidated subsidiaries, with these options giving the holders the right to sell part or all of their investment in these subsidiaries. Their exercise price is generally based on the profitability and financial position of the company concerned at the exercise date of the put option.

Commitments received

Commitments received by the Company concerned €3.5 billion in available committed credit facilities as of December 31, 2017.

Other commitments

The Company and certain of its subsidiaries are parties to a variety of legal and arbitration proceedings arising in the ordinary course of business. Some of these proceedings involve claims for damages, and liabilities are provided for when a loss is probable and can be reliably estimated.

NOTE 19. WORKFORCE

Average number of Company employees during the year

	Year ended December 31			
(in number, except percentages)		**2016**		**2017**
Executives and managers	683	81%	715	82%
Supervisors and technicians	121	14%	117	13%
Clerical staff	40	5%	37	4%
Total	**844**	**100%**	**869**	**100%**

NOTE 20. RELATED PARTY TRANSACTIONS

Transactions with related parties

	Year ended December 31	
(in € millions)	**2016**	**2017**
Operating income	581	631
Income from equity interests	1,596	223
Interest on loans and receivables and similar financial income	61	229
Total income	**2,238**	**1,083**
Operating expense	(59)	(74)
Interest on borrowings and similar financial expense	(16)	(279)
Total expense	**(75)**	**(353)**

Balances with related parties

	As of December 31	
(in € millions)	**2016**	**2017**
Long-term loans and receivables	4,746	4,150
Short-term loans and receivables	293	345
Total assets	**5,039**	**4,495**
Other financial debt	–	–
Other liabilities	57	65
Total liabilities	**57**	**65**

NOTE 21. SUMMARY OF SHARES HELD IN PORTFOLIO

Securities of subsidiaries and associates

	As of December 31	
(in € millions)	**2016**	**2017**
Gross amounts	21,936	28,203
Provisions for impairment	(81)	(82)
Carrying amount	**21,855**	**28,121**

DANONE treasury shares

(in € millions, except number of shares)	2016		2017	
	Number of shares	**Carrying amount**	**Number of shares**	**Carrying amount**
Treasury shares classified as Long-term financial assets [a]	30,769,360	1,578	30,769,360	1,578
Treasury shares classified as Marketable securities [a]	2,359,838	91	1,757,632	68
Total	**33,129,198**	**1,669**	**32,526,992**	**1,646**

(a) See classification in Note 1 of the Notes to the financial statements of the parent company Danone.

NOTE 22. RESULTS AND OTHER SIGNIFICANT INFORMATION RELATING TO THE LAST FIVE YEARS

	2013	**2014**	**2015**	**2016**	**2017**
Capital at year-end					
Share capital *(in €)*	157,757,000	160,948,000	163,737,800	163,973,000	167,677,600
Number of shares issued	631,028,000	643,792,000	654,951,200	655,892,000	670,710,400
Operations and results for the year *(in € millions)*					
Net sales	520	474	492	648	609
Net income before tax, depreciation, amortization and provisions	686	482	2,070	1,318	105
Income tax [a]	77	76	111	59	107
Income after tax, depreciation, amortization and provisions	762	541	2,217	1,347	176
Dividends paid [b]	860	915	995	1,115	1,140
Earnings per share *(in € per share)*					
Income after tax but before depreciation, amortization and provisions	1.19	0.85	3.33	2.10	0.32
Net income after tax, depreciation, amortization and provisions	1.16	0.84	3.38	2.05	0.26
Dividend per share	1.45	1.50	1.60	1.70	1.90
Personnel					
Average number of employees for the year	740	725	798	844	869
Payroll expense *(in € millions)*	149	159	180	160	207
Amounts paid in respect of employee benefits [c] (social security, social benefit schemes, etc.) *(in € millions)*	66	71	77	90	115

(a) Income (expense).
(b) Amount relative to the 2017 fiscal year estimated as of December 31, 2017 based on the number of treasury shares held on that date by the Company. The 2016 dividend corresponds to the amount actually paid out during the 2017 fiscal year.
(c) Includes personnel expense excluding social charges (see Note 4 of the Notes to the financial statements of the parent Company Danone) as well as provisions related to stock-options and Group performance shares (see Note 13 of the Notes to the financial statements of the parent company Danone).

NOTE 23. SUBSEQUENT EVENTS

To the best of the Company's knowledge, no significant events occurred between the end of the reporting period and February 15, 2018, the date on which the Board of Directors approved the financial statements of the parent company Danone for the year ended December 31, 2017.

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

This is a free translation into English of the Statutory auditors' report on the financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Danone

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of DANONE for the year ended 31 December 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French code of ethics (code de déontologie) for statutory auditors.

Observation

Without qualifying our opinion, we draw your attention to the matter set out in Note 1 to the financial statements regarding the first-time application, as from 1 January 2017, of the regulation concerning financial futures and hedging transactions (regulation 2015-05 of the Autorité des Normes Comptables (French Accounting Standards Authority)).

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Evaluation des titres de participation

RISK IDENTIFIED	OUR RESPONSE

As at 31 December 2017, equity holdings are recorded for a net amount of 28,121 million euros, for a total balance sheet of 35,424 million euros.
As stated in Note 1 to the financial statements, an impairment loss is recorded when the realisable value of the equity holdings is lower than their carrying amount. The realisable value is determined by management on the basis of various criteria, including market value, value in use based on discounted cash flows and revalued shareholders' equity.
The estimation of the realisable value of these equity holdings requires management to exercise its judgment in choosing the items to be taken into consideration depending on the holdings concerned, as well as in determining the value in use, estimating the future performance of the entities concerned and the discount and long-term growth rates.
In view of the materiality of the equity holdings in the company's balance sheet and the judgment required to estimate their realisable value, we considered the valuation of these holdings to be a key audit matter.
	Our work mainly consisted in the following, for a sample of equity holdings determined based on qualitative and quantitative criteria:
	• For valuations based on historical data:
	  • examining the concordance between the shareholders' equity used and the accounts of the corresponding entities, as well as any adjustments performed on this shareholders' equity.
	• For valuations based on forecast data:
	  • obtaining the operating cash flow forecasts for the activities of the entities concerned and reconciling them with the forecast data provided in the latest strategic plans;
	  • examining the assumptions used in the light of the economic environment at the closing date and the date on which the accounts were drawn up;
	  • comparing the forecasts used for prior periods with the corresponding actual figures in order to assess the achievement of past targets;
	We also examined the information provided in Note 9 to the financial statements.

Verification of the management report and of the other documents provided to the shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information provided in the management report and in the other documents provided to the shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the financial position and the financial statements.

Report on Corporate Governance

We confirm the existence in the Report on Corporate Governance of the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (Code de commerce).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (Code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Regarding the information on factors that your Company considered could have a potential incidence in case of public takeover or swap bid, given in accordance with the requirements of Article L. 225-37-5 of the French Commercial Code (Code de commerce), we have verified they are in accordance with the underlying documentation provided to us. Based on this work, we have no matter to report on this information.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Report on other legal and regulatory requirements

Appointment of the statutory auditors

We were appointed as statutory auditors of DANONE by the annual general meeting held on 21 May 1992 for PricewaterhouseCoopers Audit and on 28 April 2016 for ERNST & YOUNG Audit.

As at 31 December 2017, PricewaterhouseCoopers Audit and ERNST & YOUNG Audit were in the 26th year and 2nd year of total uninterrupted engagement respectively. Previously, Ernst & Young et Autres held office as statutory auditor of DANONE from 2010 to 2015.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory auditors' responsibilities for the audit of the financial statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France as set out in particular in Articles L.822-10 to L.822-14 of the French Commercial Code (Code de commerce) and in the French code of ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris La Défense, 5 March 2018

The Statutory Auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

4.3 INFORMATION ON PAYMENT TERMS GRANTED TO SUPPLIERS AND CUSTOMERS OF THE PARENT COMPANY DANONE SA

	As of December 31, 2017					
	Invoices received, unpaid and overdue as of the reporting date					
(in € millions)	**Due in 0 day**	**Due between 1 and 30 days**	**Due between 31 and 60 days**	**Due between 61 and 90 days**	**Due 91 or more days**	**Total (1 or more days)**
A. Overdue payment categories						
Number of invoices concerned	56					**282**
Total amount of invoices concerned (including taxes)	0.6	0.6	0.9	0.1	1.0	**2.6**
Percentage of total purchases for the year (excluding taxes)	0.1%	0.1%	0.2%	0.0%	0.2%	**0.6%**
Percentage of sales for the year (excluding taxes)						
B. Invoices excluded from (A) relating to payables and receivables in dispute or not recognized						
Number of excluded invoices			75			
Total amount of excluded invoices			4,5			
C. Benchmark contractual payment terms used						
Payment terms used to calculate overdue payments	Contractual terms: 60 days of invoice date, in the absence of statutory terms					

	As of December 31, 2017					
	Invoices issued, unpaid and overdue as of the reporting date					
(in € millions)	**Due in 0 day**	**Due between 1 and 30 days**	**Due between 31 and 60 days**	**Due between 61 and 90 days**	**Due 91 or more days**	**Total (1 or more days)**
A. Overdue payment categories						
Number of invoices concerned	838					**1 396**
Total amount of invoices concerned (including taxes)	60.3	21.5	0.1	8.2	45.7	**75.4**
Percentage of total purchases for the year (excluding taxes)						
Percentage of sales for the year (excluding taxes)	9.9%	3.5%	0.0%	1.3%	7.5%	**12.4%**
B. Invoices excluded from (A) relating to payables and receivables in dispute or not recognized						
Number of excluded invoices			0			
Total amount of excluded invoices			0			
C. Benchmark contractual payment terms used						
Payment terms used to calculate overdue payments	Contractual terms: 30 days from end of month of invoice					

4.4 INFORMATION ORIGINATING FROM THIRD PARTIES, EXPERT OPINIONS AND DECLARATIONS OF INTEREST

Nil.

5

SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

This section describes Danone's commitments and accomplishments in the area of social, societal and environmental responsibility. It is organized as follows:

- description of Danone's approach to social, societal and environmental responsibility;
- information concerning Danone's social, societal and environmental performance in compliance with the provisions of Article:
  - *225 of Act no. 2010-788 of July 12, 2010 ("Grenelle II") and its implementing decree;*
  - *173 of Act no. 2015-992 of August 17, 2015 on the energy transition for green growth;*
  - *1 of Act no. 2017-399 referred to as the law on the duty of vigilance of parent companies and ordering companies.*

It describes the sustainability performances for 2017, i.e Danone's social, safety and environmental indicators excluding WhiteWave performance, its acquisition having been finalized in April 2017. However, this section provides qualitative sustainable development information, covering projects or initiatives of the DanoneWave subsidiary that resulted from the merger of WhiteWave with Danone's Essential Dairy and Plant-Based activities in North America.

More extensive information concerning Danone's strategy and performance with regard to Sustainable Development can be found in Danone's Annual Integrated Report available at danone.com. Practices and quantitative resultsare described there, based in particular on the Global Reporting Initiative (GRI G4) indicators, the Global Compact and the United Nations Sustainable Development Goals.

5.1 DANONE'S INTEGRATED VISION OF SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

Contents

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CORPORATE RESPONSIBILITY AT THE HEART OF DANONE'S HISTORY

In 1972, Antoine RIBOUD noted that "corporate responsibility does not stop at the factory gate or the office door." This vision led to the dual economic and social project that forms the basis for Danone's development and organizational model (see sections 2.2 *Presentation of Danone* and 2.5 *Other elements related to Danone's activity and organization*). The company has since taken many steps that have contributed to integrating this vision further into Danone and its activities:

1972
Antoine RIBOUD's speech in Marseille: birth of the dual economic and social project

1988
Signature of the first agreement on the vision shared by Danone and the International Union of Food Workers (IUF)

1989
Danone – IUF agreements on the economic and social information of Danone companies and gender equality in the workplace

1991 - 1994
Danone – IUF agreements on:
- Skills training
- Trade union rights
- Event of changes in business activities affecting employment or working conditions

1996
Environmental Charter

2001
Birth of the Danone Way program to assess the subsidiaries' sustainable development performance

2004
Groundwater Resources Protection Policy

2005
Danone – IUF agreement on setting up of social indicators in the Company's subsidiaries

2006
Franck RIBOUD formally defines the mission of "bringing health through food to as many people as possible"

2007
- Danone – IUF agreement on diversity
- Creation of the danone.dommunities fund

2008
Creation of the Livelihoods fund

2009
- Creation of the Danone Ecosystem Fund
- Nutrition Health Charter

2010
Deployment of the Dan'Cares program to provide all employees with healthcare coverage

2011
Danone – IUF agreement on health, safety, working conditions and stress

2012
Forest Footprint Policy

2013
Nature 2020 Commitments

2014
- Danone 2020 transformation plan
- Creation of the Livelihoods fund for Family Farming (L3F)

2015
- Publication of the Manifesto
- Partnership with B Corp
- Climate Policy
- Commitment to the Consumer Goods Forum against deforestation
- Palm oil policy
- Publication of the Alimentation Tree

2016
- Danone – IUF agreement on sustainable employment and access to rights
- Packaging Policy
- Nutrition Commitments and Targets
- Position paper on the first 1,000 days of life

2017
- Emmanuel FABER's speech at the Consumer Goods Forum
- Launch of the One Planet. One Health corporate vision
- Global Parental Policy
- Official recognition of Danone's Climate ambition by the Science-Based Targets initiative
- Participation in the 4 per 1,000 initiative – Soils for Food Security and Climate
- Engagement in the RE100 initiative

DANONE'S SOCIAL, SOCIETAL AND ENVIRONMENTAL APPROACH

Danone's signature, One Planet. One Health, expresses a vision of social, societal and environmental responsibility that the Company has upheld for many years.

Since 2006, the definition of Danone's mission of "bringing health through food to as many people as possible", centered the Company's strategy on three categories of challenges:

- Ensuring consumers safety and fostering healthier eating and drinking habits: relates to challenges relating to product safety and quality, and efforts to promote a healthy lifestyle and nutritional education;
- Communicating and developing with stakeholders: relates to challenges relating to employee development and involvement, relationships with suppliers and development of communities;
- Contributing to protecting the planet: relates to environmental challenges.

Danone Way and B Corp: two key initiatives driving Danone's ambitions

Danone began implementing the Danone Way program in 2001 to measure its subsidiaries' performances on the company's commitments. Danone has developed this voluntary approach to continuously improve performance in order to monitor the subsidiaries' progress in integrating the Company's mission, ambitions and commitments into their business.

In 2015, the shared ambitions and values prompted Danone to join forces with B Lab in order to advance the Danone Way program towards B Corp certification.

As announced in 2017 at the Shareholders' Meeting, Danone has decided to strengthen its cooperation with B Lab by developing a roadmap to obtain global B Corp certification.

As a result of this initiative, DanoneWave (EDP Noram) is now the largest Public Benefit Corporation in the world. Pursuant to this legal status in the United States, the subsidiary's senior executives integrate the company's social, societal and environmental impact into their decision processes in the same way as shareholder interests. The subsidiary is also aiming for B Corp certification.

Danone Way continuous improvement approach

The Danone Way program consists of an annual self-assessment to measure each subsidiary's performance in terms of compliance with these practices and their levels of maturity with regard to sustainable development.

It is based on a framework defining the social, societal and environmental responsibility practices to be implemented by subsidiaries, covering all their activities from purchasing raw materials to recycling the packaging of finished products. The framework is structured on four pillars:

- governance: business conduct policy, social responsibility applied to suppliers and integration of a sustainable development strategy jointly developed on a local scale;
- consumer health and safety: management of product and communication quality and standards;
- social challenges: social dialogue, workplace health and safety, working time, training and diversity;
- environmental challenges: management of the environmental footprint, environmental risk control, raw materials management and reduction of the environmental footprint.

B Corp Certification

B Lab is an international non-profit organization that seeks to promote a committed and responsible entrepreneurial model. B Lab encourages businesses to drive this change within their environment, by integrating social and environmental challenges into their core strategy, beyond the scope of targeted profit. To do so, B Lab has developed an assessment questionnaire and awards B Corp certification to firms obtaining a score of more than 80 points.

Partnership with B Lab

Since 2015,Danone has worked with B Lab to enable listed multinational companies to gain access to the B Corp certification process. In the framework of this partnership, Danone joined the MPMAC (Multinationals and Public Markets Advisory Council) to share the lessons it has learned from the Danone Way program. Danone has also agreed to test the new assessment system specifically developed by MPMAC for multinationals. Since October 2017, Lorna DAVIS, a former member of Danone's Executive Committee, is seconded to the management of B Lab.

B Corp-certified subsidiaries

Danone's goal is to certify 10 subsidiaries by 2020. As of December 31st, 2017, 5 subsidiaries carry the B Corp certification.

Danone's Contribution to the UN Sustainable Development Goals

The 17 Sustainable Development Goals were defined by the United Nations Member States to meet the 2030 Agenda for Sustainable Development. Danone commits to comply with these goals, by organizing implementation of its commitments according to the Company's activity and to three levels of involvement.

	People	One Planet. One Health	Business Model
Major Focus	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING; 6 CLEAN WATER AND SANITATION; 13 CLIMATE ACTION	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 17 PARTNERSHIPS FOR THE GOALS
Commitments	1 NO POVERTY; 5 GENDER EQUALITY	7 AFFORDABLE AND CLEAN ENERGY; 14 LIFE BELOW WATER; 15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Contribution	4 QUALITY EDUCATION; 10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Details of Danone's contribution to each Sustainable Development Goal can be found at www.iar2017danone.com.

DANONE'S STAKEHOLDER STRATEGY AND ACTION

Stakeholder dialogue

Stakeholder dialogue forms an integral part of Danone's strategy; the Company works with stakeholders to jointly develop its commitments and contribute to public discussion.

Examples of initiatives taken with stakeholders

Stakeholders	Examples of initiatives taken in 2017
Public authorities (national and local authorities, European Commission, international organizations, regulatory agencies)	• Inaugural Thematic Champion status obtained by UN Women as part of the HeForShe movement • Partnership with the Inter-American Development Bank • Participation in the FReSH initiative (the Food Reform for Sustainability and Health program) led by WBCSD (World Business Council for Sustainable Development) and the EAT Food foundation
Financial community (shareholders, investors, financial and non-financial rating agencies, banks)	• Organization of the 2017 Investors Seminar in Evian • Participation in SRI roadshows (Socially Responsible Investment)
Scientific community (research institutes, researchers and academics)	• Participation in the International Congress of Nutrition runs by the International Union of Nutritional Sciences (IUNS) in Buenos Aires • Organization of the Hydration for Health (H4H) Congress in Evian to raise public awareness of the importance of good hydration
Consumers and the general public	• Participation in the Consumer Goods Forum "Healthier Lives" initiative aiming to improve consumer information in sales points • Initiatives of certain brands such as *Villavicencio* in Argentina to encourage consumer action for environmental protection.
Employees and their representatives	• *Danone People Survey*: in-house survey of employees to assess work organization and workloads, work-life balance, and stress • Danone Day 2017 with all employees and presentation of Danone's new One Planet. One Health corporate vision
Professional organizations (industries, trade associations and private organizations)	• Emmanuel FABER joined the Consumer Goods Forum's Board of Directors • Membership to the International Food and Beverage Alliance (IFBA) trade association
Business partners (key accounts and customers, suppliers, industrial partners, R&D partners)	• Investment in Yooji, Farmer's Fridge and Kona Deep by Danone Manifesto Ventures • NaturALL Bottle Alliance initiative with Nestlé and Origin Materials to produce PET from bio-based materials
Civil society (NGOs, trade unions, schools and universities, local communities)	• Partnership with the Ellen MacArthur Foundation for circular economy • Danone joined the Global Deal initiative • Support for the HEC Paris Social Business/Enterprise and Poverty Chair and the Enterprise and Poverty action tank

External evaluations

Danone obtained the following main scores in 2017:

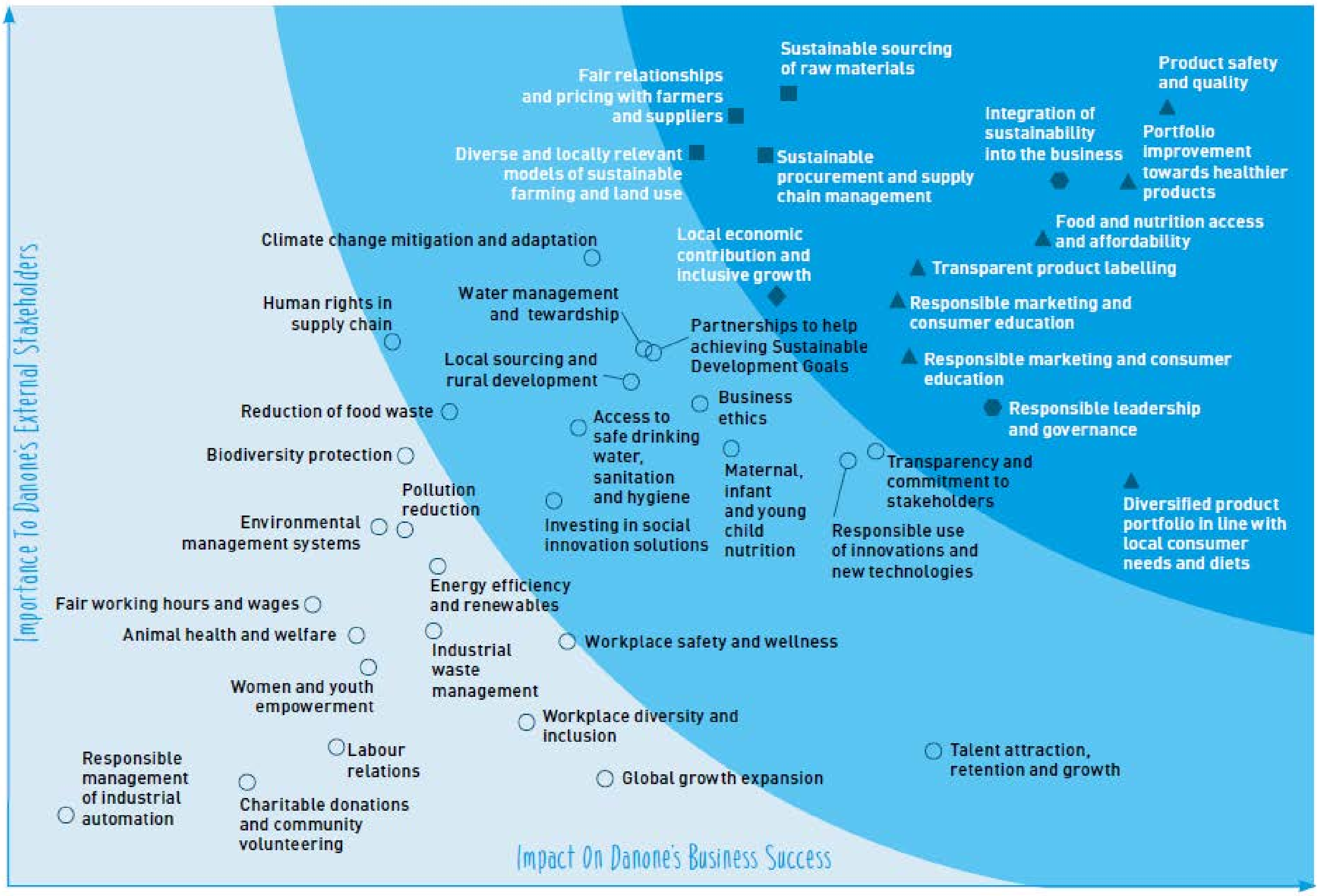
	2016	2017
DJSI	77/100	**70/100**
Vigeo Eiris	64/100	**65/100**
MSCI	AAA	**AAA**
CDP Climate Change	98B	**A-**
CDP Water	A-	**A List**
CDP Forests	B	**B**
Forest 500	5/5	**5/5**

Danone is also included in the FTSE4Good and ATNI indices and ranked among the top three in the results of the second edition of ATNI in 2016.

Integration of material issues and risks identified by stakeholders

Materiality analysis

In 2017, Danone has renewed its materiality matrix in order to identify its sustainability strategic priorities thanks to an internal consultation and external quantitative survey. The 41 issues identified are positioned in the matrix below:



First tier
It is made of the 14 priority topics that are the most material to both Danone's external stakeholders and the company's business success. These topics are intimately linked to Danone's evolving business model. They are core to the activation and delivery of Danone's "One Planet. One Health".

Second tier
It is a cluster of major topics for creating medium and long term value. Many of these topics are already being addressed by Danone through policies development, targets setting, local projects management, etc..

Third tier
It includes compliance-driven matters and emerging topics . These topics are to be addressed through compliance, monitoring and ongoing management.

▲ Consumer engagement and product responsability
■ Supply chain
⬢ Governance and strategy
◆ Local economy and inclusive growth

Issues are interconnected and their position on the matrix must be considered with regard to this interdependence. Some issues may also be material only from an external (*i.e.* stakeholder) viewpoint or an internal one (for the company's success). Danone therefore considers that these issues must also be factored into the strategy, even though they are not necessarily situated in the first third of the matrix.

A detailed explanation of the materiality analysis is provided at www.iar2017.danone.com.

Vigilance Plan

The table below summarizes Danone's Vigilance Plan covering respect for human rights, the environment, and personal health and safety, for its own and its suppliers' businesses. The plan is based on three components:

- the five steps defined in the Vigilance law;
- three issue stakes: Human Rights, Environment, and Personal Health and Safety;
- and two business scopes: Danone's business and that of its suppliers.

Danone developed the Plan taking into account inputs from its stakeholder dialogue (see section on Stakeholder Dialogue above).

Danone's whole Vigilance approach is detailed in this section.

	Human rights and fundamental freedoms	Environment
	Risks Map	
Company's activities	• Materiality and risks analysis carried out in 2017 • Priority focus on forced labor issues further to the commitment in the Consumer Goods Forum	• Materiality and risks analysis carried out in 2017 • GREEN Program • Analysis of water management risks via the WRI Aqueduct Water Risk Assessment tool
Suppliers or subcontractors activities	• Risk mapping done in 2017 on the 20 most exposed categories of procurements • Milk procurement issues historically taken into account	• Analysis of deforestation risks under the Forests Policy • Risk mapping done in 2017 on the 20 most exposed categories of procurements. • Priority focus on sustainable agriculture for milk procurement: climate, water, biodiversity, animal welfare and soil use.
	Regular risk map-based evaluation procedures	
Company's activities	• Danone Way self-assessment – Human Resources, social sections	• GREEN audits of production sites • In-depth assessment of river basins with the WWF Water Risk Filter tool
Suppliers or subcontractors activities	• RESPECT program for first-tier suppliers excluding raw milk • RESPECT methodology up to 2017	• Proactive analysis of suppliers based on three levels of priority and SMETA audit for high priority, starting in 2018
	Appropriate measures for risk mitigation and prevention of serious breaches	
Company's activities	• Code of Business Conduct • Agreements signed by Danone and IUF – social dialogue • Respect for fundamental rights via the contractual link with Danone	• Code of Business Conduct • Actions under Danone's environmental protection strategy • Action plan following GREEN audits • Action plans for sites with major water risks
Suppliers or subcontractors activities	• Code of Conduct for Business Partners • Contractual clause for suppliers including the Fundamental Social Principles • Action plans following SMETA audits and FaRMs assessments • Dialogue with suppliers • Projects in partnership with funds sponsored by Danone • Certifications: UTZ, FSC and RSPO	• Code of Conduct for Business Partners • Contractual clause for suppliers including the Fundamental Environmental Principles • Action plans following SMETA audits and FaRMs assessments • Dialogue with suppliers • Projects in partnership with funds sponsored by Danone • Certifications: RSPO, RTRS, FSC and Non-GMO project verified
	Whistleblowing system	
Company's activities	• Danone Ethics Line	
Suppliers or subcontractors activities	• Danone Ethics Line also applies to suppliers	
	Monitoring of measures and assessment of their efficiency	
Company's activities	• Danone Way results monitoring	• Monitoring of environmental performance indicators • Increased frequency of GREEN audits based on risks • Follow-up of GREEN audit action plans • Follow-up of water risk action plans in the Businesses
Subcontractor or supplier activities	• Monitoring of RESPECT program performance indicators • Indicators of supplier registration on Sedex and follow-up of audit action plans in case of non-compliance • Development of other assessment and evaluation tools starting in 2018	• Monitoring of FaRMS program performance indicators

	Personal Health and Safety	*Additional information available in sections*
	Risks Map	
	• Materiality and risks analysis carried out in 2017 • Identification of risks specific to Danone's businesses; 13 priority safety standards in WISE[2]	• *2.7 Risk factors* • *Danone's stakeholder strategy and action* • *Danone's Human Resources Policy* • *Co-creating with employees and suppliers* • *Environmental protection strategy*
	• Risk mapping done in 2017 on the 20 most exposed categories of procurements • Milk procurement issues historically taken into account	• *2.7 Risk factors* • *Relations with suppliers* • *Climate Policy* • *Sustainable use of water* • *Sustainable agriculture*
	Regular risk map-based evaluation procedures	
	• Evaluation of risks at sites • Unified Risk Assessment Document applicable in the European Union • WISE² audits carried out at sites • Workplace accidents tracking	• *Danone's social, societal and environmental approach* • *Danone's Human Resources Policy* • *Environmental protection strategy*
	• Traceability process on four priority agricultural categories: palm oil, fruits, cocoa and cane sugar • FaRMs program for direct suppliers of raw milk	• *Relations with suppliers*
	Appropriate measures for risk mitigation and prevention of serious breaches	
	• Code of Business Conduct • WISE² program • Action plan following WISE² audits	• *Danone's responsible practices* • *Danone's Human Resources Policy* • *Environmental protection strategy*
	• Code of Conduct for Business Partners • Contractual clause for suppliers including the Fundamental Social Principles • WISE² program coverage of agency workers present at Danone sites • Action plans following SMETA audits and FaRMs assessments • Dialogue with suppliers • Projects in partnership with funds sponsored by Danone • Certifications: UTZ, FSC and RSPO	• *Danone's responsible practices* • *Danone's Human Resources Policy* • *Relations with suppliers*
	Whistleblowing system	
	• Danone Ethics Line • Specific procedures for escalating risks or serious accidents	• *Danone's responsible practices* • *Danone's Human Resources Policy*
		• *Danone's responsible practices* • *Relations with suppliers*
	Monitoring of measures and assessment of their efficiency	
	• Workplace accident measurement and tracking • WISE² program efficiency monitoring with WISE² audits	• *Danone's social, societal and environmental approach* • *Danone's Human Resources Policy* • *Environmental protection strategy*
	• Workplace accident tracking for agency workers present at Danone sites • Monitoring of RESPECT program performance indicators • Monitoring of FaRMS program performance indicators	• *Danone's Human Resources Policy* • *Relations with suppliers*

5

CORPORATE RESPONSIBILITY GOVERNANCE

Danone's governance of corporate responsibility issues is essentially organized as follows:

Social Responsibility Committee

Formed from the Board of Directors, its role and the work accomplished in 2017 are described in the relevant part of section 6.1 *Governance bodies*.

Sustainability Integration Committee

The Sustainability Integration Committee's mission is to oversee the integration of sustainable development issues into Danone's strategy and to ensure their operating implementation. It comprises representatives of environmental, social, health and nutrition issues and from each Business. It reports to the Social Responsibility Committee.

Sustainability Integration Department

The Sustainability Integration Department is part of the General Secretary function. It is responsible for coordinating the Company's sustainable development issues in conjunction with the teams responsible for environmental, social, health and nutrition issues and from each Business. It relies on a network of local representatives in charge of managing these issues for geographic areas and subsidiaries.

PARTNERSHIPS WITH FUNDS SPONSORED BY DANONE

Danone Communities

Danone founded in 2007 the danone.communities mutual investment fund (Société d'Investissement à Capital Variable- SICAV). The fund invests (i) at least 90% of its assets in a selection of shares or units of mutual funds or investment funds invested in money market instruments, government bonds and bonds of companies in the euro zone that favor a Socially Responsible Investment (SRI) approach, and (ii) up to 10% in the danone.communities FPS.

The danone.communities professional specialized investment fund (Fonds Professionel Spécialisé - FPS) invests, along with several partners, in businesses with significant social impact located mainly in emerging countries, in accordance with Danone's mission;

Danone Communities supports social entrepreneurs active in fighting malnutrition and developing access to drinking water, two levers for reducing poverty.

As of December 31st, 2017, the Danone Communities SICAV had assets under management totaling approximately €72 million, as in 2016. The danone.communities FPS supports 10 social businesses, covering 12 countries.

Investment by Danone and its employees in the fund

As of December 31st, 2017, Danone held approximately 14% of the SICAV and 63.6% of the capital of the FPS, as in 2016.

Since 2007, Danone has made a financial contribution each year to the Danone Communities project. In 2017, this contribution amounted to €3.6 million.

In addition, the employees of the Company and its French subsidiaries participate in the Danone Communities project by investing in the SICAV through the danone.communities company investment fund (Fonds Commun de Placement d'Entreprise - FCPE) as part of the Group Savings Plan. As of December 31st, 2017, approximately 55% of Danone's employees in France had subscribed to the Danone Communities FCPE (vs. 43% in 2016) for a total amount of €19.8 million (€16.7 million in 2016).

Projects supported by danone.communities FPS

In accordance with the Danone Communities Governance Charter, the Social Responsibility Committee is consulted prior to each investment by the danone.communities FPS and issues an opinion as to its compliance with this charter. Since its creation, the Danone Communities FPS has carried out eight investments.

Under the Danone Communities Governance Charter, Danone may invest, directly or indirectly, in companies in which the danone.communities FPS invests, but only if these co-investments: (i) comply with Danone's corporate purpose; (ii) strengthen the mission, governance and sustainability of the companies concerned; and (iii) are made in agreement with the shareholders of these companies. Each co-investment is subject to prior review by the Social Responsibility Committee, which issues an opinion as to its compliance with these requirements. To date, Danone has invested directly in the capital of three projects: Grameen Danone Foods Limited in Bangladesh; Laiterie du Berger in Senegal; and NutriGo in China.

As of December 31st, 2017, the total amount of the investments made by the FPS and Danone in these projects was €11.3 million and €6.6 million respectively (vs. €8.3 million and €4.5 million at the same date in 2016).

Danone Ecosystem Fund (*Fonds Danone pour l'Écosystème*)

Danone created the Danone Ecosystem Fund in 2009, with an initial endowment of €100 million. Its purpose is to strengthen and develop activities of general interest within Danone's ecosystem. Together with non-profit organizations, the fund supports economic initiatives of certain Danone stakeholders in order to strengthen Danone's ecosystem, promote job creation and develop micro-entrepreneurship. It is an endowment fund run by a Board of directors. A guidance committee, composed of representatives of Danone and non-Company members, establishes the fund's major strategic guidelines, especially with regard to priorities and resource allocation principles. An investment committee is responsible for making investment policy proposals to the Board of Directors and ensuring follow-up action on them.

Management of the fund's administrative, accounting, financial and legal activities

The fund has no employees and the management of the fund's activities (administrative, accounting, financial and legal) is handled by dedicated Danone employees in accordance with the terms of a services agreement between Danone and the fund. The salaries and travel expenses of these employees, which totaled €1.2 million in 2017 (vs. €1.5 million in 2016), are fully charged back by Danone to the fund.

Projects supported by the Danone Ecosystem Fund

Since its creation, the fund's Board of Directors has approved 71 projects including 4 new projects in 2017. In addition, 6 extensions of existing projects were approved in 2017.

As of December 31st, 2017, 42 projects initiated worldwide were active. The total amount committed by the fund is €80 million (€75 million in 2016).

These projects were selected in accordance with the fund Governance Charter and after a review on the basis of the following five criteria: (i) economic viability of the activity funded; (ii) creation of social value; (iii) possibility of developing or replicating the initiative; (iv) innovative featurer and (v) differentiation opportunities.

The projects supported are implemented by non-profit organizations or by the fund directly. Since its creation, the fund has supported projects on the basis of five main categories: supplies, micro-distribution, recycling, services to individuals, catchment management and territory.

As of December 31st, 2017, the total amount committed by the fund was €80 million (€75 million in 2016).

Livelihoods Fund

The Livelihoods Fund was created in 2011 under Danone's sponsorship. It comprises ten investors including Crédit Agricole, Groupe Caisse des Dépôts, Schneider Electric Industries, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin.

The Livelihoods Fund is an investment fund dedicated to ecosystem and carbon assets restoration. It is a Luxembourg-registered mutual fund (société d'investissement à capital variable - specialized investment fund) created on December 15, 2011. The Livelihoods Fund seeks to invest in three types of projects in Africa, Asia and Latin America: (i) the restoration and preservation of natural ecosystems; (ii) agroforestry and soil restoration through sustainable agricultural practices; and (iii) access to rural energy to reduce deforestation. The aim of the Livelihoods Fund is therefore to fight against climate change while also improving the living conditions of local communities. Its creation is in line with Danone's goal of reducing its carbon footprint through the development of compensation actions that enable credits to be earned through projects with a high environmental and social impact.

Investments by Danone and co-investors in the fund

As of December 31st, 2017, all investors had pledged to invest a total of €37.9 million in the Livelihoods Fund, €26.6 million of which has already been paid to the fund. Of these amounts, Danone has committed to pay €13.8 million and has already disbursed €9.7 million.

The carbon credits generated by the fund are certified by Gold Standard and VCS (Verified Carbon Standard). The carbon credits are allocated to investors in proportion to their investment in order to compensate their emissions in addition to their efforts to reduce the carbon footprint of their activities.

Projects supported by the Livelihoods Fund

As of December 31st, 2017, the Livelihoods Fund supported nine projects, including four that had been initiated by Danone and transferred to the fund at the time of its creation.

Livelihoods Fund for Family Farming

The Livelihoods Fund for Family Farming was created in 2015 by Danone and Mars Inc., who were joined in 2016 by Veolia and Firmenich. It is a follow-up to the first Livelihoods Fund, and supplements Danone's other societal funds and initiatives to invest in projects that help to make the companies' supply of strategic agricultural raw materials more sustainable. It is a French simplified stock company (*société par actions simplifiée*) with variable capital.

Investments by Danone and co-investors in the fund

As of December 31st, 2017, all investors had pledged to invest, as capital contributions, a total of €36 million in the L3F Fund, €6.7 million of which has already been paid to the fund. Of these amounts, Danone has committed to provide €15 million and has already paid €2.8 million.

Projects supported by the Livelihoods Fund for Family Farming

The Livelihoods Fund for Family Farming supports companies in transforming their supply chains with family farmers. The fund therefore helps companies secure the quality and quantity of their supply over time, by giving farmers access to more sustainable practices and better revenues via a good connection with markets. These projects also help to preserve ecosystems through farming practices combining productivity and respect for the environment.

The fund explores project opportunities involving specific raw materials determined by investors as well as project opportunities regarding watershed protection.

As of December 31st, 2017, 5 projects have been approved by the fund's investment committee with operations beginning in 2017-2018 and €10.5 million has already been committed for the launch of these projects. They particularly concern the restoration and development of cocoa plantations in the southern region of Ivory Coast, protection of a watershed in Tingua, Brazil, procurement of coconut in the Philippines, protection of a watershed in Aguascalientes in Mexico and vanilla plantation on the east coast of Madagascar.

DANONE'S RESPONSIBLE PRACTICES

Compliance and Business Ethics Program

The Company has developed an internal program to implement a culture of compliance and reduce related risks.

Beyond the fight against bribery and corruption, the program encourages exemplary behaviors in the areas of competition, economic sanctions and personal data protection. To achieve this, Danone has developed and implements policies and procedures applicable to all employees and business partners, including:

- the Code of Business Conduct based on principles defined in the following references: the Universal Declaration of Human Rights; fundamental conventions of the International Labor Organization; guiding principles of the Organization for Economic Cooperation and Development for multinational companies; the Global Compact on human rights, labor rights, environmental protection and anti-corruption.
- the Integrity Policy describing expectations on various positions and particularly on managers, Executive Committee members, and Heads of Human Resources and Public Affairs. It also provides definitions of the different types of corruption and applicable policies. Danone does not tolerate any non-compliance with these policies and which may lead to disciplinary measures. Such measures depend on the seriousness of the non-compliance and may include non-payment of a bonus, deferment of a promotion, suspension without pay and even dismissal.
- the Code of Conduct for Business Partners introduced to ensure that they comply with applicable anti-corruption, anti-money laundering, unfair competition and international trade laws and regulations.
- the unfair competition policy to ensure fair competition behavior between the sector's various stakeholders and compliance with competition laws and regulations.

Anti-bribery and anti-corruption policy

Danone does not tolerate corruption and particularly payments in kind, monitoring of hospitality, sponsoring and donations, conflicts of interest, bribes, theft, embezzlement or inappropriate use of company resources, and money laundering.

No employee or representative of Danone may give or receive a bribe or any other advantage with a view to obtaining a financial or business gain. Danone condemns any attempt to use business as a means of laundering money and only works with legitimate customers and business partners. As part of its anti-corruption action, Danone defines precise record-keeping requirements and does not authorize any activity that could be interpreted as or could result in corruption offences.

Whistleblowing system: The Danone Ethics Line

Danone has introduced a whistleblowing system whereby employees, suppliers and other third parties may confidentially report any suspicions of fraud, corruption or other cases of non-compliance (see section 2.8 *Risk management and internal control*). Wrongdoings that could initially be reported included those relating to discrimination and personal health and safety.

In 2017, while preparing its Vigilance Plan, Danone integrated two new categories of wrongdoings in agreement with the staff representative bodies: violations of Human Rights and environmental rules violation.

Employee communication and training

A communication campaign is deployed to inform employees of the Code of Business Conduct and policies are available on Danone's intranet. Each employee also receives communication on the Danone's Code of Business Conduct when they are hired.

Danone seeks to train all employees in its anti-corruption policies, with a priority to functions deemed the most exposed (sales teams, buyers, etc.). The training program will subsequently be extended to all employees.

Danone has also developed an online "e-learning" tool open to all employees since October 2017, in order to communicate its fundamental principles of compliance as widely as possible.

Tax policy

Danone's fiscal policy has been published on its website since 2016, thus asserting the Company's commitment to manage its taxation responsibly, notably by promising not to use any artificial or fraudulent fiscal schemes.

The policy is updated yearly.

Transparency of advocacy activities

Initially created in 2011, Danone's policy on its advocacy activities was updated in June 2017 and is published on the Company's website. The policy clearly describes the behaviors expected of Danone's employees who work with these stakeholders.

Danone does not pay any sums of money to individuals or organizations involved in politics to support their activity. Therefore, no candidates or political parties receive any funds from the Company.

Danone does, however, engage in advocacy activities which it conducts ethically and transparently: as part of Danone's dialogue with stakeholders and good business conduct, the Company interacts with public and non-governmental players. For example, Danone is included on the registers of interest representatives of the European Union and of the French High Authority for Transparency in Public Life (*Haute Autorité Française pour la Transparence de la Vie Publique - HATVP*). Danone conducts its advocacy activities in the interests of consumers and with the aim of contributing to global health objectives such as fighting obesity, malnutrition or undernutrition.

In the same way as all other activities, Danone's advocacy action must be compliant with the Code of Business Conduct and the Integrity Policy presented above.

Crisis management

In the event of a crisis, Danone's priorities are the protection of its consumer and employees, the environment, and the Company's assets, business and reputation. In June 2017, Danone updated its internal crisis management policy particularly by defining the specific organization that has to be implemented, and the tools necessary to adequately prepare for and manage situations when they arise.

Danone particularly ensures that the Executive Committee is swiftly notified of any crises.

Danone's action for crisis management also includes preparation and training:

- a crisis manager appointed in each subsidiary;
- classroom or online training of over a hundred managers each year;
- annual audits to verify compliance with crisis management policies.

5.2 ENSURING CONSUMER SAFETY AND ENCOURAGING HEALTHIER EATING AND DRINKING HABITS

Contents

MEASURES TAKEN TO PROMOTE CONSUMER SAFETY

Product safety and quality

Danone seeks to provide consumers and customers throughout the world with products and services of excellent quality on a daily basis, and to make quality a fundamental value of the Company. In particular, this means:

- being worthy of consumer confidence by guaranteeing strict implementation of the food safety policy;
- being preferred by providing a superior consumer experience thanks to ongoing innovation;

Danone's food safety approach

Danone has created a dedicated Food Safety department which reports to the General Secretary function to guarantee its independence from the operational teams.

The Food Safety teams define the technical specifications and rules applicable to all types of products and processes used by Danone. These instructions cover Danone's entire value chain and are replicated for each Business, product and technology.

Participation in the Global Food Safety Initiative (GFSI)
Danone is an active member of the GFSI, a pillar of the Consumer Goods Forum (CGF) whose members include Danone's Chairman and Chief Executive Officer. The current Chief Food Safety Officer of Danone is a member of the Board of Directors of the GFSI and is also the Vice President of the GFSI's local European unit.

Food Safety Policy
For its food safety policy and governance, Danone applies a single standard across all its Businesses, structured around two pillars:

- Danone's fundamental principles (Danone Operating Models) and compliance with Company's specifications at each stage of the value chain. Each subsidiary General Manager is responsible for their products' compliance with applicable laws and regulations and with Danone's specific food safety rules and commitments.
- Danone's food safety standards. These standards integrate the Company's directives and reference documents on food safety, integrated management and assessment of risks. This also includes instructions and checklists specific to the Company's products and technologies. These standards guarantee application of a single benchmark for all the Company's products and technologies wherever they are sold or produced. The subsidiaries must apply the stricter of either local regulations or Danone's own food safety policy.

Implementation of this policy is based on the processes and management systems described hereafter.

Emerging risk identification process: Horizon Scanning

Horizon Scanning is a process for identifying emerging food safety issues or risks. Danone implements the process to assess potential impacts and reduce effects of any new issue or risk arising as regards to the safety of raw materials, ingredients, food contact materials, manufacturing processes and finished products.

Horizon scanning is based on a three-stage approach to cover all emerging risks in the food safety management system:

- complete and ongoing monitoring of the scientific environment by internal expert teams, in close cooperation with key partners and independent experts;
- assessment of information gathered by a multi-disciplinary group to identify emerging risks relevant to Danone and their qualification;
- assessment of their impact on Danone's business and the need for prevention plans specific to the risks identified.

In 2017, Danone identified 19 emerging issues. Their impact on Danone is being assessed and action plans have already been defined for some of these issues.

Although this process is currently centered on emerging risks, it has the ambition to encompass more general, wide-ranging and long-term issues.

Internal food safety management system

Danone's objectives include obtaining certification according to FSSC 22000, one of the certification standards recognized by GFSI, for all its production sites by 2020. The Company has decided to go further than simply implementing and complying with this certification and has also developed an audit guide that takes into account the Company's own requirements, extending beyond the provisions contained in the international standards. Danone also requires third parties to obtain food safety certification recognized by GFSI.

In 2017, 140 FSSC 22000 certification audits (compared with 120 in 2016) were completed by independent certification bodies. The Company thus reached a site certification rate of 67% (Food Safety production sites Scope, see Methodology Note).

At the same time, 58 food safety audits (compared with 66 in 2016) were conducted in-house by the Global Food Safety Audit team.

Food Fraud and Food Defense management systems

Danone's Food Safety teams work with Global Security teams to reinforce its management systems in the areas of food fraud and food defense.

Food fraud is the deception of consumers using food products, ingredients and packaging for economic gain and includes intentional adulteration (dilution, substitution, concealment or unauthorized enhancement), issuing false information (false labels or claims), counterfeiting or gray-market resale (definition of food fraud by *GFSI position on mitigating the public health risk of food fraud*).

In 2017, the Food Safety team published an internal directive on preventing food frauds. A central team common to all the Businesses is responsible for its implementation at production sites along with local teams. This strategy includes a first phase of vulnerability studies carried out at the sites in order to identify risks and introduce prevention plans. These studies are carried out using a tool developed by the SSAFE consortium, in which Danone is a member and which pursues the mission of fostering continuous improvement and development of international standards and systems.

Food defense consists in protecting food from risks of deliberate alteration in order to cause harm to consumer health.

In 2017, Danone updated its food defense directive and audit checklist, reinforcing requirements relating, in particular, to the physical protection of production and logistics sites. These documents were jointly developed and signed by the Food Safety Department and the Global Security department which assist all the subsidiaries with defining and implementing these prevention and protection measures.

Danone's products quality approach

Danone's Quality teams work with the Food Safety Department to drive the Company's "iCare" quality culture program.

Danone initiated this program in 2016 to integrate quality as a key component of the corporate culture at every level in the organization. The quality concept encompasses quality of products and services provided to consumers and customers, and extends to labor, relationships with the ecosystem and the Company's processes. It is managed by a dedicated team including representatives of each Business in cooperation with the various functions.

The iCare program is structured on three pillars:

- Foster employee awareness and ownership of quality-related issues;
- Encourage and promote peer involvement and interaction in a continuous improvement process;
- Ensure that Danone's food Quality and Safety messages are consistent and coherent;

A diagnosis was done at the end of 2016 to assess maturity of the quality culture. It involved an internal employee campaign, on a voluntary basis, covering 60% of Danone's subsidiaries, across all Businesses and geographic areas. The results, published in 2017, showed a high degree of quality awareness at Danone. The campaign identified best practices to be leveraged in the framework of the "iCare" program. These results are communicated to all Business or Function representatives who then define action plans to reinforce the culture quality at Danone with their teams.

Danone's position on specific ingredients or practices

Micronutrients Policy

The World Health Organization (WHO) has acknowledged that micronutrient deficiencies (vitamins and minerals) contribute to the development of certain pathologies and may represent a public health problem in emerging countries and in some industrialized countries.

Danone proposes fortified food products designed to help prevent micronutrient deficiencies and aims to enhance its range of such products in line with specific local needs, while taking all necessary food safety aspects into account.

In 2017, Danone developed and published a policy defining the Company's specifications for the development of micronutrient-fortified products. The principles governing use of micronutrients are as follows: such use must be justified in every case; any micronutrient-fortified product must be of good underlying nutritional quality; fortification levels must be carefully adjusted with precision; the nature and type of fortificant must be selected following rigorous processes and the fortification must be clearly mentioned on the labelling of the product.

Position on Genetically Modified Organisms

Danone's stance in respect of GMOs depends on the agricultural models in place: specific policies are applied concerning use of ingredients derived from GMOs and the feeding of cows with GMOs.

For example, with the Dannon Pledge in the United States (see section on Sustainable agriculture hereafter), Danone seeks to offer consumers a non-GMO-certified alternative, which includes cow feeding, for three key brands: *Dannon*, *Oikos* and *Danimals*. For products containing GMOs sold in the United States, labels were introduced at the end of 2017 to inform consumers.

Animal Testing Position

As published in its 2016 position paper, before performing tests on animals, Danone commits to systematically assess the need for such tests and to give priority to alternative methods whenever possible. Tests may be conducted on animals to comply with regulatory, ethical or food safety requirements, or failing appropriate human models (including *in vitro* tissues).

Where no other option is available, a strict framework applies to animal testing. All tests comply with mandatory instructions to integrate animal well-being and protocols recommended by organizations such as the World Health Organization, the World Organization for Animal Health, and the International Life Sciences Institute. Danone applies the most stringent existing standards for the protection and care of animals used for scientific purposes.

Danone also actively seeks to find alternative methods based on the "Triple R" approach with the aim of Replacing, Reducing and Refining research on animals. To do so, Danone works with universities and institutes, with the Triple R centers in the United Kingdom and Netherlands and with the Johns Hopkins Center for Alternatives to Animal Testing (CAAT) in the United States. Danone played a key role in the creation of a new task force at ILSI Europe: "Alternatives to animal testing in food safety, nutrition and efficacy studies".

MEASURES TAKEN IN SUPPORT OF CONSUMER HEALTH

Bringing health to as many people as possible

Danone has made the strategic decision to develop a product portfolio for the benefit of health. Danone's nutrition strategy is also in line with the guidelines issued by health authorities in the various countries. Danone has trained 33,444 employees in nutrition and/or hydration over the past two years.

In 2017, 88% of volumes sold corresponded to healthy categories in the Nutrition Health scope, as in 2016 (see Methodology Note). The other categories are mainly low-sugar drinks, occasional "indulgence" products, and cooking aids (such as butter, cream, etc.).

Nutrition Commitments

In keeping with the Nutrition Health Charter, introduced in 2005 and updated in 2009, Danone published its Nutrition Commitments in 2016, setting out six quantified commitments through to 2020:

Commitment no. 1: continuously improve the nutritional quality of products;

By 2020, 100% of Danone's products will have reached the absolute nutritional target values set by Danone such as:

- 7 grams of added sugar and 2.5 grams of saturated fatty acids per 100 grams of yogurt at the most;
- 0 gram of added sugar and 0.6 to 2.6 milligrams of iron per 100 kilocalories in infant formulas for babies over six months;
- less than 5 grams of sugar per 100 milliliters in low sugar beverages (aquadrinks).

In Africa, given specific dietary features and the product ranges available, Danone aims to achieve these targets by 2025 and has therefore defined intermediate target values for 2020.

Danone has been improving the nutritional value of its products for several years. In 2017, 21% of the product volume had been nutritionally improved over the past three years compared with 26% in 2016 (see Nutrition Health Scope, Methodology Note). The percentage of products gradually decreases because product innovations and renovations are already compliant with nutritional targets.

Commitment no. 2: design healthier alternatives relevant for consumers;

By 2020, top Danone's brands will contribute to providing healthier alternatives in consumers' diet.

Commitment no. 3: further reinforce Danone's expertise on the understanding of local nutrition practices and public health contexts

By 2020, in its major countries of business, Danone will have implemented and published the outcomes of research programs supported by local experts to understand food cultures and eating and drinking habits.

In 2017, 57 countries, compared with 54 in 2016, were covered by Nutriplanet studies, the program designed to obtain detailed knowledge of local contexts as regards all aspects of food and nutrition (see Methodology Note).

Commitment no. 4: contribute to address local public health challenges on which Danone can have a most favorable impact through partnerships

By 2020, in 15 major countries in which Danone does business, it will have contributed to a local public health cause with relevant actions and programs. At the end of 2017, at least one subsidiary in five of those countries has deployed such a program.

Commitment no. 5: develop even more responsible marketing practices, especially to children;

By 2020, each country in which Danone operates will have disclosed and embedded a local comprehensive policy on responsible marketing practices. These policies will include Danone's commitment regarding breast-milk substitutes.

Commitment no. 6: provide the most appropriate product labeling to encourage healthier choices.

By 2020, all product volumes sold will provide comprehensive nutritional information, via various means, to guide consumers, in particular regarding portion guidance.

Product transparency and labeling

As part of Danone's nutrition commitment no. 6, 100% of product volumes sold will provide relevant nutrition information by 2020, meeting the following four criteria:

- nutritional information on product packaging (generally on the back of the product with a table of nutrition values);
- providing additional nutritional information via a website or a consumer phone number;
- clear indications about portion size (when the product is not presented in individual portions, the number of portions contained in the product will be indicated on the packaging);
- nutritional information on the product front-of-pack: in every country where it is permitted by regulations, Danone commits to provide an indication of the product's nutritional quality on the front of packaging (in compliance with the applicable local system).

Nutri-Score: example of nutrition labeling in France

Nutri-Score is a simple, integrative visual system for product quality scoring: positive and negative aspects are reflected in a single score enabling consumers to compare different products. This system is in line with Danone's nutrition commitment no. 6.

Danone aims to play an active role in the debate on transparent labeling as the Company considers it necessary to allow consumers to make their choices. In this area, in October 2017, Danone committed for the France scope to feature the Nutri-Score five-color code on the front of its products. Nutri-score will therefore be gradually applied starting in 2018.

Responsible communication and marketing

Responsible communication

In 2002, Danone adopted an internal directive, applicable to all the Businesses, in order to ensure the consistency, credibility and scientific accuracy of the health and nutrition claims contained in its various communications. In particular, this directive sets out the responsibilities of the General Manager of each subsidiary who appoint a person responsible for local implementation and application of communication validation processes.

In terms of advertising, Danone is committed to applying the ICC Code (International Chamber of Commerce Code for Responsible Food and Beverage Marketing Communication). In 2017, 97% of Danone's commercial communications were considered to comply with the ICC guidelines for the food marketing sector (97% in 2016). Danone aims to achieve compliance across all communication campaigns, but non-compliance issues can arise occasionally and are subjected to corrective measures.

Communication and marketing to children

In the particular case of communications aimed at children, Danone is committed to restricting advertising exclusively to products adapted to their nutritional needs. To that end, Danone has joined numerous local and regional pledges (association of companies) including the 2007 EU Pledge of which Danone was a founding member. In most of the countries involved, compliance with this commitment is certified by an external agency.

For example, in 2017, Danone's television advertising registered 99.2% compliance with the EU Pledge criteria in the six countries audited (France, Germany, Hungary, Italy, Romania and Spain).

Regarding subsidiary websites and brand profiles in social networks, 100% of websites audited and six brand profiles out of seven were compliant in the six countries audited (Bulgaria, France, Germany, Hungary, Spain and the Netherlands).

Furthermore, Danone joined the International Food and Beverage Alliance (IFBA) in 2017 and supports the alliance's commitment:

- to restrict advertising directed towards children under 12 only to products meeting common nutrition criteria based on scientifically recognized guidelines;
- or not to advertize to children under 12.

The Alliance members also undertake not to advertize food products or drinks in primary schools.

Marketing of breast-milk substitutes

Concerning early life nutrition, Danone supports the public health recommendations of the World Health Organization (WHO) calling for exclusive breastfeeding for the first six months of a baby's life, and continued breastfeeding (up to the age of two) with the safe introduction of appropriate complementary foods.

In 2016, Danone published a position paper on health and nutrition during the first 1000 days of life, based on two convictions:

- breastfeeding needs to be protected and promoted;
- best nutrition for mothers, infants and young children needs to be assured.

With regards to the marketing of Breast-Milk Substitutes, Danone has made a commitment to comply with the code developed by the WHO (International Code of Marketing of Breast-Milk Substitutes), and has deployed a strict international policy: no advertizing or promotion of infant preparations intended for babies under six months, anywhere in the world, even where local laws do not prohibit this practice. In addition, compliant with the FTSE4Good Index Breast-Milk Substitutes criteria for countries classified as higher-risk, Danone has voluntarily extended its policy to infants up to 12 months of age, which may go beyond local legislation.

In 2016, Danone joined the FTSE4Good index, providing recognition of its corporate responsibility commitments particularly in terms of responsible marketing practices for Breast-Milk Substitutes. In accordance with standard procedures of FTSE Russell, Danone has appointed an independent third party to carry out two market assessments on its Breast-Milk Substitute marketing practices.

Danone has also appointed an independent auditor to regularly assess the compliance of its Breast-Milk Substitute marketing policy in line with its 2016 commitment to conduct three audits a year.

Consumer education

Danone implements education and information programs aimed at consumers and/or healthcare professionals. These programs are developed in partnership with local stakeholders to target public health issues. Each Business develops programs on topics that relate to it specifically and most subsidiaries have active programs on food and hydration.

In 2017, Danone had 28 active education and information programs, compared with 118 in 2016. These programs aim to promote healthy diets and lifestyles to different population groups, including children, young parents, pregnant women, or senior populations. They potentially reached 28 million people in 2017, compared with 481 million in 2016. Danone reinforces the eligibility criteria of education programs each year, which accounts for the lower number of programs meeting these criteria and the smaller number of persons impacted.

Danone defines an education program as "a set of beneficial and social actions, motivating the targeted communities to adopt healthier eating and drinking habits". An education program must be developed with independent third parties (such as NGOs, experts, public health authorities), must promote changes to individual behaviors and include measurable goals and the degree to which they are met.

Based on this definition, the list of Danone's education programs has been consolidated by defining criteria to measure their efficiency (number of regular participants, behavioral changes, impact on health issues, etc.).

For example, with the support of the Danone Ecosystem Fund, the Eating Healthy, Growing Healthy project was created in 2014 by the Nutricia Foundation, the Comenius Foundation for Child Development, the Warsaw University of Life Sciences, the Mother and Child Institute and university business incubators. It seeks to improve early-life nutrition in Poland by developing an accredited network of independent nutritionists. Thanks to the project, these expert nutritionists carry out training and education initiatives for parents and staff of day-care facilities, and develop menus suited to infant ages.

Food and nutrition access and affordability

Through the NutriPlanet program, Danone invests in understanding local public health issues and eating patterns in order to define local strategies to encourage healthy and appropriate choices.

Accessibility and price play an important role in food consumption frequencies and eating habits. Danone therefore applies the Growth Across Pyramid method in order to provide populations in difficult situations with good, healthy and affordable products via specific distribution models for improved accessibility.

These two approaches were strengthened in 2014 with the creation of the strategic business unit Africa which explores standard integrated solutions that are nutritionally appropriate and accessible for this continent.

In addition, with the commitment to health and nutrition during the first 1,000 days of life in the Early Life Nutrition Business, Danone acknowledges the key role that breastfeeding and diet play in infant development and preventing malnutrition.

Danone seeks to drive continuous improvement of its products. Of volumes sold in 2017, 50% were fortified products, as in 2016 (see Methodology Note). In Africa, where anemia is a major problem, Danone changed the formula of its Phosphatine cereals in 2014 to provide 70% of a child's daily iron requirements while reducing the price by 30%, thereby making the product affordable for a broader range of households.

Finally, Danone's strategy is also based on innovative investment partnerships with its funds. They particularly include danone.communities, and its social businesses dedicated to fighting malnutrition and access to drinking water, and the Livelihoods Fund for Family Farming which helps small farmers become more resilient and develop their own subsistence agriculture to improve their own diet.

5

5.3 CO-CREATING WITH EMPLOYEES AND SUPPLIERS

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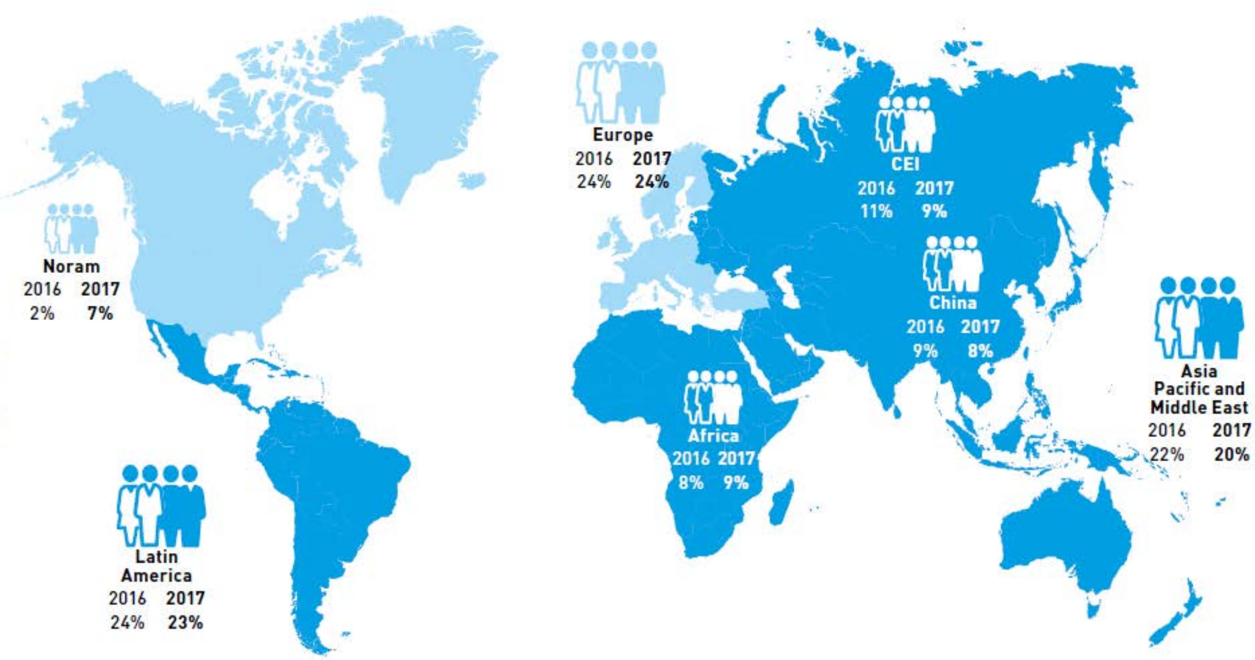
DANONE'S HUMAN RESOURCES POLICY

Danone's policy for employment

Danone's workforce

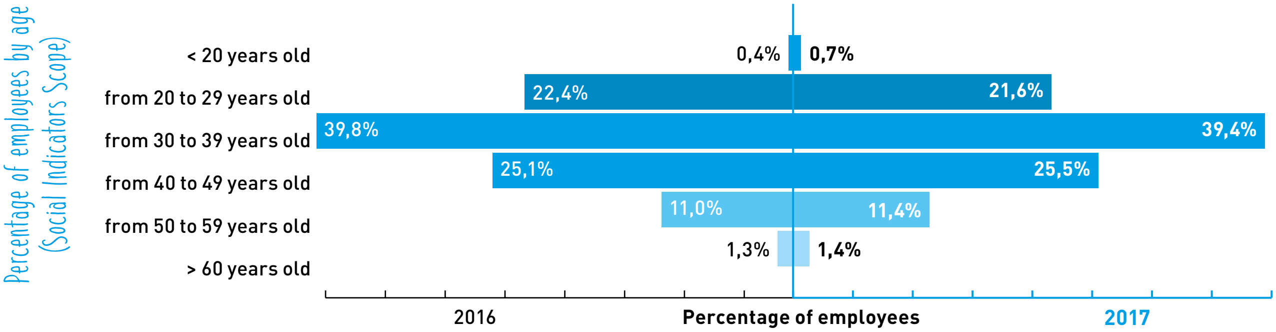
Breakdown by geographical area

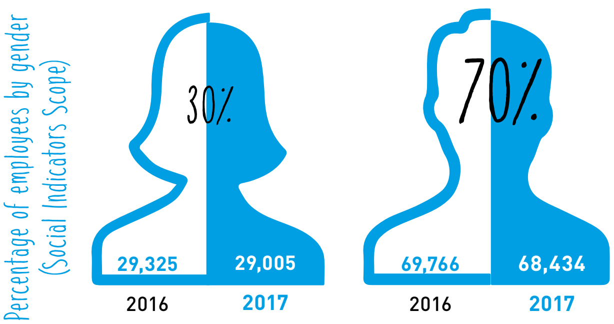


	Total number of employees		Europe & Noram		Rest of the World	
	2016	2017	2016	2017	2016	2017
	99,187	104,843	26%	31%	74%	69%

Breakdown by Business

	2016	2017
Essential Dairy and Plant-Based		
EDP International	37%	36%
EDP Noram	2%	6%
Specialized Nutrition		
Early Life Nutrition	14%	14%
Advanced Medical Nutrition	6%	6%
Waters	38%	35%
Other	3%	3%





Hires and dismissals

Danone's policy above all consists of anticipating market and organizational developments through training or other levers for employees development. While some jobs do have to be shed, discussions or negotiations on the impact of these measures are always held as part of social dialogue, to identify any alternative measures to such layoffs, and to provide employees with individual support for their redeployment. In the case of business disposals, continued employment is a criterion discussed with buyers.

In 2017, there were 5,619 dismissals across all Danone subsidiaries compared with 6,203 in 2016 (Social Indicators Scope, see Methodology Note), along with 12,842 new hires, compared with 13,016 in 2016.

Compensation and benefits

Compensation

Danone offers complete, competitive and equitable compensation based on its own system of evaluating and classifying jobs, taking account of human resources development, as well as the local regulations, requirements and situations of the various subsidiaries.

Every year, levels of compensation are reviewed in each country based on market studies of external compensation levels and decision tools that guarantee equitable compensation. Median compensation by classification level and wage increase rules are defined in line with market conditions and the subsidiaries' needs. They are based on the ability of Danone's subsidiaries to generate growth and profits as well as social and societal performance.

Annual variable compensation rewards collective and individual performance based on three factors:

- economic objectives form the basis of Danone's financial performance; Danone assesses quantitative targets and the way they were achieved;
- social and societal performance goals;
- managerial and individual targets.

In addition, since 2008, Danone has integrated societal performance criteria into the variable compensation of around 1,500 senior executives. These criteria include the carbon footprint reduction goal, employees safety and diversity (see section 6.3 *Compensation and benefits of governance bodies*).

Employee profit-sharing and shareholding

Employees of Danone's French subsidiaries benefit from a profit-sharing plan, based primarily on Danone's results. The other French subsidiaries and some foreign subsidiaries have implemented employee profit-sharing and/or incentive plans based on their own results. In 2017, expenses recognized by Danone and its fully consolidated subsidiaries in connection with employee incentive and profit-sharing plans totaled €106 million (stable compared with 2016).

Employees of Danone's French subsidiaries may also subscribe to a Company Savings Plan (see section 7.3 *Authorizations to issue securities giving access to the share capital*).

Retirement commitments, retirement indemnities and personal protection

Danone contributes to state-sponsored and/or private retirement funds to build up its employees' retirement benefits, in accordance with the laws and customary practices of countries where its subsidiaries operate. Danone also has contractual commitments related to severance pay, retirement indemnities and personal protection, most of which are managed by independent funds responsible for fund administration.

Commitments related to existing defined benefits schemes generate an actuarial liability, which results in a provision being posted in the consolidated financial statements. There is no actuarial liability for defined benefit schemes.

The provision posted for these commitments as of December 31, 2017 and the expenses for the year are presented in Note 7.3 to the consolidated financial statements.

Work organization

Organization of working hours

The organization of working hours varies according to the local environment of each subsidiary, with different work schedules, such as employees opting for a transition to part-time work or the implementation of work-at-home practices at various Danone subsidiaries, which helps to improve the employees' quality of life.

In 2017, employees working part-time accounted for 3% of the company's total employees. Part-time work particularly concerns employees in the central functions and the Advanced Medical Nutrition Business where respectively 8% and 11% of employees work part-time compared with 9% and 11% in 2016. Part-time work is mainly applied in Europe where it represents 12% of employees compared with 16% in 2016.

Danone also promotes the application by its subsidiaries of best practices for work organization, particularly by assessing the policies implemented, setting up systems for measuring work time, conducting employee surveys to assess workload, and carrying out targeted action plans if excess work time is noted.

Absenteeism

The absenteeism rate (see Methodology Note) was estimated at 2.4% in 2017, as in 2016. This rate has been used since 2016 to assess the benefit of a systematic program to promote health and quality of life in the workplace, which would result in a lower illness-related absenteeism rate. Illness-related absenteeism will become one of the key indicators of Danone's workplace health and well-being strategy (see section on *Workplace safety and health* hereafter).

Social relations

Organization of social dialogue

Social dialogue at Danone is organized around:

- a worldwide social dialogue body: the Information and Consultation Committee as well as its Steering Committee;
- the negotiation and monitoring of international framework agreements with the IUF (International Union of Food Workers);
- active social dialogue in subsidiaries with union and employee representatives.

Danone also promotes the application by its subsidiaries of best practices related to social dialogue by monitoring the number of economic and employment information sessions for all employees, the proportion of employees represented by employee representatives and the annual number of meetings between site management and employee representatives.

IUF agreements

As of December 31, 2017, 10 worldwide agreements and one European agreement between Danone and the IUF were in effect. These agreements define rules and best practices, particularly with regard to (i) diversity; (ii) social dialogue; (iii) steps to be taken for business changes impacting employment or working conditions; (iv) fighting against discrimination and encouraging diversity; (v) trade union rights; and (vi) procedures for consulting employee representatives in case of business changes that impact employment, health, safety, working conditions and stress.

The most recent worldwide agreement between Danone and the IUF was signed on March 15, 2016 regarding sustainable employment and access to rights. It applies to all Danone subsidiaries worldwide and it is designed to encourage sustainable employment in places where Danone operates. Danone and the IUF have both agreed to reduce unstable employment thanks to definitions, a methodology and specific processes.

These framework agreements between Danone and the IUF are implemented in each subsidiary and their application is evaluated jointly each year by a representative from Danone and a representative from the IUF. Between 2009 and 2017, 59 visits to subsidiaries were organized.

Workplace safety and health

Workplace safety

WISE² program: *"Work In Safe Environment"*

Initiated under the name WISE by Danone in 2004, WISE² is a worldwide program with the goal of developing a health and safety culture at all the sites in order to significantly reduce the number of workplace accidents. This program is structured around 13 safety culture components including ambitious objectives and indicators, accident investigations and analyses, and subcontractors management. The program also covers sites' compliance with safety standards and convergence between health and safety.

WISE² is led by the Human Resources Department. It is deployed in each Business, at the production sites and logistics warehouses, and in sales and distribution. It applies to all Danone employees and to workers employed through staffing agencies or service providers as well as to subcontractors working at Danone sites.

Based on the specific risks of its Businesses, Danone has identified 13 priority safety standards covering the most critical high-risk situations: hazardous energy, working at height, chemicals, confined spaces, explosive products, dangerous gases, fire and evacuation, dangerous machines, lift trucks, racks and pallets, truck loading and unloading, truck fleets and work permits.

In parallel, most sites perform their own risk assessments to identify key risks. In Europe, the Unified Risk Evaluation Document requires businesses to assess their risks and introduce the necessary action plans to guarantee employee safety.

To ensure the diffusion and efficiency of the WISE² program, approximately 50% of Danone's sites are audited each year. Since 2017, audits have also been extended to sales teams.

Employees are also involved in identifying and escalating risks and accidents via a participatory process open to all Danone employees and, at some sites, to workers employed through staffing agencies or service providers and subcontractors. Danone has introduced specific procedures and a system for reporting information by management level for cases of serious risks or accidents.

Workplace accidents

The efficiency of the WISE² program is assessed by monitoring workplace accidents. In this area, Danone has set more far-reaching goals to be achieved by 2020: zero fatal accidents and 50% fewer workplace accidents with medical absence compared to the baseline year.

Danone tracks its workplace accidents including accidents with and without medical absence for everyone working at its sites (employees, workers employed through staffing agencies or service providers and subcontractors).

In 2017, Danone decided to systematically include interims and third-party workers employed through staffing agencies or service providers in its monitoring of workplace accidents with medical absence (FR1) and without absence (FR2), and its severity rate (Frequency rate of workplace accidents, see Methodology Note). Previously, only temporary workers (*i.e* interims) were included.

The annual frequency rate of workplace accidents with medical absence was 1.7 in 2017. The drop in this rate reflects an improvement in results in all the plants (-14%), which account for almost 40% of hours worked. This improvement primarily stems from the reinforcement of requirements on standard compliance with WISE² and the significant contribution made by the Waters Business (-10%), particularly in Latin America and China. All the other Businesses also improved their FR1.

For comparison purposes, on the scope of Danone's employees (permanent and temporary, excluding workers employed through staffing agencies or service providers), the FR1 was 1.8 in 2017 compared with 1.9 in 2016.

Danone's 2017 severity rate stands at 0.08.

Danone's 2017 frequency rate of workplace accidents without medical absence is 2.1. For comparison purposes, on the scope of Danone's employees (permanent and temporary, excluding workers employed through staffing agencies or service providers), the FR2 was 2.2 in 2017 compared with 3.0 in 2016.

In 2017, Danone declared 2 fatal accidents that were both traffic accidents, in distribution. Following these accidents, specific prevention and action plans have been implemented in the concerned subsidiaries.

	Year ended December 31					
			2016			**2017**
(in number of accidents except frequency rate)	**Fatal accidents [a]**	**Accidents with at least one day of medical absence [a]**	**Frequency Rate 1 (FR1) [a]**	**Fatal accidents [a]**	**Accidents with at least one day of medical absence [a]**	**Frequency Rate 1 (FR1) [a]**
By Business						
Essential Dairy and Plant-Based	1	213	2.4	1	207	2.4
Waters	2	112	1.3	1	99	1.1
Early Life Nutrition and Advanced Medical Nutrition	–	62	1.6	–	54	1.1
Other	–	47	8.3	–	49	3.4
Total	**3**	**434**	**2.0**	**2**	**409**	**1.7**

(a) Safety Scope (see Methodology Note).

Working conditions

Use of the WISE² program to promote improved working conditions

Due to the increase in musculoskeletal disorders in workplace accidents, Danone has integrated working conditions into the WISE² action plans. The initiatives launched in recent years particularly involve assessment of ergonomic risks, movement and posture training and workstation adaptations. The Businesses' engineering departments increasingly share their safety and ergonomics design rules, and train their project engineers. Danone is also taking steps to reduce working hours and turnover in local distribution.

Promotion of well-being at work and stress prevention

In 2015 and 2016, working groups in several countries listed existing initiatives which have served to develop a systematic approach to promoting health and well-being in the workplace based on five pillars: (1) ensuring a good pace of work; (2) valuing day-to-day work; (3) fostering healthy ways of working; (4) managing with compassion and authenticity; and (5) promoting healthy lifestyles and a healthy environment. Practical guides encourage the subsidiaries and sites to implement these practices. In 2017, initiatives taken in subsidiaries particularly included:

- the "right to disconnect" at weekends and at the end of the day, limiting meetings and reducing work schedules, promoting work-at-home and developing collective intelligence;
- organizing sessions with psychologists and social workers and setting up committees to identify situations of workplace isolation in order to anticipate risk situations and take preventive measures;
- training management in detecting and preventing stress in teams, and providing certain teams with specialized coaches to remedy situations that have deteriorated.

In France, the commitment to these practices was formalized in July 2017 by the signing of a "Quality of Life in the Workplace" agreement.

Workplace health

Provide quality social welfare and healthcare coverage to all employees, notably through the Dan'Cares program

In 2010, Danone launched the Dan'Cares program with the goal of providing all Danone employees with quality healthcare coverage of major risks, while taking account of different market practices. The three main risks are hospitalization and surgery, outpatient care and maternity care.

Dan'Cares' specificity lies in its scope of application: it is destined to be rolled out in all Danone subsidiaries, including in countries where such coverage is not traditionally provided. As of December 31, 2017, more than 70,000 employees (2016: 70,000 employees) in over 42 countries received healthcare coverage in line with the standards defined by Dan'Cares.

Ensure the health and well-being of Danone's employees by promoting good practices

Danone has also promoted health through food among its employees for several years through its subsidiaries' Health@Work initiatives (training, sport rooms, workplace nutritionist, discussions, etc.). In 2017, 62,802 employees had access to the "Health@Work" program compared with 51,349 in 2016. This represents 81% of employees of the Nutrition Health scope compared with 69% in 2016 (see Methodology Note).

Some subsidiaries have rolled out dedicated programs in the workplace. For example, the Bonafont subsidiary (Waters, Mexico) conducts the Global Corporate Challenge program, centered around four areas of focus (physical activity, food, balance and sleep) and whose effect is measured.

Work-related illness

The rate of work-related illness and associated absenteeism is monitored only at local level, mainly to take each country's legislation into account.

Diversity and Inclusion

An inclusive approach to diversity

Since 2007, with the signing of the Global Agreement on equal opportunities with the IUF, Danone has committed to promoting greater diversity within its organization.

Danone's Chief Executive Officer and Executive Committee committed to achieve by 2020 a total of 30% female executives and 30% executives representing countries outside Western Europe.

At the end of 2017, these two indicators were respectively 25% and 23% compared with 21% and 22%, respectively, in 2016.

Danone believes that all differences, both visible and invisible, such as age, gender, nationality, disability, background, religion, education, mindset, culture and sexual preference, should be embraced.

In 2016, Danone implemented its Diversity and Inclusion (DI) program that is formally defined in the Diversity and Inclusion Declaration setting out the key commitments.

Danone has identified three priority areas: inclusive attitudes, gender balance, culture and nationalities.

Implementation of the program is monitored by a global steering committee and by Danone Way in the subsidiaries.

Gender equality

The proportion of Danone female managers, directors and executives remained stable at 49% in 2017 (49% in 2016, for the Social Indicators Scope, see Methodology Note). Danone achieved these results mainly as results of its Women Career Guidelines Plan and thanks to the following measures:

- measures supporting flexible working hours for men and women;
- wage equality;
- support for women through ad hoc training programs (Women in Leadership), networking (EVE seminar, EVE the blog, etc.) and mentoring (Eve2Eve);
- inclusion of men in the diversity approach (participation in EVE seminars and HeforShe).

HeforShe

HeforShe is a global UN Women campaign launched in 2014 with the aim of empowering women with the support of men. The campaign encourages people from three different sectors (political, corporate and academic) to become advocates of the cause and exercise their influence to change mentalities.

In 2016, HeforShe was implemented by Danone in several countries (Indonesia, Brazil, the Netherlands), with the Leadership Mentoring program, which gives recently appointed women leaders the opportunity to be mentored by senior male leaders.

In 2017, Danone reached a new milestone in gender equality with the launch of its parental policy. In recognition of the expected impact of this gender equality policy, Emmanuel FABER has been named "Inaugural Thematic Champion" by the UN Women HeForShe movement.

Parental Policy

Danone has committed to creating the right conditions so that all employees can fully enjoy being parents along with a culture that supports family life, by 2020.

Danone's parental policy is based on three key elements:

- pre-natal support such as adapted working conditions and nutritional advice during pregnancy;
- extended parental leave, covering both men and women which include 18 weeks for the birth parent or 14 weeks for the legally adoptive parent and 10 working days for the secondary caregiver;
- post-natal support including job protection measures and return-to-work support, flexible working conditions, and support for breastfeeding by providing lactation rooms for mothers in offices that employ more than 50 women.

In 2017, the policy was deployed in three pilot countries – Australia, New Zealand and Italy – and will be rolled out to all countries by 2020.

Generational diversity

In 2017, Danone continued its intergenerational initiatives. Each year since 2012, Danone has organized the Octave inter-company seminars addressing company transformation by involving all generations.

Disability

In France, the percentage of persons with disabilities employed by Danone was 3.6% in 2017.

Employee training and development

Developing the employability of all employees

Danone implements training plans to develop and ensure the employability of its employees, and promotes team work, combining employee well-being, efficiency and independence.

In 2017, 83,653 permanent employees participated in at least one training course (85,870 in 2016) and a total of 2,517,432 training hours were provided (2,336,262 in 2016). Training was provided to 90% of employees (91% in 2016), representing an average of 27 training hours per person trained (25 hours in 2016, on the Social Indicators Scope, see Methodology Note).

Making Danone training programs available to as many employees as possible

Danone seeks to reach a maximum number of employees through the Danone Academy training programs. Therefore, the Company provides functional training courses, many of which are developed internally and, in most cases, are offered by Danone managers from different functions and countries. Campus for all events were also organized in 2017 (in India, China and Poland), with the goal of involving a larger number of employees, particularly non-managers, and using several training channels (conferences, e-learning, networking, etc.).

Danone Leadership CODES

In addition to the functional training courses, Danone places special emphasis on developing a culture of leadership based on the principle that every employee can develop leadership skills.

Danone reviewed its leadership model CODE (Committed, Open, Doer, Empowered) in 2015, renaming it CODES in order to place the emphasis on self-awareness (hence the letter S). Programs have been developed to gradually train and develop the skills of managers, starting in 2016, according to a shared leadership benchmark. The programs will then be rolled out to as many employees as possible.

Employee training on environmental protection

Danone provides its employees with training and information modules tailored to the needs of the various businesses and functions, particularly through the partnership with the Ellen MacArthur Foundation, which offers access to training on the circular economy.

Promotion of and compliance with the fundamental conventions of the ILO

In 2003, Danone joined the United Nations Global Compact, which integrates the ILO's fundamental conventions, and reconfirmed its commitment in 2009. Danone's commitment to comply with and promote the fundamental conventions of the International Labor Organization (ILO) has been formalized, implemented and promoted among employees and suppliers through a variety of means and in several phases.

The seven Fundamental Social Principles (abolition of child labor, abolition of forced labor, principles of non-discrimination, freedom of association, workplace health and safety, working hours and compensation) defined in the ILO's conventions are covered by an agreement between Danone and the IUF.

They form the basis of the RESPECT program launched in 2005, one goal of which is to extend these principles to Danone's suppliers (see section *Relations with suppliers*).

Lastly, these commitments are rolled out to all Danone employees through the Code of Business Conduct (see section *Danone's fair trade practices*).

RELATIONS WITH SUPPLIERS

Relations with milk producers

FaRMs (Farmers Relationship Management)

In the area of agriculture and milk collection, in 1997 the Essential Dairy and Plant-Based Business launched the FaRMS initiative together with all its farmer partners. This tool evaluates the performance of farmers from which Danone directly purchases its milk, in the areas of quality, food safety and traceability. The initiative subsequently evolved to integrate economic, social and environmental criteria. In 2017, on the basis of consolidated results at the end of 2016, the tool covered approximately 90% of milk producers that Danone works with directly. Coverage for 2017 will be implemented in April 2018.

The FaRMS tool is gradually being reorganized into different, more specialized and dedicated tools on topics such as animal welfare, greenhouse gas emissions (Cool Farm Tool), water consumption and the social dimension. These tools are designed to be complementary and will be coordinated overall to ensure optimal access to collected data. FaRMS will therefore eventually be refocused on quality, traceability and food safety.

Cool Farm Tool

Danone is rolling out a new tool (Cool Farm Tool) dedicated to calculating greenhouse gas emissions generated by livestock.

Cool Farm Tool is provided by the Cool Farm Alliance, a cross-sector platform connecting food industries, scientific organizations and NGOs, which works to develop and promote use of assessment systems for sustainable agriculture. The tool was implemented in 14 entities in 2017. In France, the subsidiaries use the Cap2Er tool developed by the Institut de l'Élevage.

Organization of milk collection

Danone procures milk, directly and indirectly, from over 140,000 milk producers in some thirty different countries. Danone's milk collection reflects the broad diversity of the world's production systems.

More than 70% of these are small producers located mainly in emerging countries of Africa and Latin America that own fewer than ten cows. In this case, milk is collected from collection centers to which these small producers deliver their production daily.

In Europe, Russia, or South Africa, milk is produced by family farms having anywhere from a few dozen to hundreds of cows. These producers represent only 15% to 20% of Danone's milk suppliers but the bulk of overall volume. Danone usually collects milk from these producers directly, and has often done so for several generations.

The "Chance for all" project launched in Romania in 2012 by the Danone Ecosystem Fund, Danone Romania and the NGO Openfields, supports Romanian farmers in the Zimnicea region to help improve the quality of their milk, increase the size and yield of their herd, and thereby boost the income of over 150 farmers and their families and employees. Innovative cattle-breeding solutions have been initiated locally to meet these farmers' specific needs, including wooden cowsheds and mobile milking machines. More than 800 farmers in the region have received training, and the producers' association they have formed supports application of sustainable farming practices to supply members with quality fodder respectful of soil health and the environment. This project covers 10% of the production site's procurement needs, and it plans to double its impact over the next four years by reinforcing sustainable farming practices and fostering carbon sequestration in the soils and humid pasturelands of the Danube.

Finally, in geographic areas where milk production does not have the same historical tradition, like certain countries in the Middle East and North America, security of supply, in terms of both quantity and quality, is ensured by larger farms.

Relations with farmers and fair pricing policy

Danone's partnerships with its milk producers cover technical aspects, such as milk quality and the farm's economic performance, as well as environmental and societal aspects. In recent years, Danone has developed innovative contracts with producers in the United States and Europe to reduce milk price volatility, thereby offering better visibility and financial stability. In 2017, Danone also launched this model in Russia.

These CPM (Cost-Performance Model) contracts define the price of milk taking production costs into account and are developed in partnership with milk producers or their organizations. At present, 40% of milk collected in Europe and the United States comes from producers working with Danone under CPM contracts. Furthermore, since 2016 in the United States, Danone has been working with its milk producers under the Dannon Pledge (see section *Sustainable Agriculture*).

In France, Danone initiated reflection in 2015 with Producer Organizations (PO) to progressively and jointly develop new price formulas integrating milk production costs based on specific local specificities. In 2017, after signing an agreement with the sixth and latest organization of milk producers (300 dairy farms in south-west France), all of Danone's producers belonging to a PO were covered,over 2,000 farmers.

In total, 19% of milk collected by Danone is covered by CPM contracts.

Relations with suppliers excluding milk

Through its RESPECT program, Danone carries out ambitious programs for its non-milk suppliers targeting responsible supply and continuous improvement. The Company also works directly with some producers further up the supply chain, particularly through projects supported by the Danone Ecosystem Fund and the Livelihoods Fund for Family Farming.

To integrate growing stakeholder expectations, as part of its vigilance plan Danone is moving its RESPECT policy towards a more comprehensive due diligence approach and stepping up requirements in the area of Human Rights.

Fundamentals of the responsible procurement program

Sustainability Principles

Danone's RESPECT program, introduced in 2005, integrates its Sustainability Principles. It is based on three pillars - social, environmental and ethical:

- The seven Fundamental Social Principles drawn from ILO standards in 2001 (see section *Promotion of and compliance with the fundamental conventions of the ILO*). They were completed in 2017 to include the three Priority Principles relating to forced labor defined by the Consumer Goods Forum (CGF) in 2016: every worker should have freedom of movement; no worker should pay for a job; and no worker should be indebted or coerced to work;
- These Social Principles were completed in 2009 with five Environmental Principles: preservation of resources; use of chemicals; climate change and greenhouse gases emissions; environmental management; and animal testing;
- Business Ethic Principles were also included to address fair and lawful transactions. They were complemented in 2017 to reflect the provisions of Danone's Code of Conduct for Business Partners.

These Sustainable Development Principles are included in a contractual clause with suppliers: the supplier warrants that the social and ethical principles are already in place in its own organization and that its employees, agents, suppliers and subcontractors comply with them.

Scope of application

RESPECT applies to suppliers across all of Danone's purchasing categories except raw milk, *i.e.* raw materials (fruit preparations, powdered milk, etc.), packaging, production machinery and transport and other services.

In 2017, Danone developed a specific policy requiring temporary work agencies or labor service providers that employ workers on behalf of the Company to respect the fundamental freedoms and rights of workers. The policy particularly targets forced labor practices such as recruitment fees.

Subcontractors, *i.e.* suppliers that manufacture finished products on behalf of Danone, are also covered by the RESPECT program. However, Danone uses very little subcontracting, as the majority of its finished products are produced at its production sites.

Responsible procurement and Human Rights

The RESPECT program is also inspired by the United Nations Guiding Principles on Business and Human Rights and constitutes implementation of the Vigilance Plan as required by law.

Given the specific features of supply chains in the farming sector, Danone has decided to broaden its scope beyond suppliers with whom the Company has established business relationships to integrate the upstream portion of its supply chains in the event of serious social or environmental risks.

Compliance with the Responsible Purchasing and Human Rights programs is monitored by the Nature and Cycles Sustainability team, under the responsibility of the Chief Procurement & Cycles Officer.

At Board of Directors level, the Social Responsibility Committee (see section *Corporate Responsibility Governance*) will monitor the Vigilance Plan implementation and Human Rights due diligence developed by Danone in its own operations and its supply chain.

In 2016, Danone joined the Consumer Goods Forum's collective initiative to eradicate forced labor from global supply chains. In this framework, in November 2017 Danone committed to monitor its operations for forced labor practices by 2020. This commitment particularly targets the recruitment and situation of Danone workers employed through labor service providers and subcontractors' employees.

For several years now, Danone has cooperated with specialized stakeholders to strengthen action to combat the various forms of forced labor in supply chains. For example, to fight informal employment in recycled plastic procurement, Danone has developed cooperatives of waste-pickers with support from local partners, enabling these workers to leave the informal economy and gain access to paid employment, recognized by public authorities, and complemented by social benefits. In Brazil, since 2011, 76 cooperatives benefiting more than 1,600 workers have been jointly created with support from the Danone Ecosystem Fund, the Essential Dairy and Plant-Based subsidiary in Brazil and local partners: Nenuca Institute for Sustainable Development (INSEA), Fundación Avina, and the Initiative for Inclusive Regional Recycling.

Responsible procurement due diligence

Danone is gradually deploying the various components of this process via a continuous improvement approach tailored to the Company's challenges and risks.

Risks map

In 2017, Danone updated its materiality and risks analysis, confirming the importance of responsible procurement and Human Rights issues (see section *Developing Danone's strategy and action with stakeholders*).

More specifically, in 2017 Danone mapped major potential risks for the twenty most exposed categories of procurements.

Danone analyzed risks according to a grid based on ISO 26000, GRI G4 and SA 8000 standards, integrating potential impacts of purchased products (potential risks inherent in the categories and geographic regions) in the areas of social and Human Rights, local communities, consumers, fair trade practices and the environment.

Combined with stakeholder expectations, this analysis determined the priority categories of product and service procurements on which Danone will focus its attention in the area of Human Rights over the next three years: workers employed through labor agencies or service providers, palm oil, cocoa, cane sugar and fruit. The potential risks brought to light are mainly situated in farms and plantations, upstream in the supply chains.

To assess the real situation in the supply chain, traceability is required for each priority category, in order to identify and locate the stakeholders.

Supply chain traceability

With support from independent experts, Danone has initiated traceability actions on the priority categories of agriculture:

- palm oil: (see section *Climate Policy*). As of the date of this Registration Document, integrating the WhiteWave scope, Danone has achieved 100% traceability back to mills and 68% back to plantations.
- fruit: Danone has determined the priority supply chains based on its materiality matrix specific to fruit procurement. Danone has asked its first-tier suppliers on all continents to map their own sources of supply back to farms and to identify major potential risks. More than 65% of volumes have been traced back to farms.
- cocoa and cane sugar: for each category, Danone developed a traceability and risk assessment procedure in 2017 which will be implemented starting in 2018.

Regular supplier assessment procedures

Assessment of first-tier suppliers

Procedure applied up to 2017

Assessment of first-tier suppliers, *i.e.* Danone's direct suppliers, is based on their CSR performance as self-declared on Sedex (*Supplier Ethical Data Exchange*). A risks analysis carried out by Sedex completes this self-declaration. At the end of 2017, 4,082 supplier sites were registered on the platform compared with 4,282 in 2016. This lower figure is due to changes in scope following sales of subsidiaries in 2017 and continued centralization of procurement at Danone.

Suppliers at risk identified by Sedex are audited by third-party organizations certified according to the SMETA protocol (Sedex Members Ethical Trade Audit) which covers the social, environmental and ethics dimensions. Sedex also provides Danone with access to audits commissioned by peers on common suppliers, thanks to the AIM Progress consortium's mutual audit recognition. In 2017, 195 SMETA audits were carried out on Danone suppliers, either by Danone itself or by its peers.

The procurement teams monitor supplier implementation of action plans whenever cases of critical non-compliance are detected. Most cases concerned health and safety issues, working hours or compensation. In July 2017, Danone introduced an indicator to monitor the timely start of SMETA audits and of non-compliance closure: 65% of Danone's suppliers complied with Danone's standards; this rate was 100% for central procurement.

Reinforcing first-tier supplier assessment starting in 2018

In addition to registration on Sedex, and in order to reinforce first-tier supplier assessment, Danone developed a new approach at the end of 2017 to segment its suppliers according to three levels of priority. Danone will determine these levels proactively, using geographical, sector-specific and trade data. Audits will be mandatory for all high priority suppliers. Appropriate assessment measures will also be taken for medium priority suppliers.

Assessment of suppliers further up the supply chain

Assessment of suppliers situated further up the supply chain is only possible when Danone has been able to establish traceability and identify the places of production. Drawing inspiration from the United Nations principles, Danone focuses on priority categories and geographic areas determined by the risks map.

As part of the traceability work done with first-tier suppliers in respect of fruit, in 2016, Danone chose to assess suppliers at production locations in certain priority geographic areas. An audit program was carried out in 2016 and 2017 on a representative sample of farms covering seven main categories of fruit representing 75% of total volumes purchased. These audits were conducted by independent third parties based on the Sustainable Agriculture Initiative (SAI) FSA 2.0 tool. The results served to define a reference base and an improvement plan for environmental focuses. Starting in 2018, Danone will be launching field investigations in the area of Human Rights with local stakeholders.

Appropriate measures for risk mitigation and prevention of serious breaches

Danone runs RESPECT program training for buyers, covering risks relating to forced labor and the Company's commitment on the CGF's three Priority Principles. Since the end of 2017, Danone has been promoting this commitment to all relevant members of the procurement, human resources and general secretary teams.

Regarding first-tier suppliers, Danone seeks (i) to establish regular dialogue concerning their responsible procurement process; and (ii) to monitor implementation of corrective action plans by audited suppliers.

For upstream agricultural productions, Danone has initiated certification processes for high-risk categories: RSPO for palm oil, UTZ for cocoa, FSC for paper and RTRS for soy.

Danone also develops collaborative projects to support producers, addressing both environmental and social aspects, by working on soil restoration, sustainable farming practices, and improving producer income and working conditions. Examples include:

- The Sustainable Moroccan Strawberry project launched by Danone with support from the Danone Ecosystem Fund and local partners GIZ, Dirafrost, Messem and Groupe Elephant Vert to help Moroccan strawberry producers improve their farms' management and yield as well as the working conditions and social welfare coverage of their seasonal employees;
- The vanilla plantation project supported by the Livelihoods Fund for Family Farming. This project will be conducted with 3,000 family farms to develop solutions to improve quality and traceability of vanilla production, as well as food security for the farmers and biodiversity conservation.

Lastly, Danone contributes to collaborative initiatives carried out in the agri-food sector in favor of responsible procurement practices, particularly by taking part in AIM Progress and the CGF (including to improve and reinforce RSPO certification practices and criteria).

Whistleblowing system

In 2017, Danone integrated two new categories of wrongdoings that may be reported via the Danone Ethics Line (see section *Danone's responsible practices*) to cover suspected environmental and Human Rights violations. The reporting process guarantees whistleblower protection and was developed in consultation with staff representative bodies.

All reported wrongdoings will be examined by a steering committee comprising representatives of the Sustainable Development, Human Resources and General Secretary functions.

Monitoring of measures and assessment of their efficiency

Danone monitors indicators to track (i) supplier registration on Sedex; and (ii) follow-up of audit remediation action plans in cases of non-compliance. The Company is also pursuing development of its measurement and assessment tools.

5.4 CONTRIBUTE TO THE PROTECTION OF THE ENVIRONMENT

Contents

ENVIRONMENTAL PROTECTION STRATEGY

Danone has adopted a strategic resources management approach based on cycles (milk, water and plastics). Managing resources in this way helps to ensure their sustainability and limit their volatility, using a circular economy approach and, more generally, to:

- fight against climate change by reducing Danone's footprint while contributing to natural carbon sequestration;
- protect water resources, especially when they are scarce, and use them in harmony with ecosystems and local communities;
- transform waste into resources, use materials made from sustainable resources and reduce food waste;
- promote and encourage sustainable agriculture as the basis for a healthy and balanced diet.

Danone's organization to address environmental issues

Organization

Danone implements its environmental strategy by integrating environmental challenges and social inclusion, coordinated by the Nature & Cycles Sustainability Department, which reports to the Procurement Department led by the Chief Procurement & Cycles Officer. The Nature & Cycles Sustainability Department relies on the Nature departments of each business and on a hundred of environmental correspondents in the subsidiaries.

Certification

Danone bases its environmental management policy on the international ISO 14001 standard which is a pre-requisite to obtain top performance score in GREEN environmental risk assessments audits (the Global Risk Evaluation for Environment program, see below).

Year ended December 31		
(number of sites, except percentages)	**2016**	**2017**
Total number of sites in the Production Site Environment Scope[a]	187	180
Total number of ISO 14001-certified sites in this Scope[a]	90	87
Percentage of ISO 14001-certified in this Scope[a]	48%	48%

(a) Production Site Environment Scope (see Methodology Note).

Resources devoted to preventing environmental risks and pollution

Environmental risk management

GREEN program

Danone has rolled out the Global Risk Evaluation for the ENvironment (GREEN) program of external audits worldwide, which makes it possible to identify and monitor the main environmental risks related to the production sites (accident, reputational and regulatory risks). The program enables the Company to monitor and manage its emissions in the air (greenhouse gases and refrigerant gases), water (wastewater) and soil (sludge from treatment plants and livestock farming at certain subsidiaries). Noise pollution at Danone's production sites is also assessed under the GREEN program.

The complete assessment of the sites is based on 6 risk categories specific to Danone's production activities: environmental management system, operating permits, water quality management, atmospheric emissions (air quality management), waste management and hazardous waste disposal. It is carried out on the basis of three risk management levels that determine audit frequency:

- every 3 years for risk management in line with or higher than the standards set by Danone;
- every 2 years for risk management below the standards set by Danone;

- every year for risk management that is inadequate or well below the standards set by Danone.

For non-compliant sites, action plans are implemented in order to remedy deficiencies. The implementation of these plans is monitored through the increase of GREEN audit frequency.

As of December 31, 2017, 69% of Danone's production sites (Production Site Environment Scope, see Methodology Note) received at least one GREEN audit, *i.e.* a total of 124 sites (compared with 64%, or 120 sites in 2016). Of these 124 sites, 104 were in compliance with the Company's standards (scoring higher than 800 of 1,000) compared with 98 in 2016.

Risk management, notably for those risks related to weather conditions and seasonality as well as industrial and environmental risks, is presented in section 2.7 *Risk factors*.

Water risk assessment

Danone has established a global water risk assessment approach for its production sites using the Aqueduct Water Risk Atlas from the World Resources Institute and, since 2017, the Water Risk Filter tool developed by the WWF.

The Aqueduct Water Risk is a public database and interactive mapping tool that provides information on water-related risks around the world. The indicators provided by this database are divided into three risk categories: (i) physical risks related to quantity; (ii) physical risks related to quality; and (iii) reputational and regulatory risks. This database enabled Danone to obtain an initial mapping of its water risks and identify the sites that have potential major risks.

In 2017, the Company began an in-depth review of its watersheds using the Water Risk Filter tool, beginning with those sites identified as having the highest risk.

Environmental expenses and investments

In 2017, Danone's investments in environmental protection amounted to €27 million, or 2.8% of Danone's total capital expenditures (€25 million in 2016, approximately 3%). The investments made in 2017 focused mainly on the following categories:

- environmental compliance: waste management, wastewater treatment, treatment facilities, noise measurement, air quality, etc.;
- investments aimed at reducing carbon emissions (energy savings, use of renewable energies, logistics and eco-design packaging).

Operating expenditures related to the environment amounted to €120 million in 2017 (€116 million in 2016). They were allocated as follows: €37 million for waste management, wastewater and air emissions; €53 million for the packaging levy; €30 million for other expenses (e.g. €14 million for taxes and duties and €9 million in depreciation).

Provisions and guarantees for environmental risks

No significant provision for environmental risks and changes was recognized on Danone's consolidated balance sheet as of December 31, 2017 (nor as of December 31, 2016).

CLIMATE POLICY

Danone Zero net carbon strategy

In 2015, Danone set targets to reduce greenhouse gases and contribute to a "carbon-free" economy. In 2017, Danone stepped up its commitments, notably by participating in the 4 per 1000 initiative for regenerative agriculture, thereby making agriculture a priority of its low carbon strategy.

Climate Policy and Commitments

For Danone's entire greenhouse gas emissions scope, the target is to attain zero net carbon by 2050. This target consists of five principal objectives:

- reduce total emissions intensity by 50%, and by 30% between 2015 and 2030 scope 1 and 2 emissions in absolute;
- encourage "carbon positive" solutions;
- eliminate deforestation of the supply chain by 2020;
- strengthen the resilience of the water and food cycles;
- offer healthy and sustainable products.

Intermediary targets and recognition by the Science Based Targets initiative (SBTi)

SBTi is a coalition between CDP (formerly the Carbon Disclosure Project), the World Resources Institute, the World Wide Fund for Nature (WWF) and the United Nations Global Compact (UNGC).

In November 2017, the greenhouse gas emissions reduction targets set by the Company were officially approved by the Science-Based Targets initiative (SBTi), in accordance with the global measures required to keep global warming below 2° celsius.

In 2015, Danone set a target of zero net carbon emissions across its entire value chain by 2050. To reach this target, Danone established ambitious goals for 2030 that were approved by the SBTi: reduce emissions intensity by 50% for its full scope of responsibility (scopes 1, 2 and 3) and achieve a 30% reduction in absolute emissions on scopes 1 and 2, as defined by the GHG Protocol.

In 2017, Danone was recognized as a leader by CDP for the management of its climate change challenges ("CDP Climate change") with an A- rating.

RE100 commitment

In December 2017, Danone joined the RE100 initiative and made a commitment to transition to 100% renewable electricity by 2030, with an intermediary step of 50% by 2020. RE100 is a global and collaborative initiative that includes more than 100 influential companies committed to 100% renewable electricity.

Other Danone policies related to its Low Carbon strategy

Danone publicly discloses its policies by posting them on its website.

Forest policy

Recognizing the importance of preserving forests (notably rainforests in Indonesia and the Congo and Amazon river basins), Danone has made a commitment to eliminate deforestation in its supply chain and to a reforestation program by 2020 (including the Livelihoods fund's program to restore natural ecosystems).

Specific policies for palm oil, soy and paper/cardboard packaging, described below, were assessed by the Global Canopy Program.

For the fourth consecutive year, Danone received the highest-possible 5/5 rating in the Forest500 ranking.

To achieve this, since 2012, Danone has implemented a Forest Footprint Policy that aims to:

- evaluate the risks of deforestation related to raw materials used directly or indirectly in Danone's activities;
- propose specific policies;
- implement priority measures depending on the risks and related impacts.

Six major materials were prioritized: paper/cardboard packaging, palm oil, soy used in animal feed, wood biomass, sugar cane and bio-based materials for packaging.

This policy was rolled out at the level of three priority categories of raw materials at risk:

Specific policy for palm oil

In November 2015, Danone implemented a palm oil policy and committed to ensuring that all palm oil used:

- is traceable to the plantation where it was produced;
- comes from plantations whose expansion does not threaten forests classified as High Conservation Value (HCV) or High Carbon Stock (HCS);
- comes from plantations whose expansion does not threaten tropical peatlands, regardless of their depth;
- comes from plantations that respect the rights of indigenous peoples and local communities to give or withhold their Free, and Prior informed consent to operations on land to which they had legal, communal or customary rights;
- comes from plantations where the rights of all workers are respected.

Danone uses approximately 39,000 tons (2017) of palm oil, which represents around 0.05% of global production. Danone uses palm oil in certain end-user products, mainly in the Early Life Nutrition and Essential Dairy and Plant-Based businesses.

Since 2014, 100% of palm oil purchased by the Early Life Nutrition business was certified "RSPO segregated" (traceable back to the plantations, with the backing of The Forest Trust). With the recent expansion of its Essential Dairy and Plant-Based business, Danone is working to ensure the compliance of its additional palm oil supplies. In 2017, 99 % of the palm oil purchased by the Company was certified "RSPO segregated" (excluding WhiteWave).

Specific soy policy

Danone has committed to contribute to the development of a more responsible soy supply chain with the principal market participants, namely farmers, animal feed producers and the leading soy trading companies.

Danone reflects its ambition in five priorities:

- seekfull transparency throughout the entire supply chain, from production to consumption;
- promote local crops protein-rich, alternatives to soy imports, thereby helping to make farmers independent for animal feed production, as in Europe for example;
- promote the supply of soy from countries exempt from the risk of deforestation (India, United States, etc.);
- ensure the traceability from risk-free regions if the soy comes from a country at high risk of deforestation, notably through certification standards such as ProTerra or RTRS;
- help drive change on a global scale and over the long term through participation in international alliances such as the Consumer Goods Forum and Sustainable Agriculture Initiative, and take all other initiatives that enable Danone to reach its objectives.

In 2017, 67% of the subsidiaries have a concrete action plan with the local or centralized procurement teams that shows progression to eliminate deforestation from/due to soy cultivation in line with the Soy Policy (Danone Way scope, see Methodology Note). For example, in late 2017 Danone signed the Cerrado Manifesto. All signatory companies (today more than 60) have pledged to end deforestation in the Cerrado region, a savanna located mainly in Brazil, due in large part to soy cultivation.

Danone has not yet applied its soy policy to the supply of Essential Dairy and Plant-Based business for WhiteWave products. The soy used by DanoneWave is grown entirely in the United States, while those used by Alpro come mainly from European countries (France, the Netherlands, Belgium, Italy and Austria) and Canada.

Specific policy for paper/cardboard packaging

Jointly with several leading NGOs (notably Rainforest Alliance), Danone's specific paper/cardboard packaging policy has three objectives:

- actively reduce the weight of paper packaging for each product;
- prioritize the use of recycled fibers;
- whenever possible, give priority to FSC-certified virgin fibers.

Danone's performance

Measurement and compensation of greenhouse gas emissions

Danone consolidates the measurement of its greenhouse gas emissions on its full scope of responsibility, based on 3 emissions categories established by the GHG Protocol defined by the World Resources Institute (WRI): scopes 1, 2 and 3 (see Methodology Note).

Greenhouse gas emissions on scopes 1 and 2

With respect to scopes 1 and 2, the approach chosen by Danone consists of integrating all emissions sources under the operational control of its production sites, warehouses and vehicle fleets.

Danone set its emissions reduction targets using the market-based method of the GHG Protocol (see Methodology Note) in order to take into account the impact of the share of renewable energy used.

(in kt of CO_2 equivalent)	**2016 Market based**	**2017 Location based**	**2017 Market based**
Scope 1	595	644	644
Scope 2	937	937	817
Total Scopes 1 & 2	**1,533**	**1,581**	**1,460**

Emissions in tons of CO_2 equivalent for scopes 1 and 2 fell by 4.7% between 2016 and 2017. At constant scope, total emissions in tons of CO_2 equivalent for scopes 1 and 2 decreased by 5% relative to 2016, mainly due to the purchase of electricity produced from renewable energy sources.

Greenhouse gas emissions for scope 3: Life-Cycle Analysis Method

Scope 3 indirect atmospheric greenhouse gas emissions are calculated using the life-cycle analysis of finished products by taking into account emissions at each stage: raw materials purchases (including agricultural upstream), packaging, production, transportation and distribution, storage, product use and product end of life. This method enables Danone to identify the levers for significant emissions reductions.

(in ktCO2 equivalent)	**2016**	**2017**
Purchase of goods and services	17,153	15,454
Use of sold products	1,629	1,588
Downstream transportation and distribution of goods	1,239	1,158
Upstream transportation of goods	504	475
End-of-life treatment of sold products	369	993
Emissions related to upstream energy	340	331
Waste generated by operations	205	185
Total Scope 3	**21,439**	**20,154**

In 2017, scope 3 emissions in tons of CO_2 equivalent totaled 20.2 million, down 6% from 2016.

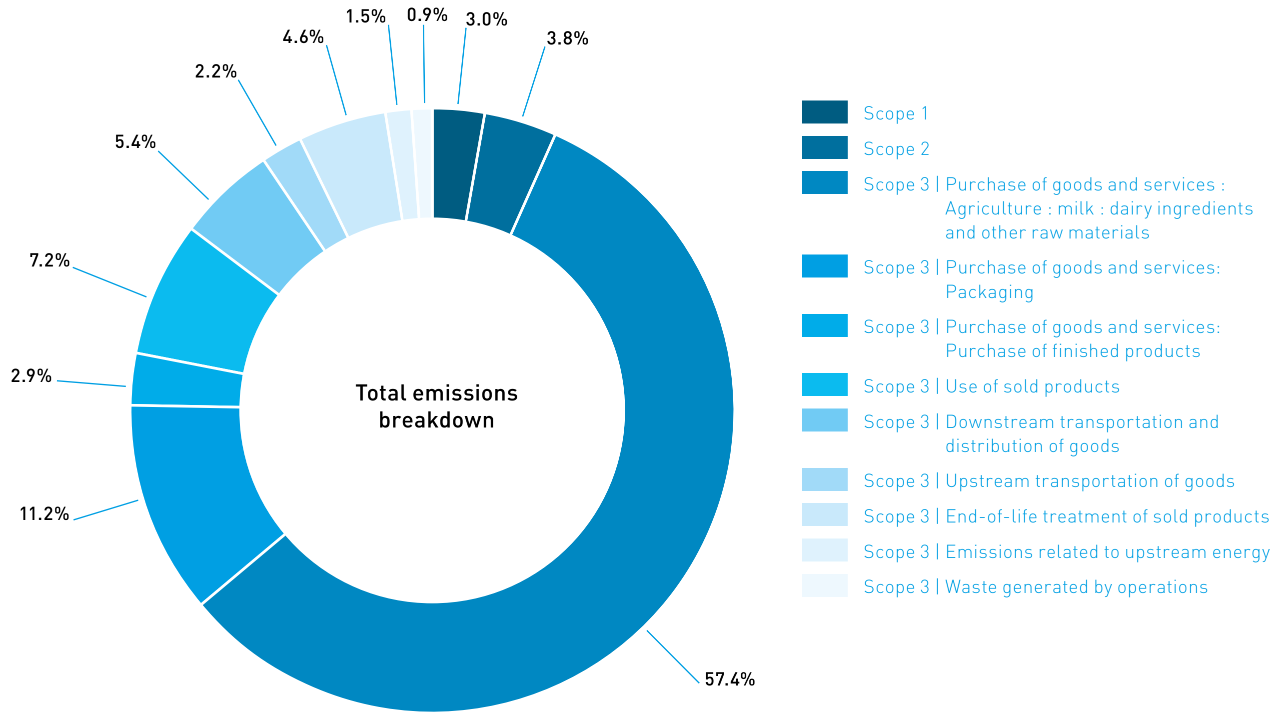
Total greenhouse gas emissions on the total scope of responsibility (scopes 1, 2 & 3)

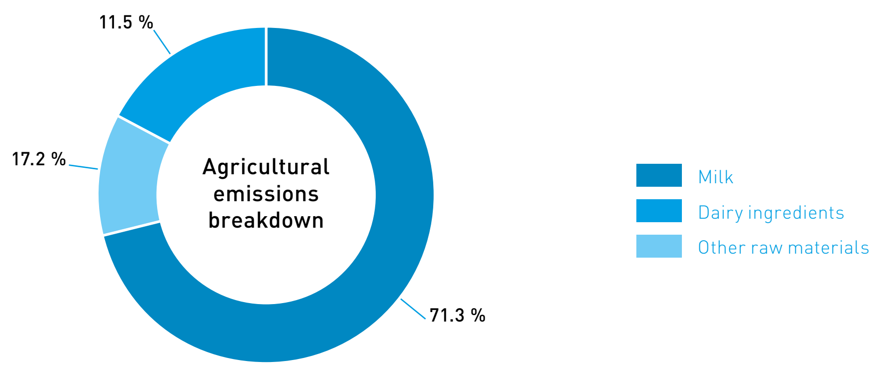
(in ktCO$_2$ equivalent)	**2016 Market-based**	**2016 Market-based**
Scope 1	595	644
Scope 2	937	817
Scope 3	21,439	20,154
Total Scopes 1, 2 and 3	**22,971**	**21,614**
Ratio of total emissions for scopes 1,2,3 in grams of CO_2 equivalent/kg of product sold	654.4	623.3

In 2017, Danone's total emissions for its total scope of responsibility (scopes 1, 2 and 3) was 21.6 million tons of CO2 equivalent.

The ratio of Danone's total emissions on its total scope of responsibility (scopes 1, 2 and 3) fell by 4.8% between 2016 and 2017. On a like-for-like basis, this ratio decreased by 5.8% relative to 2016, due to the declining sales of the Essential Dairy and Plant-Based business (whose ratio is above the Company average), the increase in Waters business sales (whose ratio is below the Company average) and through emissions reductions measures (electricity purchases from renewable energy sources, use of recyclable materials for packaging, lighter packaging, etc.).

Scope 3, which accounts for 93.2% of Danone's total emissions on its total scope of responsibility, is the largest contributor of emissions, ahead of scope 1 (3.0%) and scope 2 (3.8%).





Greenhouse gas emissions reduction targets

In connection with its emissions reduction targets for the 2015-2030 period, as of December 31, 2017 Danone had reduced its greenhouse gas emissions intensity by 10.5% on a like-for-like basis and methodology on its total scope (scopes 1, 2 and 3) relative to 2015. Absolute emissions for scopes 1 and 2 fell by 9.7% on a like-for-like basis and methodology relative to 2015.

Emissions compensation

Danone's priority is to reduce direct emissions across its value chain. In addition to measures implemented to reduce greenhouse gases, Danone also works on carbon compensations.

Moreover, the Livelihoods fund contributes to the fight against climate change by sequestering carbon, for example through the largest mangrove forest restoration program in Senegal and the agro-forestry project in India (see *Partnerships with funds sponsored by Danone*). The *evian* brand actively works to reduce its carbon footprint as part of its continuous improvement approach. Beginning in 2013 and after consulting its stakeholders, Danone decided to compensate the brand's emissions by using carbon credits issued by the Livelihoods fund, as and when they are distributed. In 2017, Danone compensated the emissions of *evian* brand products sold in the United States and Canada. Danone's goal is to fully compensate the *evian* brand's emissions as of 2020.

Improvements in energy efficiency and transition toward renewable energies

Danone is committed to energy consumption saving and promoting renewable energy use.

Energy consumption

The intensity of Danone's energy consumption fell by 0.8% in 2017 relative to 2016. On a like-for-like basis, this ratio declined by 2.6% between 2016 and 2017.

This decline resulted on the one hand from measures to reduce and optimize energy consumption, notably in the African subsidiaries (-1.5%) and on the other from the decline in sales of the Essential Dairy and Plant-Based business (whose ratio is above the Company average) and increase in sales of the Waters business (whose ratio is below the Company average), with a favorable impact of -1.1%.

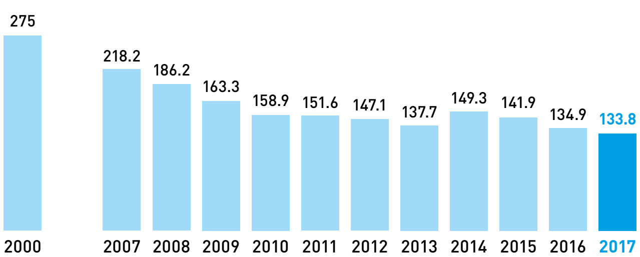
	Year ended December 31	
(in MWh)	**2016**	**2017**
Thermal energy[a]	2,783,591	2,714,842
Electricity[a]	2,016,770	2,013,185
Total	**4,800,360**	**4,728,026**
Intensity of energy consumption *(in KWh/ton of product)*	134.9	133.8

(a) Production Site Environment scope (see Methodology Note).

Intensity of total energy consumption at the production sites[a]

The intensity of Danone's energy consumption fell by 51% relative to 2000, and Danone's target is to achieve a 60% decline by 2020.

(in KWh/ton of product)



(a) For the reporting scopes in each year.

Measures taken to improve energy efficiency

To improve its energy efficiency, Danone implemented two main mechanisms:

- optimization of energy production at the sites. For example, in the Essential Dairy and Plant-Based business, three facilities installed combined heating and power units, thereby improving the site's energy yield by enabling it to recover up to 90% of the energy, compared with only 40% to 55% on traditional systems;
- optimization of energy use. For example, in the Essential Dairy and Plant-Based business, the geothermal water project at the Chekhov plant in Russia is designed to save heat and electricity by using heat pump technology and groundwater for cooling.

The sharing of best practices and emulation among Danone's production sites since 2016 have made it possible to strengthen this trend:

- the Waters business deployed the WattWatcher tool at all sites, which makes it possible to set performance targets for each bottling site;
- the Essential Dairy and Plant-Based business launched the Ideal Factory program to improve the performance of its production sites by integrating economic and environmental considerations. This program consists of establishing a benchmark for optimal energy and water consumption as well as all best practices for maintenance, teams set up and, in general, all cost lines. Ideal Factory will enable each site to be measured against a benchmark and to develop its own roadmap to reach its goals. In 2017 this program was rolled out at all of the African subsidiaries (Morocco, South Africa, Algeria, Egypt and Ghana).
- The Early Life Nutrition business developed an Energy network that examines energy efficiency topics on a monthly basis.

Use of renewable energy

As part of the RE100 initiative (see above), Danone has made a commitment to move toward 100% renewable electricity by 2030. In 2017, 24 production plants purchased electricity from 100% renewable sources (wind power, hydropower, etc.). In all, these purchases represented 18% of Danone's total electricity purchases in 2017, versus 7% in 2016.

At the local level, Danone is also testing projects to produce and use renewable thermal energy. Since the early 2010s, some sites have adopted energy innovations such as wood-fired furnaces, methane digesters and biofuel. Across all businesses, renewable thermal energy produced and used on site represented 6% of the total thermal energy consumed by Danone in 2017, versus 4% in 2016.

Climate change adaptation

Danone estimates the climate change impacts to round out the overall risk assessment and management policy described in section 2.7 *Risk factors*. For example, Danone has identified medium-term risks in the following areas:

- supply of raw materials (milk, fruit, etc.) in certain regions of the world exposed to possible droughts and inclement weather;
- water resource availability;
- cold production at the Essential Dairy and Plant-Based Business' sites in case of a significant rise in temperatures;
- unusual climate events that could affect some production sites located near coastlines.

Moreover, Danone identified livestock farming as a key sector in its supply chain with respect to climate change (responsible for around 14.5% of total global greenhouse gas emissions). Working in collaboration with the Global Research Alliance and the Sustainable Agriculture Initiative (SAI) platform, Danone therefore participated in studies looking to scientifically analyze the methods used to reduce greenhouse gas emissions in dairy farms, for all the sector's stakeholders.

SUSTAINABLE WATER USE

Sustainable water use is a major issue for Danone, whether it involves the direct use of this resource in its products and production processes or its use in the supply chain. Danone therefore conducted a risk assessment to prioritize and implement the necessary measures at the local level. Danone identified four priorities: (i) water resources and ecosystems; (ii) water used in agriculture; (iii) water used in operations; (iv) access to drinking water, sanitation and hygiene.

Water resources and ecosystems

In 2004, Danone established its Groundwater Resources Protection Policy in order to ensure the sustainability of resources and to protect and enhance the natural heritage of the sites. Danone also strengthened its partnerships with public and private-sector entities to share the work and objectives. In 2017, for example, Danone renewed its partnership with the Ramsar Convention, a United Nations intergovernmental convention on wetlands preservation, for three years. The partnership was initiated in 1998.

Danone's subsidiaries apply the Groundwater Resources Protection Policy mainly by using the internal water resource management tool SPRING (Sustainable Protection and Resources managING) that covers the physical, regulatory and community management of aquifers (geological formations containing (groundwater) and their watershed. This method was jointly developed between 2013 and 2014 with the Ramsar Convention and the International Union for Conservation of Nature (IUCN). Danone's goal was to deploy this tool at all Waters business bottling plants by 2020. This objective was achieved in 2017, with 100% of the sites assessed (compared with 87% in 2016).

As part of the partnership, the Evian impluvium (infiltration zone) has been declared a Ramsar site since 2008. With support from the Danone Ecosystem Fund and local partners, Société des Eaux Minérales d'Evian established the "Terragr'Eau Méthanisation" project to preserve the impluvium, which enabled the construction of a methanizer and creation of a farmers cooperative aimed at reconciling sustainable agriculture with water resource preservation.

Water used n agriculture

The Company promotes agricultural practices that respect natural ecosystems by preserving the water cycle, notably in the highest-risk areas for its supply chain. To that end, Danone works with the 140,000 milk producers in order to make them more resilient in dealing with climate change.

Danone also works on these challenges with several suppliers outside of milk production, mainly through its funds: the Danone Ecosystem Fund, the Livelihoods fund and the Livelihoods for Family Farming fund.

Water used n operations

Water consumption

Total water withdrawn from surrounding areas and protection of springs

In 2017, Danone drew 68,685,000 m^3 of water, compared with 70,975,000 m^3 of water in 2016, representing a 1.4% decline in 2017 relative to 2016.

	Year ended December 31	
(in thousands of m^3)	**2016**	**2017**
Well water withdrawn from the surrounding area[a]	49,439	48,572
Municipal water withdrawn from the surrounding area[a]	17,587	17,011
River water withdrawn from the surrounding area[a]	3,949	3,102
Total water drawn from the surrounding area[a]	**70,975**	**68,685**

(a) Production Site Environment Scope (see Methodology Note).

Water consumption related to product composition
Of the 68,685,000 m³ of water used in 2017, 29,572,000 m³ was used in the composition of the finished products, mainly at the bottling plants, compared with 29,188,000 m³ of water in 2016. The quantity of water used in the composition of finished products remained essentially unchanged (+0.7%) in 2017 relative to 2016.

Water consumption related to the production process
Water used in the production process, for example cleaning water, is distinct from the water used in the composition of the finished products. Since 2016, Danone does not include once-through cooling water in its measurement indicators (see Methodology Note).

Of the 68,685,000 m³ of water used in 2017, 39,113,000 m³ were used in the production processes, compared with 41,602,000 m³ of water in 2016, representing a 6% decline in 2017 (4.3% decline at comparable scope) relative to 2016.

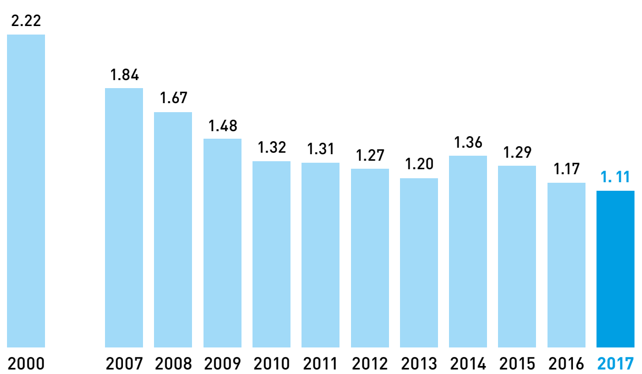
The intensity of water consumption related to Danone's production process declined by 5.3% in 2017 relative to 2016. On like-for-like basis, this ratio fell by 5.6% between 2016 and 2017. This decline was due on the one hand to water use reduction and optimization measures in the Waters and Early Life Nutrition businesses (-2.4%) and on the other to the decline in sales in the Essential Dairy and Plant-Based business (whose ratio is above the Company average) and the increased sales in the Waters business (whose ratio is below the Company average), yielding a favorable -3.2% impact.

Year ended December 31	2016	2017
Water consumption related to the production process[a] *(in m³ thousands)*	41,602	39,113
Intensity of water consumption related to the production process[a] *(in m³ per ton of product)*	1.17	1.11

(a) Production Site Environment Scope (see Methodology Note).

In 2017, the Essential Dairy and Plant-Based business developed new audit processes to identify how to reduce, recycle and reuse water optimally at its production sites.

Water consumption intensity related to production process at the production sites[a]
(in m³/ton of product)



(a) For the reporting scopes in each year.

Wastewater discharge quality
To ensure that treated wastewater discharged back into the environment is of adequate quality for ecosystems and consumers, Danone imposed strict environmental conditions at its production sites starting in 2015. These rules are based on Clean Water Standards that entail limits on concentrations in wastewater and measured using applicable methods.

Chemical Oxygen Demand (COD) of wastewater treated on- or off-site

Year ended December 31	2016	2017
Final discharge of Chemical Oxygen Demand[a] *(in thousands of tons)*	7,8	6.9
Net COD ratio[a] *(kg/ton of product)*	0,22	0.20

(a) Production Site Environment Scope (see Methodology Note).

Net Chemical Oxygen Demand (COD, *i.e.* the oxygen consumption needed to oxidize organic matters and minerals present in the water) characterizes the quality of the discharge from production facilities following on- or off-site treatment. Danone has defined assumptions to characterize the effectiveness of off-site treatment (see Methodology Note).

Danone's net COD ratio (in kg/ ton of product) fell by 10.4% in 2017 relative to 2016. The 2017 performance was mainly due to the decline in raw materials and finished product losses in the Essential Dairy and Plant-Based business as a result of waste reduction measures and a decline in sales volume.

Access to drinking water, sanitation and hygiene

Danone encourages social entrepreneurship, partnerships, innovation and the development of inclusive economic models to make water accessible to all. Danone uses the internal assessment tool Danone Way to assess the level of water access, sanitation and hygiene at all work sites and for all employees.

DanoneWave (EDP, Noram), sponsors the Change the Course program, which gets companies and the general public to commit to reducing the water footprint and restore natural water cycles by encouraging reduced water consumption and participating in the restoration of polluted rivers, waterways and wetlands.

Meanwhile, the danone.communities fund also supports several social businesses that seek to promote water access. Two new projects were supported by the fund in 2017: JIBU, which offers local entrepreneurs in East Africa the opportunity to start up their own drinking water franchises, and dloHaiti, which produces drinking water in Haiti, where half the population lives without access to drinking water following the 2010 earthquake.

MEETING THE CHALLENGES OF THE CIRCULAR ECONOMY WITH RESPECT TO PACKAGING AND WASTE

Raw materials consumption

	Year ended December 31	
(in thousands of tons)	**2016**	**2017**
Production [a]	35,577	35,333

(a) Production Site Environment Scope (see Methodology Note).

Total production volume at Danone's sites was the equivalent of 35 million tons in 2017, down 0.7% from the previous year. This decline was due to changes in scope, with plant exits in the Waters business in China (see Methodology Note) accounting for a 2.1% decline, partially offset by a 1.4% increase in production volume at comparable scope.

The main raw materials used in Danone products are: water, liquid and powdered milk, packaging materials (plastics, cardboard, etc.), sugar and fruit.

The quantity of raw materials consumed per ton of finished product constitutes one of the principal production performance criteria, and numerous efficiency-enhancing measures are taken to when using them:

- liquid milk, sugar, fruit: in the Essential Dairy and Plant-Based business, losses of raw materials are monitored daily in the production sites, and the results are consolidated monthly at the level of the subsidiary and the business in order to facilitate comparisons with monthly loss minimization targets. The main actions taken to reduce these losses include optimizing raw materials inventory management, production scheduling and production line scaling to reduce materials loss at the start and end of production runs;
- packaging materials: Danone's packaging development complies with the eco-design principles defined in the Packaging Policy (see below).

Waste prevention, recycling and recovering

Packaging Policy

Danone published its Packaging Policy in 2016 to promote the circular economy for packaging by sourcing sustainable materials and creating a second life for all plastics. This policy includes five main commitments that cover the packaging cycle, from the choice of raw materials upstream to consumer behavior at end of product life:

- use sustainable resources;
- optimize packaging weight and eco-design;
- achieve zero plastics to landfill for industrial waste;
- innovate to simplify consumers' lives and get them involved in sorting and recycling;
- co-create a second life for all plastics.

In 2017, Danone announced it was strengthening its commitment to a circular economy through a 3 year partnership with the Ellen MacArthur Foundation aimed at accelerating the transition to a circular economy. By becoming the Foundation's ninth partner, Danone would like to integrate circular economy principles into its operations to an even greater extent.

Packaging end of life: transforming waste into resources

Danone seeks to develop the collection and recycling of its packaging and intends to:

- achieve zero landfill for plastic industrial waste;
- innovate to simplify consumers' lives and get them involved in sorting and recycling; continue to support efforts to increase the collection and recovery rate of the recycling industry in countries where waste collection is already organized through eco-organism;
- where waste collection is not organized, help with the collection of materials used in packaging Danone products and try new collection systems: four projects are under way through an initiative by the Danone Ecosystem Fund;
- develop the use of recycled packaging.

In 2017, the packaging recovery rate totaled 91%, with a target of 100% by 2025.

In 2017, 46% of the subsidiaries had a roadmap to increase the recyclability of their packaging, that can be defined at the level of the subsidiary, business or region (Danone Way Scope, see Methodology Note).

For example, DanoneWave (Essential Dairy and Plant-Based, Noram), established the How2Recycle consumer education program in 2017 to help consumers understand how to recycle packaging. More than 300 WhiteWave listed products are now labeled in accordance with the How2Recycle recommendations. The *Earthbound Farm* brand also has the distinction since 2009 of becoming the first packaged salad company to use 100% recycled post-consumer packaging made from recycled beverage bottles.

In Africa, FanMilk worked with Environment 360°, WIEGO and MIT D-Lab and received the backing of the Danone Ecosystem Fund in 2017 to co-create Pick it!, a program aimed at improving the recycling rate in Ghana and working conditions for waste pickers by improving the professional skills and living conditions of more than 300 waste pickers.

2017 was also marked by the implementation of several initiatives to explore and use bio-based plastics, *i.e.* those originating from sustainable and renewable resources. These initiatives included:

- The creation of *NaturALL Bottle* Alliance with Nestlé Waters and the Californian start-up Origin Materials to develop and launch on a large scale a plastic (PET1) made entirely from bio-based materials, in this case made from biomass such as used card-board or sawdust not competing against resources intended for the production of human food or animal feed.
- The *So Delicious* brand (DanoneWave, Essential Dairy and Plant-Based, Noram), which launched a plastic bottle 80% made from plants for its almond milk.

Waste management at Danone's production sites

Danone monitors the percentage of this waste when it is recovered; such recovery may occur through recycling, reuse, composting or waste-to-energy conversion. The production sites seek to maximize their waste recovery rate by taking the following measures: organizing on-site waste sorting and staff training, finding subcontractors capable of recovering the various types of waste generated and sharing best practices among sites.

	Year ended December 31	
	2016	**2017**
Waste generated [(a)]		
Total quantity *(in thousands of tons)*	434	397
Ratio of total quantity of waste per ton of product *(in kg/ton)*	12.2	11.2
Recovered waste [(a)]		
Total quantity *(in thousands of tons)*	361	331
Proportion of recovered waste *(in %)*	83.1%	83.3%

(a) Production Site Environment Scope (see Methodology Note).

The total quantity of waste generated in 2017 by the production sites is measured excluding extraordinary items: namely the 29 thousand tons of waste from the demolition following renovation work at the Evian plant in France.

The ratio of waste generated per ton of product fell by 7.9% in 2017, relative to 2016. On a like-for-like basis, the ratio of waste generated per ton of products declined by 9.8% between 2016 and 2017 thanks to the decline of raw materials and finished product losses at the production sites of the Essential Dairy and Plant-Based and Early Life Nutrition businesses. The recovery rate remained essentially stable at 83%.

Fighting food waste

Following the resolution to prevent food waste adopted by the Consumer Goods Forum in 2015, Danone pledged to reduce its unrecovered food waste (*i.e.* waste that ends up in a landfill, is incinerated without any energy recovery or discharged in wastewater) by 50% in 2025 relative to 2016.

Danone quantifies food loss at all its production sites except the bottling plants of the Waters business, in accordance with the first international Food Loss and Waste Protocol. These losses involve finished products, raw materials and by-products (whey not recovered for human food). This waste may be collected, discharged in wastewater or be part of the sludge in water treatment plants (see Methodology Note).

	Year ended December 31	
	2016	**2017**
Food waste generated [a]		
Total quantity *(in thousands of tons)*	290	260
Ratio of total quantity of food waste per ton of products *(in kg/ton)*[b]	38.0	36.2
Recovered food waste[a]		
Total quantity (in thousands of tons)	242	217
Proportion of recovered waste *(in %)*	83.4%	83.7%

(a) Production Site Environment Scope (see Methodology Note).
(b) Excluding Waters business sites.

The ratio of food waste generated per ton of product fell by 9.7% in 2017. On a like-for-like basis, the ratio contracted by 11.1% thanks to the decline in raw materials and finished product losses at the production sites of the Essential Dairy and Plant-Based and Early Life Nutrition businesses. The recovery rate increased slightly from 83.4% to 83.7%.

Danone fights against food waste at various stages of the value chain:

Danone works with its suppliers to help them become more competitive by moving toward more sustainable agricultural practices, notably by working to reduce their losses. For example, Danone Algeria (Essential Dairy and Plant-Based, Algeria) created the H'Lib Dzair project jointly with its local partner Deutsche Gesellschaft für Internationale Zusammenarbeit (under the umbrella of the Danone Ecosystem Fund). This project promotes the small sustainable dairy farm agricultural model by offering producers technical expertise, along with individual audits and advice so they can increase their profitability and improve milk quality.

At its production sites and distribution centers, Danone reduces food loss, gives away unsold edibles and recovers, preferably as animal feed, what cannot be consumed by humans. Since 2013, for example, the Essential Dairy and Plant-Based business has implemented its Zero Waste program to fight food waste. This program seeks to eliminate food waste by optimizing production and distribution processes, increasing the volume of donations to food banks and alternative socially oriented sales channels and improving the product line.

At the retailer level, Danone develops partnerships to reduce food waste, notably by sharing retail sales information and using its expertise in forecasting systems. In Belgium, the 2nd life project raises awareness among the clients of retailers by selling smoothies made from the supermarket's unsold products.

Danone also encourages consumers to fight food waste notably through its online platforms, which provide advice on how to organize one's refrigerator or recipes on using yogurts nearing their expiration dates.

SUSTAINABLE AGRICULTURE

Sustainable agricultural practices

In 2014, Danone published its white paper on sustainable agriculture. This document lists the key guidance principles designed to promote greater sustainability in agricultural supply.

The greatest impact of Danone's activity on the climate is caused by upstream agriculture, which accounts for more than half of greenhouse gas emissions on the Company's total scope. In order to meet this challenge and as part of its carbon neutral commitments, Danone has already undertaken several initiatives adapted to upstream agriculture or the respective countries. Danone also works to improve agricultural practices through actions supported by its funds, such as the agro-forestry and milk production project in Kenya backed by the Livelihoods fund, with additional support from the local NGO VI Agroforestry as well as Brookside (an associated company of Danone). This project should help to improve the life of 30,000 small farms thanks to agricultural practices that are less harmful to natural resources and also help to preserve water resources in the Lake Victoria region over the long term.

In addition to these programs and projects, 35% of the subsidiaries of the Essential Dairy and Plant-Based and Early Life Nutrition businesses have a clear roadmap in 2017 to cover critical topics of the Sustainable Agricultural Principles (*i.e.* biodiversity, animal welfare, carbon, energy, water, soil, etc.) (Danone Way scope, see Methodology Note).

FaRMs and Cool FaRMs tool

These tools implemented by the Essential Dairy and Plant-Based business help to advance dairy producer practices in the area of sustainable agriculture (see Relations with suppliers).

Dannon Pledge

In 2016, Dannon Company (Essential Dairy and Plant-Based, Noram), now part of DanoneWave, published the Dannon Pledge, which illustrates Danone's ambition and commitments:

- for sustainable agriculture: offer products based on more sustainable agriculture by working with crop and livestock farmers to implement more sustainable agricultural practices that in particular target improved soil health, better water management, increased biodiversity and reduced carbon emissions;
- favor a natural approach: use more natural ingredients in its flagship brands (no synthetic products or GMOs, milk from cows not fed with GMOs, ingredients certified with the Non-GMO Project verified standard);
- be transparent: give consumers the power to choose by disclosing the presence of any GMO ingredients on product labels (see Measures taken to promote consumer safety).

Socrates program

The Early Life Nutrition business developed the responsible supply program Socrates, which aims to change farming practices for the 5 key raw materials other than milk: fruits, vegetables, grains, meat and fish. The program also offers a working platform that includes training in sustainable agriculture for farmers, in cooperation with local experts and institutions, pilot programs on innovative agricultural methods and the development of external partnerships to help with the implementation of standards.

The program is based on the use of the Farm Sustainability Assessment, developed on the SAI platform, to assess sustainability practices of suppliers of fruits, vegetables and grains. As of December 31, 2017, the assessed suppliers accounted for 94% of the total volume of fruits, vegetables and grains purchased by the business for its European production sites. Following these assessments and discussions with stakeholders, the business defined three priorities: biodiversity protection, soil health and water. With respect to biodiversity, the business added roughly 10 new criteria to the assessment grid for farmers, and recommended even mandatory practices are currently being integrated into the required specifications for farmers.

The program is currently implemented exclusively in Europe and at production sites controlled by the business. In 2017, for the Europe scope (excluding milk), four biodiversity-related projects were backed by the Socrates program in collaboration with local experts. Of these four, two pilot projects were conducted in cooperation with the Czech Crop Research Institute and CTIFL France to produce two key ingredients more sustainably (improved biodiversity and reduced pesticide use): carrots and apples. After two years of research, framework principles were established for producers of these two ingredients and will be gradually deployed to all of them.

The program also established special requirements for the supply of meat (involving five key species: beef, pork, turkey, chicken, rabbit) and fish (100% of wild-caught fish comes from sustainable sources.

Measures taken to preserve and develop biodiversity

Danone's impact on biodiversity arises mainly from its supply chain and involves soil erosion, soil and water contamination, deterioration of habitats and ecosystems, and contamination of natural species related to the use of GMOs.

The Company addresses these challenges with the aforementioned sustainable agriculture approaches and practices: FaRMs, the Dannon Pledge and the Socrates program (see above paragraph).

Danone also implements biodiversity preservation measures near its sites, some of which involve an exceptional natural environment and special protection, notably the Waters business sites, whose watersheds require great care and have given rise to several initiatives to ensure their preservation.

For example:

- to preserve its natural mineral water source in the Andes foothills of Argentina, the Villavicencio brand created a natural reserve and also developed an innovative partnership with the NGO Banco de Bosques through the Deja tu Huella (Leave your Footprint) operation, which invites consumers to participate in the creation of a new natural reserve: for every bottle purchased, Villavicencio pledges to protect one square meter of natural biotope. The brand has also launched initiatives to raise public awareness about the dangers of deforestation and the importance of biodiversity in the local ecosystem.
- Danone Waters China (Waters, China) strives to promote sustainable development, both economically and socially, in several watersheds. Since 2015, the Oceanus project has sought to protect and restore key ecosystems of watersheds in China while supporting local communities, developing sustainable subsistence methods and generating the resources necessary for the sustainable management of Chinese water tables.

Health and animal welfare

For several years, Danone has supported an animal welfare approach developed jointly with the NGO Compassion In World Farming (CIWF).

Since 2012, Danone has put out a best practices guide for farmers as part of the Essential Dairy and Plant-Based business' animal welfare program. Subsequently, with the publication of its position on animal welfare in 2016, Danone made several commitments, notably with respect to improving its requirements for animal welfare. Danone uses fresh or processed products of animal origin, including milk, dairy ingredients, eggs, meats, and fish. In 2016, Danone committed to ensuring that 100% of its products of animal origin (meat, fish and eggs) will adhere to stricter animal husbandry principles and requirements promoting animal welfare by 2020. Danone's long-term goal is to collect milk from farms that apply its best practices: animal living conditions, physical and psychological welfare of animals, responsible use of medications and non-use of cloned or genetically modified cows.

In its Socrates program, the Early Life Nutrition business integrates animal welfare principles that allow Danone to ensure that 100% of its sheep and beef have access to pasture and that 100% of its eggs come from cage-free chicken farms.

In 2017, as part of the Dannon Pledge in the United Sates, 90% of collected milk (excluding WhiteWave) has been certified by Validus (milk 100% sourced from companies that comply with animal welfare standards established by the United States).

Moreover, a new tool dedicated to animal welfare at suppliers was developed in conjunction with the FaRMS tool in 2017. This tool is already used in 10 entities and will be improved in 2018. Audits will also be conducted at the entities using this tool, with a target of covering 100% of all subsidiaries by 2020.

Soil use

Farming accounts for 57% Danone's carbon footprint. Practices such as reducing the amount of tilling and leaving crop residue on the soil surface can transform soils from greenhouse gas emitters into carbon sinks. In addition to sequestering carbon, healthy soils stimulate productivity and strengthen climate resilience. Danone integrated this issue into its sustainable agriculture approach by committing to promote farming practices that make it possible to:

- preserve and improve the soil's physical and biological structure;
- maintain the soil's natural capacity to absorb water;
- limit the use of mineral fertilizers, pesticides and other chemical products.

To that end, Danone works directly with farmers to co-manage actions plans, help them to reduce their carbon footprints, improve soil health to sequester more carbon and protect the water resource and biodiversity. In 2017, Danone made a commitment along with its agricultural partners in the "Ferme Laitière Bas Carbone" initiative, backed and developed by the CNIEL in France, which seeks to reduce by 15%the carbon footprint of participating dairy farms by 2025.

In 2017, Danone joined the French government's 4 per 1,000 initiative on healthy soils in order to strengthen its efforts in this area and expand its collaboration with experts, NGOs, governments and private sector companies.

Danone also looks to cooperate with experts, NGOs and other companies to develop and test a soil health methodology that will make it possible to fine-tune existing models, create a database for regenerative agricultural practices and develop techniques that can be reproduced on a large scale.

5.5 METHODOLOGY NOTE

CONSOLIDATION SCOPE AND COVERAGE

The consolidation scope consists of all Danone subsidiaries that are fully consolidated for the preparation of the consolidated financial statements, in other words, the subsidiaries in which Danone holds, directly or indirectly, exclusive control.

Nevertheless, some subsidiaries do not report all social, safety, environmental, health and nutrition indicators. These entities were consolidated for financial reporting purposes as of December 31, 2017 and action plans are planned and/or in progress to ensure the availability and reliability of the data. These are primarily the recent acquisition of entities in Africa, including in particular the companies in the Fan Milk group (EDP International, West Africa), and DanoneWave for the WhiteWave activities scope. Lastly, the list of subsidiaries that do not report certain indicators may differ depending on the types of indicators. The coverage scope varies according to indicator categories, as described in the sections hereafter:

Indicators	Scope
Production Site Food Safety	In 2017, 198 production sites were included in the scope considered for FSSC22000 certification. These sites correspond to the production sites for all of Danone's Businesses and do not include the production sites of co-manufacturers and suppliers.
Total Company Workforce Social Indicators	In 2017, 172 entities representing more than 93% of Danone's total workforce reported social indicators.
Safety	In 2017, 155 entities representing approximately 99.4% of Danone's total workforce reported safety-related indicators. In addition, the safety data of subsidiaries removed from the consolidation scope as of December 31, 2017 is reported up to the date of their deconsolidation but is not included in the workforce as of December 31, 2017.
Production Site Environment	In 2017, 180 (of Danone's 202) production sites representing approximately 95% of the total production of the industrial sites reported environmental indicators. The consolidation scope for environmental indicators excludes the industrial sites of the WhiteWave group entities. The environmental impact of the administrative offices and logistics centers is not included in the consolidation scope (except for certain indicators, when the logistics centers are adjacent to the production sites).
Greenhouse Gases	The presentation of greenhouse gas emissions has changed to ensure consistent monitoring of the reduction target set by Danone in 2015 and approved by the international Science-Based Targets initiative in 2017. The Company's total emissions consist of: • scope 1 greenhouse gas emissions, comprising direct emissions from stationary combustion facilities and refrigeration units installed at the industrial sites and warehouses under Danone's operational control, as well as the employee vehicle fleet under the Company's operational control. • scope 2 greenhouse gas emissions, including indirect emissions related to the production of electricity, steam, heating and cooling purchased and consumed by Danone. • scope 3 greenhouse gas emissions, comprising indirect emissions that are not recognized in scope 2: emissions from raw materials purchasing (including agricultural upstream), packaging, production, transport and distribution, warehousing, product usage and end of useful life. These emissions are calculated using the finished product life cycle analysis approach set out in the GHG Protocol established by the World Resources Institute (WRI), which takes into account emissions at every stage. Scope 1 and 2 emissions are calculated in accordance with the methodology set out in the GHG Protocol Corporate. Danone has elected to consolidate scope 1 and 2 emissions in accordance with the operational control approach and to include all sources of emissions from its industrial sites, warehouses, distribution centers and corporate vehicle fleet. Emissions from offices and research centers are excluded as they represent less than 5% of Danone's total emissions. Scope 3 emissions are calculated in accordance with the GHG Protocol's Product Life Cycle Accounting and Reporting Standard methodology for a scope representing approximately 89% of Danone's sales volumes (compared with 94% in 2016).
Health & Nutrition	In 2011, Danone created a series of performance indicators (Health & Nutrition Scorecard) to measure improvements and progress made regarding health and nutrition, particularly product composition and responsible communication, with the results publicly disclosed annually. These indicators are consolidated for a scope of 15 countries covering all of Danone's Businesses and geographic regions. In 2017, 50 entities representing about 70% of consolidated sales reported Health & Nutrition indicators.
Danone Way	In 2017, 117 entities have realized a Danone Way self-assessment, representing 83.9% of Danone's consolidated sales (compared with 94.1% in 2016).

Like-for-like changes in scope (constant scope and constant methodology)

Danone measures changes in certain environmental indicators on a like-for-like basis, *i.e.* at constant consolidation scope. The 2017 data has been restated using the same consolidation scope as that of 2016 and with the same methodology.

DEFINITION OF THE BUSINESSES

Essential Dairy and Plant-Based	Production and distribution of fresh fermented dairy products and other specialty dairy products; plant-based products and drinks (made primarily from soy, almonds, hazelnuts, rice, oats and coconut); and coffee creamers.
Early Life Nutrition	Production and distribution of specialized food for babies and young children to complement breast-feeding.
Waters	Production and distribution of packaged natural, flavored and vitamin-enriched water.
Advanced Medical Nutrition	Production and distribution of specialized food for people afflicted with certain illnesses or frail elderly people.

DATA COLLECTION

To ensure the homogeneity of the indicators across the reporting scope, shared data reporting guidelines for social, safety, environmental, health and nutrition data are transmitted and updated each year following data consolidation and comments of contributors. These guidelines specify the methodologies to be used for reporting the indicators, including definitions, methodology principles, calculation formulas and standard factors.

These reporting guidelines for social, safety, environmental, GHG and health and nutrition data are available upon request from the Sustainability Integration Department.

The social, safety, environmental, and health and nutrition indicators are transmitted by the subsidiaries and/or production sites and consolidated at the global level by the relevant departments. The environmental data are checked at the subsidiary level and then at the Business level when reported. The social and safety data are checked at the end of the second quarter and at the time of consolidation as of December 31. Lastly, the health and nutrition data are checked at the subsidiary level and then at the Business level when reported. The health and nutrition data are then verified by independent auditors.

Social and safety indicators

The Human Resources Department is responsible for social and safety indicators. The subsidiaries' social data are generally derived from their payroll systems and reported via Danone's financial information consolidation software (SAP/Business Objects Financial Consolidation).

Safety indicators are reported monthly by each subsidiary in WISE, Danone's safety data consolidation system.

Environmental indicators

The Nature & Cycles Sustainability Department is responsible for environmental indicators. These indicators are reported by each production site's Environment manager using the Calame application. Data related to Greenhouse Gas emissions (scope 3) is reported via the Danprint application and/or SAP Carbon.

Health and nutrition indicators

The Corporate Nutrition Department is responsible for health and nutrition indicators. Health and nutrition data are reported by the Scorecard Owners at each subsidiary through a system of standardized forms, which are then consolidated using an automated process to calculate the global indicators. Product data are generated by Business-specific systems (Nutripride for the Essential Dairy and Plant-Based and Early Life Nutrition Businesses, and Aquamap for the Waters Business). Data on volumes and advertising expenditures are generated by Danone's financial information consolidation software. Lastly, training data are taken from the Human Resources reporting systems.

Danone Way indicators

The Sustainability Integration Department is responsible for the Danone Way indicators. These indicators correspond to the percentage of subsidiaries to which it has been determined that one or more practices apply. They are reported by the Danone Way coordinators at each subsidiary using the Calame application.

INFORMATION REGARDING METHODOLOGIES

The methodologies used for certain social and environmental indicators may have limits due to:

- the absence of common national and/or international definitions;
- necessary estimates, the representative nature of measurements taken or the limited availability of external data required for calculations.

For these reasons, the definitions and methodologies used for the following indicators are specified.

Workforce

A negligible portion of the managerial workforce data is not collected during the data reporting period (a few cases of internationally mobile employees on assignment at other Danone entities). Furthermore, some disparities may exist in the workforce accounting methods for expatriate employees (such is the case for expatriate employees who have three-party contracts between the employee, the home subsidiary and the host subsidiary).

Employees on long-term leave (more than nine months) are not counted in the total workforce at the end of the reporting period.

In China, employees paid by Danone but whose contracts are with a third-party company (equivalent to a temporary work agency) are not included in the workforce.

Fixed-term contracts and movements within Danone are not included in the entries/exits.

5

Number of training hours / Number of permanent employees trained / Percentage of permanent employees trained / Number of training hours per permanent employee

The training data of the French subsidiaries includes training that is categorized as ongoing professional training, as well as other types of training.

The number of permanent employees trained takes into account all permanent employees who received at least one training course during the year, including those who were no longer employed as of December 31, 2017.

The number of training hours takes into account all courses during the year, including hours of training received by those who were no longer employed as of December 31, 2017.

Training courses for which supporting documents are not received by the closing date for reporting are included in the following fiscal year.

The percentage of permanent employees trained is equal to the ratio of the number of permanent employees trained to the average permanent employee workforce.

The number of training hours per employee is equal to the ratio of the number of training hours to the average permanent employee workforce.

Employees with disabilities in France

This indicator covers employees declared as disabled workers. The status of disabled person is defined by the regulations applicable in France.

Absenteeism

The absenteeism rate is expressed, in percentage, as the total number of hours of absence divided by the total number of theoretical hours worked. The reasons for absence taken into account by this indicator include sick leave (with or without hospitalization), absences due to work-related illness and injury, absences due to strikes and unauthorized absences. Absences due to maternity/paternity leave, other authorized leave and long-term absences (more than nine months) are not taken into account.

The assumptions used to calculate the theoretical hours worked are left to the discretion of the subsidiaries based on local specificities which can lead to minor discrepancies.

Some subsidiaries monitor absenteeism only for employees who are paid on an hourly basis, while other employees are included in a program under which they receive a number of days that can be used for various reasons (vacation, sickness, special leave, etc.). In particular, this is the case for the activities of The Dannon Company Inc. (EDP Noram, United States) and Danone Inc. (EDP Noram, Canada), Danone Brazil (EDP International, Brazil), Danone's subsidiaries in Brazil, Danone Argentina SA (EDP International, Argentina), Aguas de Argentina (Waters, Argentina), Grupo Cuzco International S de RL de CV (Waters, Mexico) and PT Sarihusada Generasi Mahardhika (Specialized Nutrition, Indonesia), whose absenteeism rate for employees not paid on an hourly basis is estimated or reported only for the available consolidation scope. Lastly, absenteeism is not recorded at the Danone Japan (EDP International, Japan), Danone Waters of America (Waters, United States) and Happy Family (Specialized Nutrition, United States) subsidiaries.

Frequency rates of work accidents

The frequency rate of workplace accidents with medical leave (FR1) represents the number of workplace accidents with medical leave of one day or more that occur over a 12-month period for every one million hours worked.

The frequency rate of workplace accidents without medical leave (FR2) represents the number of workplace accidents without medical leave for every one million hours worked.

The severity rate (SR) represents the number of calendar days of absence due to workplace accidents with medical leave for every 1,000 hours worked. Regarding the number of lost days taken into account in the calculation of the severity rate and given the limited availability of data in certain countries, Danone made estimates for this indicator as of December 31, 2017.

The hours worked are actual hours worked; by default, theoretical hours worked are taken into account on the basis of local practices and regulations regarding working time.

The assumptions used to calculate the theoretical hours worked are left to the discretion of the subsidiaries on the basis of local specificities, which can lead to minor discrepancies.

Workplace accident indicators also cover accidents affecting temporary employees, workers employed through staffing agencies or service providers working at the sites as well as interns who have an internship agreement with Danone. Temporary employees and workers employed through staffing agencies or service providers are individuals who do not have a contract with Danone but are under its management, work on a temporary or non-temporary basis, and for whom Danone is able to collect data on working time (in number of hours). The inclusion of workers employed through staffing agencies or service providers in the reporting scope for 2017 may create discrepancies between the scope of the workforce taken into account by the sites in 2016 (when reporting temporary employees was optional) and in 2017 (when reporting temporary employees and workers employed through staffing agencies or service providers was mandatory).

Production

The production of Danone's industrial sites is the total production of finished and semi-finished products at each of the sites. As some semi-finished products are used as ingredients at other company plants, total production of the industrial sites is greater than Danone's total production.

Production of by-products such as cream and condensed milk are not included in production volumes.

Scope 1 and 2 greenhouse gas emissions

Scope 1 and 2 emissions are calculated in accordance with the methodology set out in the GHG Protocol Corporate Standard (January 2015 revised edition). In January 2015, the *GHG Protocol* published a guidance document on the method used to account for scope 2 greenhouse gas emissions, which introduces dual reporting:

- location-based reporting, which reflects emissions due to electricity consumption from a conventional power grid. It therefore uses primarily an average emissions factor of the country's energy mix;
- market-based reporting, which reflects emissions from energy consumption taking into account the specific features of the energy contracts chosen and also considers the impact of the use of energy from renewable sources.

Danone has set its reduction targets according to the market-based method.

Emissions (scopes 1 and 2) are calculated by applying global warming potentials and emissions factors to the activity data.

- The global warming potentials used correspond to data in the IPCC Fifth Assessment Report (AR5), Climate Change 2013. The IPCC (Intergovernmental Panel on Climate Change) is a group of inter-governmental experts specialized in climate change.

- The emissions factors used to calculate emissions related to energy combustion correspond to data in the 2006 IPCC Guidelines (2006 IPCC Guidelines for National Greenhouse Gas Inventories).
- Electricity emissions factors follow the hierarchy defined in the new scope 2 guidance document of the GHG Protocol for market-based reporting. Suppliers' specific factors must be certified by instruments that prove the origin of electricity (guarantee of origin certificates). If some of the electricity used is not of certified origin, the emissions factors used are the national residual mixes published by official bodies such as the Association of Issuing Bodies (AIB) in Europe and Green-e in North America. For countries that do not have green-electricity attribute instruments, the emissions factors used are those used for location-based reporting provided by the International Energy Agency (2015 publication of energy mixes in 2013).
- The factors used for heating, steam and cooling are from the carbon database of the UK Department for Environment, Food & Rural Affairs (DEFRA, 2017) and the French Agency for the Environment and Energy Management (ADEME, 2015).
- The emissions factors used to characterize the impact of fugitive refrigerant emissions are based on the IPCC report "Climate Change 2007, 4th Assessment Report, The Physical Science Basis" published in 2007.

Waste

Since 2016, as a result of the application of a new standard, the Food Loss and Waste Protocol (version 1.0 of June 2016), Danone has consolidated the quantities of waste generated according to the following categories: treatment facilities' sludge, whey waste, food waste collected on site and food waste discharged with wastewater, packaging waste, hazardous waste and, lastly, other non-hazardous waste.

This is the first international standard for measuring food losses not used for human consumption. It was established under a partnership between the Consumer Goods Forum, the Food and Agriculture Organization of the United Nations, the United Nations Environment Programme, the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute.

Food waste is measured at all Danone plants with the exception of the Waters Business plants. This includes finished product, raw material and by-product (whey not used for human consumption) losses. This waste may be collected or discharged with wastewater, or form part of the wastewater treatment plant sludge.

- Whey collected on site and not used for human consumption is reported as dry matter content.
- Waste collected on site is reported in real weight, *i.e.* weight as shown in on-site waste removal orders.
- Waste discharged with wastewater is recovered in the sludge at treatment facilities and reported as a percentage of dry-matter content in sludge.
- Waste discharged with wastewater and not recovered in the sludge at treatment facilities is calculated in tons of chemical oxygen demand (COD) discharged.

None of the products and by-products that are used for human consumption (production of lactose or cheese from whey, etc.) are included. Data related to waste recovery includes materials recovery (recycling, composting, reuse, animal feed, sludge used in agricultural applications, etc.) and energy recovery (methanation, incineration with energy recovery). Unused waste is waste that is sent to landfill, discharged to the sewer or incinerated without energy recovery.

Water consumption

The definitions and the method of accounting for various uses of water (including run-off, water pumped from and discharged into streams, water used in the composition of finished products, recycled/reused water, water given to a third party, etc.) are specified in the technical environmental guide prepared by Danone and provided to its subsidiaries. The amount of water withdrawn corresponds mainly to water used for industrial processes and in finished product formulation.

Water used in once-through cooling systems (in which the water withdrawn is returned to its original environment after it has passed through the system once without recirculating) is not taken into account in the total amount of water withdrawn.

Rainwater is not taken into account in the total amount of water withdrawn. It is included in volumes of recycled/reused water only if it is used by the site.

For the Waters Business sites, volumes of water withdrawn but not consumed by the site are not taken into account, either due to losses or to overflow upstream from the plant, nor are losses or overflow at the well or spring level.

When logistics centers are located adjacent to industrial sites, their water consumption is taken into account if the site is unable to subtract this consumption.

Energy consumption

This indicator mainly covers consumption at the production sites. When Research and Development centers or warehouses are located adjacent to production sites, estimates may be made for a given production site to take into account only its own energy consumption (estimate and deduction of the amount of energy consumed by the non-industrial sites adjacent to production site).

In some cases, the energy consumption of buildings located adjacent to an industrial site is taken into account if the site is unable to subtract its consumption.

The rules for conversion between the different units used to track energy consumption (m^3, liters, Btus, etc.) and the standard reporting unit (MWh) are specified in the technical environmental guide prepared by Danone and provided to its subsidiaries. In certain cases, the subsidiaries use conversion factors provided by their suppliers.

Wastewater

The net Chemical Oxygen Demand (COD) data presented correspond to wastewater after internal and/or external treatment. In case of external treatment reported by the site, a purification rate of 90% is assumed.

Number of employees trained on nutrition and/or hydration in the last two years

This indicator tracks the unique number of employees who received at least one training course related to nutrition, health and/or hydration over a two-year period. The training received must have lasted at least one hour.

Percentage of volumes sold corresponding to healthy categories

Volumes sold in healthy categories correspond to fresh dairy products intended for daily consumption, Early Life Nutrition Business products, all waters, sugar-free aquadrinks, and all Advanced Medical Nutrition Business products. The indicator is calculated in the Health & Nutrition Scorecard scope.

Percentage of the volume of nutritionally improved products over the last three years

The percentage of the volume of nutritionally improved products over the last three years is calculated in the Health & Nutrition scope for the Essential Dairy and Plant-Based and Early Life Nutrition Businesses, including the products in these Businesses marketed by the Africa Strategic Business Unit, and sweetened aquadrinks in the Waters Business.

Number of countries covered by Nutriplanet studies

Every year, the Global Nutrition department compiles an updated list of countries covered by Nutriplanet studies (these include: summaries of the local nutrition/health context, more detailed surveys on food and/or fluid intake, socio-anthropological studies). The number of countries covered is therefore reported every year on a consolidated basis.

Percentage of Danone's expenditures on marketing communications that comply with the ICC guidelines

The percentage of expenditures is calculated within the Health & Nutrition scope for the Essential Dairy and Plant-Based and Waters Businesses.

Number of active education and information programs during the year / Number of people potentially impacted

The people considered to be affected are consumers for the Essential Dairy and Plant-Based and Waters Businesses, parents for the Early Life Nutrition Business and patients and caregivers for the Advanced Medical Nutrition Business.

People who are affected by several programs may be counted several times.

If an impact assessment shows that only a percentage of the people reached have been impacted, then the total number of people potentially impacted is prorated on the basis of the results of the impact assessment.

Percentage of volumes of fortified products sold

The percentage of volumes of fortified products sold is calculated on the basis of the Health & Nutrition scope and concerns only the products in the Essential Dairy and Plant-Based and Early Life Nutrition Businesses, including the products in these Businesses marketed by the Africa Strategic Business Unit. More specifically, this figure is calculated for a scope of 29 subsidiaries covering 77% of the sales of these two Businesses.

Number of employees that had access to the Health @ Work program

The number of employees that had access to a Health @ Work program is calculated on the basis of the number of subsidiaries that implemented the program in the Health & Nutrition scope, *i.e.*, 48 out of 50 subsidiaries. A program is characterized as Health @ Work if it includes one of the three dimensions (Healthy Diet, Healthy Body, Healthy Mind).

5.6 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT

For the year ended December 31st, 2017

To the Shareholders,

In our capacity as Statutory Auditor of Danone (the "Company"), appointed as independent third party and certified by COFRAC under number 3-1060 (whose scope is available at www.cofrac.fr), we hereby report to you our report on the consolidated human resources, environmental and social information for the year ended December 31st, 2017, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (Code de commerce).

Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the protocols used by the Company (hereinafter the "Criteria") and available on request from the company's head office.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (Code de déontologie) of our profession and the requirements of article L.822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

However, it is not for us to express an opinion on the compliance with the other legal provisions applicable, in particular those set out by the article L. 225-102-4 of the commercial code (plan of vigilance) and by the law n ° 2016-1691 of December 9, 2016 known as Sapin II (fight against corruption).

Our work involved 10 persons and was conducted between July 2017 and March 2018 during a 27 weeks period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of statutory auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement and with ISAE 3000 concerning our conclusion on the fairness of CSR Information (ISAE 3000 Assurance engagements other than audits or reviews of historical financial information).

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, *i.e.*, the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in the management report.

Conclusion

Based on the work performed, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted 15 interviews with about 10 persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important and whose list is given in annex (Social information: headcount, terminations (dismissals), absenteeism, work accidents, their frequency and their severity, training; Environmental information: waste discharged directly into water and chemical oxygen demand (OCD), waste and their valorization, water consumption and local constraints, energy consumption and efficiency, greenhouse gas emissions):

- at the level of the consolidated entity and divisions, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of entities (Waters Business: Font Vella (Spain), Bonafont (Mexico), SA des Eaux Minérales d'Evian (France), Zywiec Zdroj SA (Poland) ; Essential Dairy and Plant-Based Business: Danone de Mexico (Mexico), Danone Belgique (Belgium), Danone Djurdjura Algeria (Algeria), Danone Pologne (Poland), Danone Produits Frais France (France), Danone Japan (Japan), Danone Canada Delisle (Canada), Danone Argentina (Argentina) ; Early Life Nutrition Business: Danone Baby Nutrition India (India), Milupa Fulda Supply Point Baby (Germany), Nutricia Zaklady Produkcykne Poland (Poland), NELN Programming (China) ; Advanced Medical Nutrition Business: Nutricia Great Britain Medical (England), Nutricia Pharmaceutical Wuxi Medical Supply (China), selected by us on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. This work represents 23% of headcount considered as typical size of the social component, and between 18% and 27% of environmental data considered as characteristic variables of the environmental component.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, March 5th, 2018

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Anik CHAUMARTIN Partner	François JAUMAIN Partner	Sylvain LAMBERT Partner at the "Sustainable Development" Department

Appendix: CSR Information that we considered to be the most important

Human resources

- Total workforce and split by gender, age and geographical area;
- Number of dismissals;
- Worktime organization and absenteeism;
- Organization of social dialogue, namely information procedures, workforce consultation and negotiation with the workforce ;
- Health and safety conditions at the workplace, workplace accidents, namely their frequency and severity, as well as occupational diseases;
- Training policy, number of training hours;
- Implemented policy and measures taken in favor of the equality between the women and the men, implemented policy and measures taken in favor of the employment and of the insertion of the disabled people and policy against discrimination.

Environmental information

- The Company's organization to understand environmental issues, and when applicable the assessment or certification processes in terms of environment;
- Measures to prevent, reduce or repair direct emissions into the air, water and soil damaging the environment;
- Measures to prevent, recycle, reuse, eliminate and recover waste;
- Actions to fight against food waste;
- Water consumption and water supply based on local constraints;
- Consumption of raw materials and measures taken to improve the efficiency of their use;
- Energy consumption, measures taken to improve the energy efficiency and the use of renewable energies;
- Significant greenhouse gas emission sources generated because of the company's activity, namely by the use of products and services produced, and the adaptation to the consequences of climate change;
- Measures taken to protect or develop biodiversity.

Social information

- Regional, economic and social impact of Danone's activities on employment, regional development and local communities;
- Partnership and sponsorship initiatives;
- Taking into account social and environmental stakes in the procurement policy, as well as the importance of subcontracting and taking into account their social and environmental responsibility in the relationship with suppliers and subcontractors;
- Measures taken in favor of the health and of the security of the consumers.

6

CORPORATE GOVERNANCE

In accordance with Article L. 225-37 of the French commercial code, this section on Corporate Governance includes the Board's report on corporate governance, the composition of the Board of Directors and the conditions for the preparation and organization of its work (section 6.1 Governance bodies).

In accordance with Article L. 225-4 of the French commercial code, the Company declares that it refers to the Corporate Governance Code for listed companies revised in November 2016 (the AFEP-MEDEF Code).

This report, which is based on feedback from the dialog with our shareholders at the Shareholders' Meeting, was prepared after work completed notably by the Legal Department, working closely with the Human Resources Department, the Finance Department and the Internal Control Department. It was first presented to the Nomination and Compensation Committee on February 2, 2018 and was then approved by the Board of Directors on February 15, 2018.

6.1 GOVERNANCE BODIES

Contents

BOARD OF DIRECTORS

Composition and organization of the Board of Directors

Composition as of December 31, 2017: 16 Directors

Name	Gender	Age	Primary function	Starting date of Director's term	Expiration date of Director's term[a]
Franck RIBOUD	Male	62	Director / Honorary Chairman of Danone	1992	2019
Emmanuel FABER	Male	54	Chairman and Chief Executive Officer of Danone	2002	2019
Frédéric BOUTEBBA	Male	50	Director representing employees	2016	2020
Clara GAYMARD[b]	Female	58	Co-founder and Chief Executive Officer of Raise and President of Women's Forum	2016	2019
Jacques-Antoine GRANJON[b]	Male	55	Chairman and Chief Executive Officer of vente-privee.com	2012	2018
Jean LAURENT[b]	Male	73	Chairman of the Board of Directors of Foncière des Régions	2005	2018
Gregg L. ENGLES	Male	61	Founder and partner of Capitol Peak Partners	2017	2020
Gaëlle OLIVIER[b]	Female	46	Member of the Management Committee of the AXA Group and Chair and Chief Executive Officer of AXA GLOBAL P&C[d]	2014	2020
Benoît POTIER[b]	Male	60	Chairman and Chief Executive Officer of Air Liquide SA	2003	2021[c]
Isabelle SEILLIER	Female	58	Vice-President of Investment Banking at J.P. Morgan for Europe, the Middle East and Africa	2011	2020
Mouna SEPEHRI[b]	Female	54	Executive Vice-President Office of the CEO and Member of the Executive Committee of Renault SAS	2012	2018
Jean-Michel SEVERINO[b]	Male	60	Head of I&P SARL	2011	2020
Virginia A. STALLINGS[b]	Female	67	Professor of Pediatrics at the Children's Hospital of Philadelphia	2012	2021[c]
Bettina THEISSIG	Female	55	Director representing employees	2014	2020
Serpil TIMURAY[b]	Female	48	Member of the Executive Committee of the Vodafone group	2015	2021[c]
Lionel ZINSOU-DERLIN[b]	Male	63	Vice-Chairman of the Supervisory Board of PAI Partners SAS	2014	2020

(a) Date of the Shareholders' Meeting.
(b) Independent Director (see section *Review of Directors' Independence* hereafter).
(c) Provided his/her term of office is renewed by the Shareholders' Meeting of April 26, 2018.
(d) Until November 15, 2017.

Lead Independent Director

In accordance with its rules of procedure, the Board of Directors includes a Lead Independent Director, Mr. Jean LAURENT. In light of his decision to not seek renewal of his term of office, the Board of Directors proposes that the shareholders appoint Mr. Michel LANDEL as Director to serve as Lead Independent Director upon his appointment by the Shareholders' Meeting. The Lead Independent Director's powers were enhanced to ensure a balance among the various governance bodies (see hereafter section *Lead Independent Director*).

Employee representatives

Pursuant to Act No. 2013-504 of June 14, 2013 and the Company's by-laws, two Directors representing employees sit on the Board, one appointed by the Works Council and the other by the European Works Council. In addition, a member of the Works Council participates in Board of Directors' meetings in an advisory capacity.

Honorary Chairman

The Board of Directors decided to appoint Mr. Franck RIBOUD as Honorary Chairman in recognition of his invaluable contribution to the Board's work. In this capacity, he may, at the request of the Chairman and Chief Executive Officer, be called upon to share his experience and speak to Danone's teams. He may also be asked to represent Danone, particularly among its long-time partners, and take part in major corporate events.

Honorary Vice-Chairman

The Board of Directors also includes an honorary Vice-Chairman of the Board of Directors, Mr. Michel DAVID WEILL, who was appointed to this function following the Shareholders' Meeting in 2011 and serves in an advisory capacity.

Governance structure

Offices of Chairman of the Board of Directors and Chief Executive Officer combined since December 1, 2017

In 2014, the offices of Chairman of the Board of Directors and Chief Executive Officer were separated to ensure the successful transition between Mr. Franck RIBOUD and Mr. Emmanuel FABER as head of Danone. The chairmanship with enhanced duties was put in place for a period that was to expire before the end of 2017.

At the end of this smooth, seamless and effective transition, the Nomination and Compensation Committee and the Board of Directors held discussions to identify the most appropriate governance structure.

Upon recommendation of the Nomination and Compensation Committee, on October 18, 2017 the Board of Directors unanimously decided to end the chairmanship with enhanced duties and to approve in principle the combination of the offices of Chairman of the Board of Directors and Chief Executive Officer by appointing Mr. Emmanuel FABER as Chairman and Chief Executive Officer as of December 1, 2017.

The Board believed that this governance structure was the most appropriate for several reasons:

- in the past, the decision to combine the functions of Chairman and Chief Executive Officer proved to be consistent with the Company's organization, operation and activity and is therefore in line with Danone's tradition;
- the decision to separate the offices was made for transition purposes;
- this simplified governance structure ensures the Company's unified and effective management. This tighter and therefore more responsive form of governance facilitates decision-making and accountability as well as the Company's strategic leadership;

The Board agreed to discuss annually, as part of its report on its operation and each time the Chairman and Chief Executive Officer's term of office is renewed, the appropriateness of the governance structure chosen.

Balanced distribution of powers

The governance bodies, which are subject to a system of checks and balances, were deemed strong enough to ensure balanced governance. Thus, this balance is ensured, in particular, by the presence of a Lead Independent Director, the independence and powers of the Board and its Committees, and the limits imposed on the Chief Executive Officer as described hereinafter.

This governance structure, subject to the rules of procedure of the Board and its Committees, therefore provides the necessary safeguards to ensure compliance with best governance practices as part of a return to a unified management approach.

Enhancement of the powers of the Lead Independent Director

On December 14, 2017, the Board decided to implement a more balanced distribution of powers. It therefore amended the provisions of the rules of procedure by expanding the duties, resources and responsibilities of the Lead Independent Director, particularly as regards setting the agenda for Board meetings and facilitating the dialog with shareholders (see hereafter section *Lead Independent Director*).

Independence and powers of the Board and Committees

The composition of the Board of Directors contributes to the balance of powers, particularly with the high proportion of Independent Directors, which allows the Board to exercise full oversight of the Chief Executive Officer. All the Committees are chaired by Independent Directors. All the members of the Audit Committee and the Nomination and Compensation Committee are Independent Directors. The full involvement of the Directors in the work of the Board and Committees, their diverse profiles and the regular meetings of the external Directors also ensure this balance.

The Directors' ability to convene directly the Board in case of emergency also contributes to the balance of powers. This convening, which may be verbal, can result from a decision made by the majority of the current Directors, or by one-third of them if the Board of Directors has not met in more than two months.

Limits on the powers of the Chief Executive Officer

The rules of procedure provide for limits on powers exceeding the legal requirements beyond which any decision must be authorized in advance by the Board of Directors (see details in table hereinafter).

Powers of the Chief Executive Officer

The Chief Executive Officer has full power to act in all circumstances in the name of the Company, within the scope of its corporate purpose and subject to the powers that the law expressly attributes to shareholders' meetings and to the Board of Directors. The Board of Directors' rules of procedure provide for limits to these powers for certain decisions which, due to their purpose or the sums involved, are subject to prior approval by the Board.

Thus, the Board of Directors must approve strategic investment projects and all transactions, namely acquisitions or disposals, which may significantly impact Danone's results, its balance sheet structure or its risk profile.

In particular, the Chief Executive Officer must obtain the Board of Directors' prior authorization for the following transactions:

Type of transaction	Authorization threshold for Danone's share
Acquisitions or disposals of securities and/or assets, partnerships or joint ventures (in cash or by asset contributions, carried out in one or more transactions)	€250 million per transaction: • for acquisitions, partnerships and joint ventures; • for disposals: proceeds received
Any off-balance sheet commitment made by Danone	€100 million
Other investments	€200 million
Internal reorganizations	Any reorganization representing an overall cost exceeding €50 million.

Lead Independent Director

Presentation of the Lead Independent Director

In existence since 2013

In 2013, discussions with the Company's shareholders brought to the attention of the Board of Directors the fact that certain shareholders perceived corporate governance risks in combining the offices of Chairman of the Board of Directors and Chief Executive Officer.

The Board believed it was appropriate to make the appointment of a Lead Independent Director mandatory when the functions of Chairman of the Board of Directors and Chief Executive Officer are combined in order to provide additional assurance as to the smooth operation of the Board and the balance of powers within General Management and the Board. On February 18, 2013 the Board of Directors therefore amended the rules of procedure to create the position of Lead Independent Director.

The Lead Independent Director is appointed by the Board of Directors from among the Independent Directors, upon proposal of the Nomination and Compensation Committee. He/she remains in office throughout the duration of his/her term of office. Each time the Lead Independent Director's term of office expires, the Board completes a review of the operation of this office and re-examines its holder's powers in order to adapt them if necessary.

Appointment of Mr. Jean LAURENT from 2013 to 2018

Mr. Jean LAURENT was appointed Lead Independent Director in 2013. He has held this position within the Board since then and therefore supported Danone's governance transition process. Mr. Jean LAURENT decided to not seek renewal of his term of office as Director.

Appointment of Mr. Michel LANDEL, subject to approval of his appointment as Director by the 2018 Shareholders' Meeting

On December 14, 2017, the Board of Directors decided to appoint Mr. Michel LANDEL as Lead Independent Director upon and subject to his appointment as Director by the 2018 Shareholders' Meeting.

Enhancement of the powers of the Lead Independent Director in 2017

In 2017, as part of the combination of the offices of Chairman of the Board of Directors and Chief Executive Officer, the Board decided to enhance the powers of the Lead Independent Director. In this respect, the Lead Independent Director was given a greater role in shareholder relations, enabling him to now be informed directly of their demands, meet with them, when necessary, without the Chairman and Chief Executive Officer, and convey their concerns regarding governance to the Board. The Lead Independent Director's involvement in organizing the Board's work was also enhanced, particularly by allowing him/her to be consulted on the agenda and schedule of Board meetings, to require that Board meetings be convened for a specific agenda and to maintain an open and regular dialog with each of the Directors.

Responsibilities and powers of the Lead Independent Director

Organization of the Board's work and relations with Directors

The Lead Independent Director:

- is consulted on the agenda and schedule of Board meetings and may propose additional agenda items to the Chairman. He/she may require that the Chairman convene a Board meeting for a specific agenda;
- chairs Board meetings in the Chairman's absence;
- participates in the recruitment process of members of the Board of Directors;
- ensures that the Directors are capable of performing their duties under the best possible conditions, and particularly that they are properly informed prior to Board of Directors' meetings;
- acts as a link between the Independent Directors and the other Board members and General Management. He/she maintains a regular and open dialog with each of the Directors, particularly the Independent Directors, and organizes a meeting of the external Directors at least once a year;
- prevents conflicts of interest from occurring, particularly by taking measures to raise awareness. He/she brings any conflicts of interest involving the corporate officers and other Board members that he/she has identified to the attention of the Board of Directors;
- ensures compliance with the Board of Directors' rules of procedure;
- participates in the Board of Directors' assessment process.

Relations with shareholders

The Lead Independent Director:

- receives questions from shareholders regarding governance and ensures that they are answered;
- assists the Chairman or the Chief Executive Officer to answer questions from shareholders, makes himself/herself available to meet with some of them, even without the Chairman and Chief Executive Officer, and conveys shareholders' concerns regarding governance to the Board.

Participation in Board of Directors' Committees

The Lead Independent Director:

- may be appointed by the Board of Directors to serve as Chairman or member of one or more Board of Directors' Committees. In any case, he/she may attend Committee meetings and has access to the work of all the Committees;
- in particular, the Lead Independent Director is involved in the work of the Nomination and Compensation Committee concerning the annual performance assessment and recommendations regarding the compensation of the corporate officers, even if he/she is not the Chairman or a member of the Nomination and Compensation Committee.

Means

The Lead Independent Director:

- has access to all documents and information that he/she deems necessary to fulfill his/her duties. He/she may, in performing his/her functions, request the completion of external technical studies at the Company's expense;
- is regularly informed of the Company's activity. He/she may also meet with the operational or functional managers, at his/her request and after informing the Chairman and the Chief Executive Officer;
- may also request assistance from the Board secretary in order to perform his/her duties.

Report

The Lead Independent Director reports on the execution of his/her duties once a year to the Board of Directors. During Shareholders' Meetings, he/she may be asked by the Chairman to report on his/her actions.

Work

In 2017, the work of the Lead Independent Director included the following:

- active participation in the discussions regarding the change in the governance structure and in the process resulting in the decision to combine the offices of Chairman of the Board of Directors and Chief Executive Officer;
- heading the process of selecting the future Lead Independent Director;
- review of the conflict of interest questionnaires;
- organization and participation in the meeting of the external Directors;
- visits to foreign sites and operations;
- participation in the annual strategic seminar for Danone senior executives.

Rules applicable to the composition, organization and governance of the Board of Directors

Diversity policy within the Board of Directors and Committees

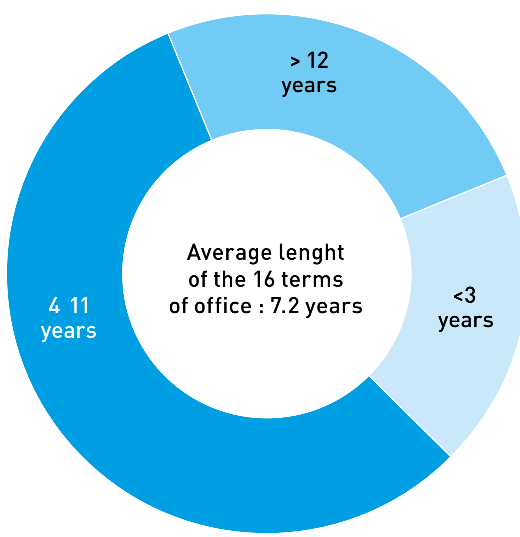
The Board of Directors gives special attention to its composition, particularly in terms of promoting its diversity and that of its Committees. In fact, this diversity is essential for the Board as it is a source of vitality, creativity and performance and ensures the quality of the Board's discussions and decisions. To this end, it has implemented a policy regarding the composition of the governance bodies to achieve a balanced representation, particularly in terms of independence, gender, age and seniority of the Board, and to promote diverse cultures, skills, experience and nationalities. In particular, the Board ensures that its members' skills are varied, in line with the long-term strategic policies and cover the fast moving consumer goods industry, the food and beverage industry, nutrition, governance, operational management of companies, international experience, finance, mergers and acquisitions and corporate social and environmental responsibility. The Board also focuses on ensuring that its members' profiles are complementary and in line with Danone's strategy and that a balance exists between the oldest Directors and recent appointees, which gives the Board both vitality and experience. The diversity of the Board's composition is also ensured by the length of the terms of office (three years) and the fact that their expiration dates are staggered. Lastly, the Board regularly reviews its composition and that of its Committees and identifies the steps to be taken to ensure the best possible balance.

Diversity and expertise of the Board members as of December 31, 2017 and compatibility with their membership on the Committee to which they were appointed

	Directors' expertise							Board Committees			
Nom	FMCG / food and beverage industry	Operational management of large companies / governance of listed companies	Experience in emerging markets	International experience	Finance / Audit / M&A	Social and environmental responsibility	Nutrition / Health	Audit Committee	Nomination and Compensation Committee	Social Responsibility Committee	Strategy Committee
Franck RIBOUD	✓	✓	✓	✓	✓	✓	✓				•
Emmanuel FABER	✓	✓	✓	✓	✓	✓	✓				•
Frédéric BOUTEBBA	✓										
Clara GAYMARD		✓		✓		✓			•		
Jacques-Antoine GRANJON	✓	✓									
Jean LAURENT		✓		✓	✓	✓			C		
Gregg L.ENGLES	✓	✓	✓	✓	✓	✓	✓				
Gaëlle OLIVIER		✓	✓	✓	✓	✓		•			
Benoît POTIER		✓	✓	✓	✓				•		C
Isabelle SEILLIER		✓		✓	✓						•
Mouna SEPEHRI		✓	✓	✓	✓	✓		•			
Jean-Michel SEVERINO		✓	✓	✓	✓	✓	✓	C			•
Virginia A. STALLINGS				✓			✓			C	
Bettina THEISSIG	✓					✓	✓			•	
Serpil TIMURAY	✓	✓	✓	✓	✓	✓	✓			•	
Lionel ZINSOU-DERLIN	✓	✓	✓	✓	✓	✓	✓		•		

Committee member: • Committee Chairman: C

Breakdown of the length of Board members' terms of office and average length of terms of office as of December 31, 2017



Change in the composition of the Board of Directors proposed to the Shareholders' Meeting of April 26, 2018

Changes in the composition of the Board of Directors that occurred in 2017 and are planned for 2018 - French Financial Markets Authority recommendation No. 2012-02

	Departures	Appointments	Renewals
Board of Directors' meeting of April 27, 2017[a]			Bettina THEISSIG
			Frédéric BOUTEBBA
Shareholders' Meeting of April 27, 2017	Bruno BONNELL	Gregg L. ENGLES	Gaëlle OLIVIER
			Isabelle SEILLIER
			Jean-Michel SEVERINO
			Lionel ZINSOU-DERLIN
Shareholders' Meeting of April 26, 2018	Jean LAURENT	Michel LANDEL	Benoît POTIER
	Mouna SEPEHRI	Cécile CABANIS	Virginia A.STALLINGS
	Jacques-Antoine GRANJON	Guido BARILLA	Serpil TIMURAY

(a) Board of Directors' meeting at which these renewals were acknowledged.

Presentation of Directors whose proposed appointment is subject to approval by the Shareholders' Meeting of April 26, 2018

The proposed appointment of Mr. Michel LANDEL, former Chief Executive Officer of SODEXO, is subject to approval by the Shareholders' Meeting of April 26, 2018. If approved, this proposed appointment will enhance the diversity and complementarity of the profiles within Danone's Board of Directors given Mr. Michel LANDEL's international expertise in the fast moving consumer goods sector and in-depth knowledge of the food and beverage industry.

The proposed appointment of Mrs. Cécile CABANIS, Danone's EVP, Chief Financial Officer, IS/IT, Cycles & Procurement, is subject to approval by the Shareholders' Meeting of April 26, 2018. The appointment of Mrs. Cécile CABANIS as a Board member is consistent with Danone's long-time practice, which encourages the presence of members of management on the Board of Directors. In fact, her appointment would enrich the Board's operational approach while also increasing its diversity and enhancing its skills thanks to her extensive expertise in finance, her knowledge of the food and beverage industry and her experience both in France and internationally.

The proposed appointment of Mr. Guido BARILLA, Chairman of the Board of Directors of BARILLA, is subject to approval by the Shareholders' Meeting of April 26, 2018. If approved, Mr. Guido BARILLA will bring a highly valuable contribution to the Board's activites in particular thanks to his experience as an officer of a worldwide food company which he contributed to turn into a world leader, his marketing expertise as well as his in-depth knowledge of the global issues of the food sector and of the sustainable management of agricultural resources.

Composition of the Board of Directors and its Committees

Characteristics of the Board of Directors subject to approval by the Shareholders' Meeting of April 26, 2018 of the proposed renewals and appointments

	Composition subsequent to the Shareholders' Meeting held in			
	2015	**2016**	**2017**	**2018**
Rate of independence	77%	79%	71%	64%
Percentage of women	38%	43%	43%	43%
Average age of Directors	55.4 years	56.4 years	57.4 years	58.1 years
Average length of terms of office	6.9 years	7.3 years	7.2 years	7.1 years
Percentage of Directors of non-French nationality	31%	29%	36%	36%

The Board continued to increase the percentage of female members, in particular by appointing a woman to chair one of its Committees for the first time, and to enhance the diversity and expertise of its members through the appointment of Mr. Gregg L. ENGLES by the Shareholders' Meeting of April 27, 2017 and Mr. Michel LANDEL, Mrs. Cécile CABANIS and Mr. Guido BARILLA by the Shareholders' Meeting of April 26, 2018.

Therefore, following the Shareholders' Meeting of April 26, 2018, subject to a favorable vote by the Meeting, the rate of independence of the Board of Directors would be:

- 64% based on the Board of Directors' assessment;
- 57% by strictly applying the criteria of the AFEP-MEDEF Code.

The percentage of women would still be higher than the percentage required by French law, which requires such percentage to be at least 40%.

Methodology concerning Directors representing employees

Directors representing employees are not included:

- in accordance with the recommendations of the AFEP-MEDEF Code, in the calculation of the rate of independence of the Board of Directors;
- in accordance with applicable laws, in the calculation of the percentage of women on the Board;
- consequently and to ensure the consistency of the data presented, in the calculation of the average age, the average length of the term of office and the percentage of Directors of non-French nationality.

Rules applicable to the operation of the Board of Directors

Directors' terms of office

Length and renewal of terms of office

Pursuant to the by-laws, Directors are appointed for a three-year term of office that may be renewed. The term of office of a Director who is an individual expires automatically at the end of the Shareholders' Meeting convened to vote on the past fiscal year's statutory financial statements and held in the year during which such Director has turned or will turn 70. However, upon a decision of the Shareholders' Meeting, this age limit does not apply to one or more Directors who may remain in office or be reappointed one or more times, so long as the number of Directors concerned by this decision does not exceed one-fourth of the number of Directors in office.

In order to support the smooth renewal of the Board, the Directors' terms of office are staggered. The regular renewal of such terms of office by shareholders is thus facilitated (i) due to the fact that the by-laws limit the terms of office to three years and (ii) by spreading the expiration dates of the various terms of office and thereby enabling the Shareholders' Meeting to vote on the terms of office of several Directors each year.

Holding of DANONE shares by the Directors

Although French law no longer requires a minimum shareholding by directors, Danone's by-laws, in accordance with the AFEP-MEDEF Code, require each Director (except for the Directors representing employees) to hold a minimum of 4,000 shares. For information purposes, 4,000 DANONE shares represent an amount of €279,800 based on the share closing price on December 29, 2017.

Rules of procedure

The Board of Directors adopted rules of procedures, which set out the Directors' rights and obligations and the Board's method of operation for the first time in 2002.

These rules:

- are reviewed on a regular basis and have been amended following regulatory developments and several Board of Directors' self-assessments;
- were amended several times in 2017, particularly within the framework of the change in the conflict of interest management procedure, the end of the chairmanship with enhanced duties and the expansion of the Lead Independent Director's powers;
- are published on Danone's website and a number of provisions are summarized hereinafter.

Summary of the main provisions of the Rules in force

General

The Board of Directors sets the Company's business policies and ensures that they are implemented. It votes on all decisions concerning Danone's major strategic, economic, social, financial, environmental and technological policies.

The Board of Directors is a collegiate body that meets at least five times a year.

In addition, the independent Directors meet at least once a year on the proposal of the Lead Independent Director, who may invite the Company's other external Directors to attend the meeting.

The Board of Directors may create one or more specialized Committees and determine their composition, powers and rules of operation. The Committees perform their duties under the Board of Directors' responsibility.

The Committees are composed solely of Directors: their members are appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee. They are appointed in their individual capacity and may not appoint a proxy to represent them.

Directors' Code of Ethics

Each year, after reviewing the opinion of the Nomination and Compensation Committee, the Board of Directors individually considers the situation of each Director in light of the AFEP-MEDEF Code independence rules.

Duty to report conflicts of interest

Each Director must, at all times, make every effort to avoid carrying out activities or completing transactions that could give rise to a conflict of interest with Danone. Each Director must inform the Board Secretary in advance of any conflict of interest, including potential or future conflicts of interest, that he/she has or is liable to have, in order to obtain the Secretary's approval. The Board Secretary may, where applicable and if he/she deems necessary, seek the opinion of the Nomination and Compensation Committee prior to giving such approval.

Each Director must provide a sworn statement indicating whether or not he/she has any conflicts of interest, including potential conflicts of interest, (i) at the time he/she takes office, (ii) annually, in response to the Company's request when preparing the Registration Document, (iii) at any time, if requested by the Chairman of the Board of Directors or, where applicable, the Lead Independent Director, and (iv) within 10 business days of the occurrence of any event that causes a Director's previously filed statement to become inaccurate, in whole or in part.

A Director who has a conflict of interest, including a potential conflict of interest, must refrain from participating in discussions and voting on the matter in question.

Market ethics

Generally speaking, Directors are bound by a duty of care and due diligence, as well as an obligation to take special care with respect to any transactions involving DANONE shares or any financial instruments related to such shares. They must therefore comply with regulations regarding insider trading. In particular, they are required to comply with the applicable stock exchange regulations related to (i) the definition, use and disclosure of inside information, (ii) the provision of a list of persons closely associated with them, (iii) compliance with blackout periods, and (iv) the reporting of transactions involving DANONE shares.

Board of Directors' assessment

The Board of Directors' performance is assessed every two years. This assessment may be a self-assessment, an assessment by the Nomination and Compensation Committee or an assessment by a third-party organization. Once a year, the Board devotes one item on its agenda to a discussion of its operation.

Training of Directors

All Directors are entitled to the training they need to perform their duties, either upon appointment or during their term of office. This internal or external training enables them to fully understand Danone's business, risks and organization, or to develop certain specific skills. Training is organized and paid for by the Company. The Directors representing employees receive suitable training to carry out their terms of office as soon as they assume their position.

The Board Secretary is responsible for providing the Directors with working documents. More generally, he/she is available to them for any request for information regarding their rights and obligations, the Board's operation or the Company's activities. In addition, the Directors may, at any time, ask the Chairman to provide them with all information and documents they deem necessary to perform their duties.

Operation during the fiscal year

Review of Directors' independence

On February 15, 2018, the Board of Directors, upon recommendation of the Nomination and Compensation Committee, conducted its annual review of the independence of each of the Directors based on the independence criteria defined by the rules of procedure in accordance with the AFEP-MEDEF Code. It determined that, as of February 5, 2018, 10 of the 14 Directors were independent and 4 were not independent, resulting in an independence rate of 71%; the two Directors representing employees were not assessed in accordance with the recommendations of the AFEP-MEDEF Code.

Danone applies the recommendations of the AFEP-MEDEF Code, with the exception of the independence criterion whereby holding a term of office for more than 12 years is *ipso facto* sufficient to result in the loss of independence. In fact, the Board has on many occasions reaffirmed the importance it places on the Company's cultural factors in order to assess the pertinence and feasibility of the projects submitted to it. It believes that Danone's culture constitutes a unique competitive advantage that benefits both itself and its shareholders. Along these lines, the Board has noted that many years of experience as a Board member allow a better understanding of the cultural traits specific to the Company and its mission and therefore helps to inform the Board's work and allows its members to make critical and independent decisions while preserving Danone's identity and culture over the long term. Based on these assessment criteria analyzed on a practical, regular and individual basis, the Board of Directors decided that the 12-year criterion defined by the AFEP-MEDEF Code, among five other criteria, was not in itself sufficient to cause the member to lose his/her independent status.

When examining the business relationship between a Director and Danone to determine whether there are significant business relations that may affect a Director's independence, the criteria used by the Board are both quantitative and qualitative and include namely the amount of sales generated between Danone and the company or group that the Director represents, in both absolute and relative terms, and an analysis of the nature of the existing relationship.

Non-independent Directors

Emmanuel FABER	**Corporate officer of Danone**
Franck RIBOUD	**Former corporate officer of Danone**
Isabelle SEILLIER	**Senior executive at the J.P. Morgan group** The Nomination and Compensation Committee and the Board specifically examined the business relationship between Danone and J.P. Morgan, which is one of the banks with which Danone regularly conducts business. Although Mrs. Isabelle SEILLIER has no decision-making power in the contracts entered into between the two groups and does not receive compensation related to these contracts, the Board believed that this business relationship could potentially create a conflict of interest given the very nature of the business relationship, as J.P. Morgan is a bank that Danone regularly uses, particularly for financing. The Board therefore decided to consider Mrs. Isabelle SEILLIER a non-independent Director. In that context, at the recommendation of the Nomination and Compensation Committee, the Board has taken various steps to ensure that potential conflicts of interest related to Mrs. Isabelle SEILLIER's functions are managed by Danone, in particular: (i) Mrs. Isabelle SEILLIER's automatic abstention from participating in discussions and voting on any matter that could put her in a situation where even a potential conflict of interest exists, (ii) express mention in the Board of Directors' report to the Shareholders' Meeting of her designation as a non-independent Director and the existence of potential conflicts of interest involving her, (iii) for any new agreement between Danone and J.P. Morgan which, given its nature and/or amount, would constitute a regulated agreement: full transparency as to the terms of compensation of J.P. Morgan by Danone and submission to a vote by the shareholders – by a separate resolution – at the next Shareholders' Meeting, and (iv) Mrs. Isabelle SEILLIER's non-involvement in the negotiation and implementation of agreements entered into between Danone and J.P. Morgan.
Gregg L.ENGLES	**Founder and partner of Capitol Peak Partners and former corporate officer of The WhiteWave Foods Company** The Nomination and Compensation Committee and the Board reviewed his situation based on the rules of the AFEP-MEDEF Code defining the independence criteria for Directors and, in particular, in light of Danone's acquisition of The WhiteWave Foods Company in April 2017. The Board therefore decided to consider Mr. Gregg L. ENGLES a non-Independent Director given that he is a former corporate officer of The WhiteWave Foods Company, which is now controlled by Danone. As a reminder, pursuant to the recommendations of the AFEP-MEDEF Code, various measures related to preventing conflicts of interest are set out in the rules, including: (i) prior notice given by Mr. Gregg L. ENGLES to the Board Secretary of any conflict of interest, including potential or future conflicts of interest, that he has or is liable to have, in order to obtain the Secretary's approval, (ii) the obligation to provide a sworn statement indicating whether or not he has a conflict of interest at the time he takes office, each year at the time of preparation of the Company's Registration Document or at any time if requested by the Chairman of the Board of Directors or, where applicable, the Lead Independent Director, and (iii) within 10 business days of the occurrence of any event that causes a Director's previously filed statement to become inaccurate, in whole or in part. In addition, Mr. Gregg L. ENGLES must refrain from participating in discussions and voting on any matter that could put him in a situation where even a potential conflict of interest exists.

Independent Directors

The Board concluded that the following directors were independent:

- Mr. **Benoît POTIER**: a Director for more than 12 years, the Board noted, in addition to the above explanation regarding the Board of Directors' assessment of the 12-year seniority criterion, the strong contribution to the Board's discussions by Mr. Benoît POTIER, Chairman and Chief Executive Officer of Air Liquide, one of the largest CAC 40 companies, as well as his ability to think and express himself freely. Mr. Benoît POTIER also presents himself as a very independent thinker. Moreover, the Board noted the absence of a significant business relationship between Mr. Benoît POTIER and Danone based on the criteria presented above.
- Mr. **Jean LAURENT**: a Director for more than 12 years, the Board noted, in addition to the above explanation regarding the Board of Directors' assessment of the 12-year seniority criterion, the objectivity that Mr. Jean LAURENT has always demonstrated during the Board's discussions and decisions, his ability to express his beliefs and make informed and critical decisions, when necessary, and his in-depth knowledge of Danone. Moreover, the Board noted the absence of a significant business relationship between Mr. Jean LAURENT and Danone based on the criteria presented above;
- Mrs. **Gaëlle OLIVIER**, Mrs. **Mouna SEPEHRI**, Mrs. **Serpil TIMURAY**, Mrs. **Clara GAYMARD**, Mrs. **Virginia A. STALLINGS** and Mr. **Jacques-Antoine GRANJON**, Mr. **Jean-Michel SEVERINO** and Mr. **Lionel ZINSOU-DERLIN**: the Board confirmed that they meet all the AFEP-MEDEF Code independence criteria, particularly as regards the absence of a business relationship between them and Danone, and therefore confirmed their designation as independent Directors.

Situation as of February 15, 2018 of each Director with regard to the independence criteria defined by the AFEP-MEDEF Code - French Financial Markets Authority recommendation No. 2012-02

Name	Employee or executive director and officer during the past five years [a]	Cross-directorships [a]	Significant business relationship [a]	Family relationship [a]	Statutory audit [a]	Term of office exceeding 12 years [a] [b]
Franck RIBOUD		✓	✓	✓	✓	
Emmanuel FABER		✓	✓	✓	✓	
Frédéric BOUTEBBA		✓	✓	✓	✓	✓
Clara GAYMARD	✓	✓	✓	✓	✓	✓
Jacques-Antoine GRANJON	✓	✓	✓	✓	✓	✓
Jean LAURENT	✓	✓	✓	✓	✓	✓ [b]
Gregg L.ENGLES		✓	✓	✓	✓	✓
Gaëlle OLIVIER	✓	✓	✓	✓	✓	✓
Benoît POTIER	✓	✓	✓	✓	✓	✓ [b]
Isabelle SEILLIER	✓	✓		✓	✓	✓
Mouna SEPEHRI	✓	✓	✓	✓	✓	✓
Jean-Michel SEVERINO	✓	✓	✓	✓	✓	✓
Virginia A. STALLINGS	✓	✓	✓	✓	✓	✓
Bettina THEISSIG		✓	✓	✓	✓	✓
Serpil TIMURAY	✓	✓	✓	✓	✓	✓
Lionel ZINSOU-DERLIN	✓	✓	✓	✓	✓	✓

(a) "✓" means that the independence criterion is met; no sign means that it is not met.
(b) Concerning the application of the criterion of a term of office exceeding 12 years, see section *Review of Directors' independence* above.

Conflicts of interest

To the Company's knowledge:

- there are no family ties among the Company's corporate officers. Moreover, during the last five years, no executive director and officer has been convicted of fraud, declared bankruptcy, been placed in receivership or liquidation, been officially and publicly accused and/or penalized by any statutory or regulatory authority, or been prohibited by a court from being a member of a company's administrative, management or supervisory body or from participating in the management or administration of a company's business;
- there are no potential conflicts of interest between any Director's duties to the Company and their private interests and/or other duties, with the exception of Mrs. Isabelle SEILLIER and Mr. Gregg L. ENGLES (see section *Review of Directors' independence above*).

On the date of this Registration Document, no executive director and officer is connected to the Company or one of its subsidiaries via a service contract granting any benefits whatsoever.

Training of Directors

When assuming their positions, all new Directors receive documents and information that enable them to know and understand Danone and its culture and its specific accounting, financial and operating characteristics.

Danone offers (i) each new Director an extensive integration process that includes individual meetings with several Directors and individual interviews with members of General Management and the Executive Committee, and (ii) all Directors the opportunity to attend presentations by directors of Danone's main functions as well as regular on-site visits. For example, Mr. Gregg L. ENGLES, a Director appointed in 2017, completed an integration program in 2017 that included several individual interviews with members of General Management and the Executive Committee and attended presentations by several directors of Danone's main functions.

To ensure that Danone's unique culture is shared and preserved, Directors participate in major events organized by Danone. In addition, during their term of office, Directors also receive regular press summaries containing articles about Danone and its environment, as well as analysts' reports regarding DANONE shares.

Involvement of Directors outside of Board meetings

Danone's Directors are involved in activities other than Board meetings:

They have discussions among themselves and with Danone's corporate officers outside of Board meetings. They also meet informally outside of Board meetings, including for social gatherings. In particular:

- they regularly attend working days in Evian, where an annual seminar is held for all Danone senior executives during which Danone's strategy and those of its various Divisions are discussed in detail;
- they also participate in annual strategic presentations.

Directors' attendance fees

The rules related to the payment of attendance fees are presented in detail in section 6.3 *Compensation and benefits of governance bodies*.

Work

The Board of Directors met six times in 2017 (nine times in 2016, due mainly to the acquisition of The WhiteWave Company). The average length of each meeting was three hours and 4 minutes (two hours and 15 minutes in 2016).

Directors' attendance, expressed by their rate of participation at these meetings, was 90.6% in 2017 (88% in 2016). The average individual attendance rate at Board of Directors' and Committee meetings for 2017 is indicated in each Director's profile (see section 6.2 *Positions and responsibilities of the Directors and Nominees to the Board of Directors*).

The following recurring matters were reviewed and discussed by the Board of Directors in 2017 and in February 2018:

Strategy

- regular presentation by the Chief Executive Officer of Danone's strategic priorities and key operational choices;
- annual strategic presentations of each Division by each Division head during a special one-day event;
- consultation with the Works Council on strategic policies;
- follow-up on the acquisition of The WhiteWave Foods Company and the disposals of businesses in that context.

Activity and results

- review of Danone's financial position and debt (change, amount, composition and repayment schedules);
- review of Danone's financial commitments (security interests and guarantees) and renewals of financial delegations to General Management (bond issues, share buybacks, guarantees, short-term marketable securities program) and capital increases (annual capital increase reserved for employees, capital increase);
- monitoring of its stock performance, share capital and share ownership structure;
- review of the preparatory work for the year-end closing, preparation of the annual consolidated and statutory financial statements and interim consolidated financial statements and drafting of the financial forecasts;
- preparation of the management report and the other reports sent to shareholders;
- monitoring of Danone's financial communication policy (including a review of all press releases regarding the annual and interim consolidated financial statements);
- regular information about Danone's risk management and internal control systems and review of Danone's risks;
- dividend distribution proposal.

Corporate governance

- monitoring of the end of the chairmanship with enhanced duties;
- review of the governance structure and decision to combine the offices of Chairman and Chief Executive Officer;
- decision to enhance the powers of the Lead Independent Director and selection of a new Lead Independent Director, appointment of an Honorary Chairman;
- review of the policy regarding the composition of the Board and Committees and decisions regarding changes in their composition to take into account diversity, in terms of the percentage of women, international diversification, age, length of terms of office and expertise;
- proposal to renew terms of office and proposed appointments of new Directors at the 2017 and 2018 Shareholders' Meetings;
- changes to the Board's rules of procedure;
- review of the governance/compensation resolutions submitted to shareholders for approval and preparation of the Shareholders' Meeting.

Compensation

- development and formalization of the compensation policies for corporate officers;
- determination of the annual compensation principles for 2017 and 2018, in particular: review of the balance between the various components of compensation, determination of the various amounts (target, maximum, minimum), determination of the objectives of annual variable compensation;
- review of long-term compensation instruments, particularly as regards share grant plans (GPS) and GPU: determination of the performance conditions of new plans, grant decision, acknowledgement of the achievement of performance conditions of past plans;
- review of the compensation of corporate officers for previous years (2016 in February 2017 and 2017 in February 2018): acknowledgement of the level of attainment of the various objectives, review of the balance between the various components;
- review of the corporate officers' retirement plans and of the implementation of the former Board Chairman's retirement;
- review of directors' attendance fees;
- approval of the compensation policy for corporate officers and review of the publications regarding compensation.

Corporate Social Responsibility (CSR)

- review of Danone's social and environmental responsibility (Company's non-financial reporting, non-financial rating);
- annual report on FTSE4GOOD;
- review of the social risk materiality matrix;
- annual review of Danone's situation and policy concerning work and pay equality for men and women;
- review of the social funds created at Danone's initiative;
- approval of Danone's annual contribution to Danone Communities.

Assessment

In accordance with its rules of procedure, the Board of Directors conducts an assessment every two years (the last one in 2016), which covers the composition, organization and operation of the Board itself and of each of its Committees. The results of this assessment are reviewed by the Nomination and Compensation Committee. Following some of these assessments, the Board has amended its operating methods and rules of procedure. In addition, once a year the Board devotes one item on the agenda of one of its meetings to a discussion of its operation.

Assessment in 2016

In 2016, an external assessment of the Board of Directors' operation was carried out based on individual interviews with each Director conducted by a specialized consulting firm (which conducts most of the external assessments of French listed companies), with the help of an interview guide prepared in conjunction with the Lead Independent Director and the Board Secretary.

The results and recommendations of this external assessment were presented extensively on pages 212 and 213 of the 2016 Registration Document.

In 2017, the Board implemented a number of these recommendations resulting from the external assessment. For example, the Directors had an opportunity to meet with Danone's operational managers on several occasions, including at the general managers' seminar in Évian and during the day dedicated to strategic presentations. In addition, during the joint meetings of the Audit Committee and the Social Responsibility Committee, several of Danone's managers and members of the Executive Committee had a chance to share technical presentations with the Directors.

A detailed presentation of Danone's key risk matrix was also made to the Board members.

In response to the request to improve the relationship between the Strategy Committee and the Board, the Directors were invited to participate in a Strategy Committee meeting.

Review of the Directors' individual contribution

When conducting the joint assessment of the Board, the specialized consulting firm reviewed the Directors' individual contribution to the work of the Board and its Committees. This review revealed that the Directors have a high level of involvement, attendance and preparation, which reflects all the Board members' strong support for Danone's values and project and their capacity to challenge and contribute to the Board's discussions. At the time of this review, it was stated that it may be necessary to strengthen the Board's composition in the future by adding individuals from the retail and/or fast moving consumer goods sectors who have experience in either the US or Asia.

Review of the Board's operation

In 2017, the Board conducted an annual review of its own operation and that of each of its Committees. This review showed that the relationship of trust that exists among the Directors fosters cohesive, high-quality exchanges. Discussions are therefore open and constructive. In that context, the Directors participate independently in the work and decisions of the Board and its Committees.

AUDIT COMMITTEE

Composition as of December 31, 2017

Jean-Michel SEVERINO Chairman	**Beginning of the term of office: April 2012, Chairman of the Committee since April 2012** Mr. Jean-Michel SEVERINO is the "Committee's financial expert" within the meaning of Article L. 823-19 of the French commercial code given his skills and expertise. He is an Inspector General of Finance who previously held such positions as Development Director at the French Ministry of Cooperation, Vice-President for East Asia at the World Bank and Chief Executive Officer of the French Development Agency (AFD). In his previous positions, he developed solid expertise in accounting and finance as well as in internal control and risk management.
Gaëlle OLIVIER	**Beginning of the term of office: February 2015** Mrs. Gaëlle OLIVIER developed strong financial expertise while working on the trading floor at Crédit Lyonnais and then as investment transactions manager for AXA Life Japan. She also has recognized expertise in risks and internal audit and was Chief Executive Officer of AXA Global P&C and a Member of the Management Committee of the AXA group.
Mouna SEPEHRI	**Beginning of the term of office: April 2012** Mrs. Mouna SEPEHRI has been involved in the development of the Renault group since 1996 and contributes to its major acquisitions and strategic partnerships. Her extensive experience in the area of mergers and acquisitions demonstrates her proven financial skills; furthermore, as head of the legal division of a major international listed group, Mrs. Mouna SEPEHRI also brings valuable experience in risk management and internal control.

Rules of procedure

Main provisions

The Audit Committee is responsible for monitoring the following:

- the preparation process of the financial statements and financial information;
- the effectiveness of the internal control, risk management and internal audit systems;
- the statutory audit of the annual and consolidated financial statements by the Statutory auditors;
- the independence of the Statutory auditors.

Duties

- regarding the financial statements and financial information: (i) reviewing the Company's statutory and consolidated financial statements before they are submitted to the Board of Directors, (ii) ensuring the consistency of the accounting policies the Company applies, (iii) reviewing the accounting treatment of the main complex and/or non-recurring transactions, (iv) reviewing the consolidation scope of Danone's companies, (v) reviewing the policy for monitoring off-balance sheet commitments, (vi) being informed of the Statutory auditors' opinions and comments, (vii) reviewing the Company's financial position, cash position and commitments every six months, (viii) reporting the main options concerning the closing of the annual and interim consolidated financial statements to the Board of Directors, (ix) reviewing, together with General Management, press releases on Danone's results and receiving Danone's main financial communication documents, and (x) receiving non-financial information published by Danone which has been presented to the Social Responsibility Committee;
- regarding Danone's Statutory auditors: (i) managing the selection process by supervising the calls for tender launched by General Management and, in particular (ii) making proposals for the appointment, renewal and compensation of the Statutory auditors, (iii) reviewing the results of their work and audits as well as their recommendations and follow-up action on them, (iv) regularly meeting with the Statutory auditors, including without directors being present, and (v) ensuring the independence of the Statutory auditors, particularly by approving some of their audits in advance;
- regarding risk management: (i) ensuring that structures and systems are in place to identify and evaluate Danone's risks, as well as monitoring the effectiveness of such systems, (ii) being informed of any events that expose the Company to a significant risk, and (iii) being informed of Danone's main social, societal and environmental risks;
- regarding internal control: (i) ensuring that an internal control system is in place and monitoring its effectiveness, (ii) being informed of any significant failures or weaknesses in internal control and any major fraud, (iii) reviewing the report on the composition, preparation and organization of the Board's work, as well as the internal control and risk management procedures implemented by the Company, (iv) ensuring that procedures are in place to process complaints received by Danone concerning accounting and financial transactions, breaches of internal control rules or anti-corruption and anti-fraud rules, (v) being informed of significant complaints received under this system and supervising the processing of the most important files referred to it, and (vi) being available for consultation by the Social Responsibility Committee for any questions relating to the business conduct policy or ethics;
- regarding internal audit: (i) approving the internal audit plan and overseeing its implementation, (ii) reviewing the internal audit structure, being informed of the content of Danone's Internal Audit Charter and being informed and consulted on decisions related to the appointment or replacement of the Internal Audit Director, and (iii) expressing its opinion on the adequacy of resources and the independence of internal audit.

In performing its duties, the Audit Committee may regularly interview the corporate officers, General Management of Danone and its subsidiaries, as well as the Internal Audit Director, the Statutory auditors and Danone's senior executives in particular, those responsible for preparing Danone's consolidated and statutory financial statements, risk management, internal control, legal affairs, fiscal affairs, treasury, financing and ethics compliance. At the Committee's request, these interviews may take place without the representatives of Danone's General Management present. In addition, the Audit Committee may obtain the opinion of independent external advisors, particularly on legal and accounting matters, and request any internal or external audits. The Audit Committee invites the Statutory auditors to attend each of its meetings. In addition, an Audit Committee meeting is held once a year with the Statutory auditors without the corporate officers present.

Main amendments/changes

The Audit Committee's rules of procedures are reviewed regularly, such as to ensure that they comply with the latest legal provisions and updated recommendations of the AFEP-MEDEF Code. The rules of procedure were amended at the Board of Directors' meeting on December 10, 2013 to implement the new recommendations of the AFEP-MEDEF Code.

Work

In 2017, the Audit Committee met six times (six times in 2016), including once jointly with the Social Responsibility Committee. Its members' attendance rate, expressed by their rate of participation at these meetings, was 80% (73% in 2016).

A report on each Audit Committee meeting is presented at the next Board of Directors' meeting. In addition, the minutes of Audit Committee meetings are sent to all Directors. The reports and the minutes communicated to the Directors enable the Board to stay fully informed, thereby facilitating its decisions.

In 2017 and early 2018, the Committee's work focused mainly on the following matters:

- Danone's financial position;
- review of Danone's annual and interim consolidated financial statements; the annual consolidated financial statements were reviewed at meetings held, in accordance with the AFEP-MEDEF Code, sufficiently in advance, namely at least two days before the Board meeting approving these financial statements. This review always involves: (i) presentation of Danone's financial position by the Chief Financial Officer, (ii) presentation by the Statutory auditors of their audit approach, (iii) joint presentation by the person responsible for the financial statements (Consolidation and Reporting Director), on the one hand, and the Statutory auditors, on the other hand, of the main accounting options used, (iv) review of Danone's main litigation, (v) review of off-balance sheet commitments, and (vi) hearing the findings of the Statutory auditors, including their audit adjustments;
- review of IFRS developments;
- review of the draft press releases on the annual and interim consolidated results. On this occasion, the Committee ensured that the financial information presented to the markets was consistent with the consolidated financial statements, and that the process of preparing the press releases included their review by the Statutory auditors;
- presentation of the proposed dividend payment to be submitted to the shareholders for approval;
- review of the financial authorizations subject to approval by the Shareholders' Meeting;
- semi-annual review of the mapping of Danone's key risks (including financial risks) presented by the person responsible for risk monitoring and management;

- monitoring the organization and effectiveness of the audit and internal control systems;
- approval of Danone's internal audit plan and review and summary of the principal results of audits conducted during the year;
- review of the draft section of the report on internal control and risk management;
- approval and regular monitoring of the Statutory auditors' fees;
- approval of the procedure for authorizing the services provided by the Statutory auditors and the members of their networks;
- annual review of food safety at Danone;
- annual review of compliance within Danone, with a specific update on the new French anti-corruption law (Sapin II law);
- review of the materiality matrix, risk assessment and non-financial ratings;
- information about the action plan developed pursuant to the new EU regulation on data protection;
- operation of the Committee and establishing its program and priorities for the 2017 and 2018 fiscal years;
- review of Danone's tax situation and changes in the fiscal environment;
- update on foreign exchange risk management; update on the integration of The WhiteWave Foods Company;
- review of the procedure for managing inside information at Danone following the new EU Market Abuse Regulation ("MAR").

NOMINATION AND COMPENSATION COMMITTEE

Composition as of December 31, 2017

	Start date as Committee member
Jean LAURENT Chairman	April 2005, Chairman since April 28, 2011
Benoît POTIER	April 2012
Lionel ZINSOU-DERLIN	February 2015
Clara GAYMARD	April 2016

Rules of procedures

Main provisions

The corporate officers are regularly involved in the work of the Nomination and Compensation Committee, except for matters that concern them personally.

Duties

Related to nomination

- determine and regularly review a policy regarding composition, participate in the assessment of the governance bodies and propose to the Board any changes related to the composition and operation of the Board and Committees;
- review (i) the appropriateness of the Company's governance structure, (ii) changes to the management bodies and future potential managers (such as by drafting a succession plan in the event of an unexpected vacancy), and (iii) the corporate governance rules applicable to the Company and monitor their implementation and any changes to them;
- review and make recommendations regarding each Director's independence and review any issues related to potential conflicts of interest.

Related to compensation

- be informed of Danone's general compensation policy and make any related comments;
- review the compensation and retirement policy of Danone and the management bodies, express an opinion on any related issues, propose the corporate officers' compensation to the Board and, in this respect: (i) define the rules for setting objectives for the variable portion and check that these rules are applied by ensuring consistency with the corporate officers' performance assessment and Danone's strategy, (ii) be informed of the long-term compensation mechanisms and the general payment policy, and review the plans and proposals regarding payments to the management bodies;
- review the amount of directors' fees and make any recommendations regarding their distribution.

Main amendments/changes

The Nomination and Compensation Committee's rules of procedures are reviewed on a regular basis. They were completely updated in 2017.

Work

In 2017, the Nomination and Compensation Committee met six times (six times in 2016) and its members' attendance rate (rate of participation at these meetings) was 94% (94% in 2016).

A report on each Nomination and Compensation Committee meeting is presented at the next Board of Directors' meeting. The purpose of these reports is to keep the Board fully informed, thereby facilitating its decisions.

In 2017 and early 2018, the work of the Nomination and Compensation Committee focused mainly on the following matters:

Regarding governance

- monitoring of the transition from chairmanship with enhanced duties;
- review of Danone's governance and recommendation to combine the offices of Chairman and Chief Executive Officer;
- enhancement of the powers of the Lead Independent Director;
- review of the composition of the Board in light of the diversity policy, particularly as regards the percentage of women and its rate of independence, which prompted a review at the 2017 and 2018 Shareholders' Meetings of the renewal of terms of office, the appointment of new Directors and the appointment of Mr. Michel LANDEL as Lead Independent Director;
- review of the composition of the Committees and, more specifically, of the appointment of Mrs. Virginia A. STALLINGS as Chairman of the Social Responsibility Committee and Mr. Benoît POTIER as Chairman of the Strategy Committee;
- annual individual review of the independence of each Director and of the existence of any conflicts of interest, including potential conflicts of interest. A detailed analysis of these candidates' expertise and a review of their independence is provided above in section *Review of Directors' independence*;
- annual review of the operation of the Board of Directors.

Regarding compensation

- review of Danone's compensation policy, particularly the balance between the various components and the consistency of the performance conditions;
- review and determination of the various criteria and weighting factors for annual variable compensation; in particular, definition for each criterion of the target, cap, maximum and minimum that may be granted;
- review of the compensation programs: (i) the multi-annual program, including a review of whether performance objectives were achieved for each prior year and setting performance objectives at the beginning of each new year; and (ii) the long-term program, including the determination of performance conditions and a review of whether they were achieved and of the obligation of the corporate officers and the other members of the Executive Committee to retain their shares;
- review of the 2017 compensation policy for the corporate officers;
- preparation of the resolutions proposed at the 2017 Shareholders' Meeting regarding the 2016 compensation of the corporate officers;
- review of the 2018 compensation policy for the corporate officers;
- preparation of the resolutions proposed at the 2018 Shareholders' Meeting regarding the 2017 compensation of the corporate officers;
- review of draft resolutions regarding the grant of GPS by the 2017 and 2018 Shareholders' Meetings;
- review of the amount of directors' fees;
- review of the publications related to compensation: February, July 2017 and February 2018.

SOCIAL RESPONSIBILITY COMMITTEE

Composition as of December 31, 2017

	Start date as Committee member
Virginia A. STALLINGS [a] Chair	February 2015, Chair since July 2017
Bettina THEISSIG	October 2016
Serpil TIMURAY [a]	April 2015

(a) Independent Director.

Rules of procedure

Main provisions

The Social Responsibility Committee is mainly responsible for overseeing Danone's societal project. Its scope covers all areas of social responsibility related to Danone's mission and activities and, in particular, social, environmental and ethical issues.

The Social Responsibility Committee focuses mainly on Danone's action principles, policies and practices in the following areas:

- social, relating to Danone's employees and those of its partners, subcontractors, suppliers and customers;
- environmental, relating to (i) activities controlled directly (industrial production, packaging, etc.) or indirectly by Danone (purchasing, transport, energy, etc.), and (ii) the use of non-renewable natural resources;
- ethical, relating to Danone employees, consumers and, more generally, all of Danone's stakeholders;
- nutrition, relating in particular to public health issues, the social impacts of its products and information provided to consumers.

6

Duties

- reviewing the main environmental risks and opportunities for Danone in light of the issues specific to its projects and activities;
- being informed of the internal control procedures implemented at Danone as regards its main environmental risks;
- being consulted by the Audit Committee with respect to audit projects related to its areas of activity;
- reviewing Danone's social policies, the objectives set and the results obtained;
- reviewing the reporting, evaluation and control systems to enable Danone to produce reliable non-financial information;
- reviewing all non-financial information published by Danone, particularly concerning social and environmental matters;
- annually reviewing a summary of the ratings given to the Company and its subsidiaries by non-financial rating agencies;
- ensuring the application of the ethics rules defined by Danone;
- being regularly informed of complaints received under the employee whistleblowing procedure which concern ethical, social or environmental issues and reviewing those related to its mission, in coordination with the work carried out by the Audit Committee;
- regularly reviewing the results of Danone's self-assessments under the Danone Way program.

In addition, in the area of socially responsible investments, the Committee is responsible for:

- assessing the impact of these investments for Danone;
- reviewing the application of the rules established by Danone concerning social investments and programs in areas related to Danone's activities;
- ensuring that the Company's interests are protected, with particular focus on preventing any conflicts of interest between these investments and the rest of Danone's activities.

The Committee's role is also to prepare for and inform the work of the Board regarding investments and action programs with a social purpose led by Danone or in which it participates.

Main social amendments/changes

The Social Responsibility Committee's rules of procedure are regularly updated. The most recent updates involved changes in the performance and exact scope of its responsibilities, particularly in relation to the Audit Committee (more specifically, in terms of reviewing Danone's risks and non-financial communication).

Work

In 2017, the Social Responsibility Committee met three times (four times in 2016), including once jointly with the Audit Committee, and its members' attendance rate (rate of participation at these meetings) was 100% (89% in 2016).

A report on each Social Responsibility Committee meeting is presented to the Board of Directors. In addition, the minutes of Social Responsibility Committee meetings are sent to all Directors. These reports and the minutes communicated to the Directors enable the Board to stay fully informed about issues related to social and environmental responsibility, thereby facilitating its decisions.

In 2017 and early 2018, the Committee's work focused mainly on the following matters:

- review of Danone's ongoing social projects and, more specifically, the budgets of the funds created at Danone's initiative, namely the amount paid by the Company for its annual financial contribution to Danone Communities, new investments made by the danone. communities professional specialized fund ("FPS"), and monitoring the Danone Ecosystem Fund and the Livelihoods funds;
- annual review of Danone's policy concerning work and pay equality for men and women;
- annual review of Danone's non-financial reporting;
- review of Danone's new parenting policy;
- annual update on food safety at Danone;
- annual review of Danone's participation in the FTSE4Good index;
- annual review of compliance within Danone, with a specific update on the new French anti-corruption law (Sapin II law);
- review of the materiality matrix, risk assessment and non-financial ratings.

STRATEGY COMMITTEE

Composition as of December 31, 2017

	Start date as Committee member
Benoît POTIER [a] Chairman	2015, Chairman since 2017
Emmanuel FABER	2015
Franck RIBOUD	2015
Isabelle SEILLIER	2015
Jean-Michel SEVERINO [a]	2015

(a) Independent Director.

Rules of procedures

Main provisions

The role of the Strategy Committee is to analyze Danone's major strategic policies. It prepares and informs the Board's work on key matters of strategic interest such as:

- areas of development;
- external growth opportunities;
- divestments;
- significant agreements and partnerships;
- transactions involving the Company's share capital;
- diversification opportunities; and
- more generally, any transaction of significance for Danone's future.

Work

In 2017, the Strategy Committee met two times (four times in 2016) and its members' attendance rate (rate of participation at these meetings) was 100% (100% in 2016).

In 2017 and early 2018, the Committee's work focused mainly on:

- reviewing changes in the Company's shareholder structure and investors' expectations and analyses;
- reviewing Danone's risk mapping;
- strategic priorities and strategic planning process.

EXECUTIVE COMMITTEE

Role

Under the authority of the Chief Executive Officer, the Executive Committee is responsible for Danone's operational management. It implements the strategy defined by the Board of Directors, reviews and approves resource allocation, ensures the consistency of the actions taken by all the subsidiaries and Divisions and, depending on the results achieved, decides on action plans to be implemented. The Executive Committee meets at least once a month.

Composition as of March 1, 2018: 7 members

Name	AGE	Principal position at Danone	Starting date on Executive Committee
Emmanuel FABER	54	Chairman and Chief Executive Officer	2000
Bertrand AUSTRUY	44	EVP, Human Resources and General Secretary	2015
Henri BRUXELLES	52	EVP, Waters and Africa	2017
Cécile CABANIS	47	EVP, Chief Financial Officer, IS/IT, Cycles & Procurement	2015
Francisco CAMACHO	52	EVP, Essential Dairy and Plant-Based	2011
Bridgette HELLER	56	EVP, Early Life Nutrition and Advanced Medical Nutrition	2016
Véronique PENCHIENATI	50	EVP, Growth and Innovation	2018

APPLICATION OF THE AFEP-MEDEF CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES

Pursuant to the law of July 3, 2008, on December 18, 2008 the Board of Directors reviewed the provisions of the AFEP-MEDEF Code and decided that Danone would refer to this Code of Governance. This code is available on the MEDEF website (www.medef.com).

Danone applies the recommendations of the AFEP-MEDEF Code, with the exception of the following points which the Company does not apply in a strict manner:

Recommendations	Danone's practice and justification
Termination of employment contract in case of appointment as corporate officer (section 21 of the AFEP-MEDEF Code) *"When an employee is appointed as a corporate officer, it is recommended to terminate his or her employment contract with the company or with a company affiliated to the group, whether through contractual termination or resignation. This recommendation applies to the chairman, chairman and chief executive officer, and general manager of companies with a board of directors […].*	On October 18, 2017, the Board of Directors confirmed the position it had taken in September 2014 and decided that Mr. Emmanuel FABER's employment contract should be maintained (while remaining suspended) given his age, his personal situation and his seniority as a Danone employee. The Board considered this arrangement relevant for managers with at least 10 years of seniority at Danone in order to encourage the principle of internal promotion and long-term management which Danone strives to implement, as terminating the employment contract could, on the contrary, discourage internal candidates from accepting positions as corporate officers. The Board believed that implementing the recommendations of the AFEP-MEDEF Code to permanently terminate these employment contracts would cause them to lose the rights and benefits gradually acquired under their employment contracts during their careers at Danone on the basis of seniority (*i.e.* 19 years for Mr. Emmanuel FABER) and actual service, particularly the severance pay and long-term benefits (such as participation in group plans), the total amount of which, in any case, would not exceed the cap of two years of compensation (fixed and variable).
Functioning of the Compensation Committee (section 17.3 of the AFEP-MEDEF Code) *"When the report on the work of the Compensation Committee is presented, the Board should deliberate on issues relating to the compensation of the corporate officers without the presence of the latter."*	Corporate officers are present when the Board of Directors deliberates on issues relating to their compensation but do not take part in any debate or vote in relation to decisions that affect them. In addition, the Board of Directors only decides on compensation upon the recommendation of the Nomination and Compensation Committee, which is composed entirely of independent Directors and therefore includes no corporate officers. A Lead Independent Director has been in place since 2013 to provide additional assurance that the Board is functioning correctly and that power is well-balanced within General Management and the Board.
Supplementary pension plans (section 24.6.2 of the AFEP-MEDEF Code) *"Supplementary defined benefit pension plans are subject to the condition that the beneficiary be an executive director and officer or employee of the company when claiming his or her pension rights in accordance with the rules in force."*	The retirement plan set up in 1976 has been closed since 2003. Corporate officers' eligibility for the retirement plan is subject to the condition that they are performing their duties at Danone at the time of retirement. As an exception to this principle, only in the event of dismissal after age 55 is the benefit derived from this plan maintained provided that the beneficiary does not take up paid employment. This last provision, consistent with applicable French regulations, protects all beneficiaries against the risks related to a dismissal occurring after age 55 but before they have reached retirement age.

Recommendations	Danone's practice and justification
Independence criteria for directors (section 8.5 of the AFEP-MEDEF Code) *"The criteria to be reviewed by the Committee and the Board in order for a director to qualify as independent [...] are the following: [...] - not to have been a director of the corporation for more than 12 years. The loss of the status of independent director occurs on the date of the 12th anniversary."*	On February 15, 2018, the Board of Directors, at the recommendation of the Nomination and Compensation Committee, conducted its annual review of the independence of each of the Directors based on the independence criteria defined by the rules in accordance with the AFEP-MEDEF Code (see section *Board of Directors' rules* above). Concerning the independence criterion of the AFEP-MEDEF Code whereby holding a term of office for more than 12 years is ipso facto sufficient to result in the loss of independence, the Board observes that Danone's development strategy is based on a dual economic and social project which gives it a unique culture. In this respect, the Board has reaffirmed on many occasions the importance that it places on the Company's cultural factors in order to assess the pertinence and feasibility of the projects submitted for its approval. It believes that Danone's culture constitutes a unique competitive advantage that benefits both Danone and its shareholders. Along these lines, the Board has noted that many years of experience as a Board member allows a better understanding of the cultural traits specific to the Company and its mission and therefore helps to inform the Board's work and allows its members to make critical and independent decisions while preserving Danone's identity and culture over the long term. Given these assessment criteria analyzed on a practical and regular basis, the Board of Directors believed, based on the work of the Nomination and Compensation Committee, that the 12-year criterion defined by the AFEP-MEDEF Code, among five other criteria, was not in itself sufficient to cause the member to lose his/her independent status. Therefore, as of February 15, 2018, Danone's Board of Directors consists of 14 Directors, 10 of whom are considered independent and four are not independent; as the two Directors representing employees were not assessed, the independence rate is 71%. As a reminder, in accordance with the recommendations of the AFEP-MEDEF Code, the two Directors representing employees are not included in the calculation of the independence rate. Regarding Mr. Jean LAURENT, the Board noted that his in-depth knowledge of Danone supports his capacity to make informed and critical decisions. It also believed that his personality and commitment, recognized by Danone's shareholders, 98% of whom approved the renewal of his term of office on April 29, 2015, demonstrate his ability to think independently. Concerning Mr. Benoît POTIER, Chairman and Chief Executive Officer of one of the largest companies in the CAC 40, the Board acknowledged his strong contribution to the Board's discussions as well as his ability to think and express himself freely. Lastly, the Board believed that the ability to speak freely, involvement and critical thinking demonstrated by Mr. Benoît POTIER, whose term of office was renewed by 96.58% of shareholders on April 29, 2015, are evidence of his independence.
Presence of a Director representing employees on the Nomination and Compensation Committee (section 17.1 of the AFEP-MEDEF Code) *"It is recommended [...] that an employee-director be a member of it"*	During its review of the composition of the various Committees, the Board, in consultation with the Directors representing employees, did not feel it was appropriate to appoint a Director representing employees to the Nomination and Compensation Committee. However, it decided to appoint Mrs. Bettina THEISSIG, Director representing employees, to the Social Responsibility Committee, which is responsible for overseeing Danone's societal project and, in particular, monitoring social, environmental and ethical issues. The Board believed that her profile, experience and in-depth knowledge of Danone are valuable assets for this Committee's work. In any case, Danone's Nomination and Compensation Committee consists entirely of Directors considered independent and carries out its work under the responsibility of the Board. The work, recommendations and opinions of the Committee are the subject of detailed reports and are discussed during Board meetings by all the Directors, including the Directors representing employees.

6.2 POSITIONS AND RESPONSIBILITIES OF THE DIRECTORS AND NOMINEES TO THE BOARD OF DIRECTORS

(Article R. 225-83 of the French commercial code)

Information regarding the Directors and the nominees to the Board of Directors:

- *the terms of office in italics are not governed by Article L. 225-21 of the French commercial code concerning multiple directorships;*
- *unless otherwise indicated, the companies are in France;*
- *the terms of office followed by the symbol SM are subject to approval by the Shareholders' Meeting of April 26, 2018;*
- *for each Director already on the Board, the 2017 BoD attendance rate is the Director's attendance rate at Board of Directors' meetings during fiscal year 2017.*

Appointments proposed to the Shareholders' Meeting

Guido BARILLA
Cécile CABANIS
Michel LANDEL

Directors whose renewal of office is proposed

Benoît POTIER
Virginia A. STALLINGS
Serpil TIMURAY

Current Directors

Franck RIBOUD
Emmanuel FABER
Clara GAYMARD
Gregg L.ENGLES
Gaëlle OLIVIER
Isabelle SEILLIER
Jean-Michel SEVERINO
Lionel ZINSOU-DERLIN

Director whose term of office is not being renewed

Jacques-Antoine GRANJON
Jean LAURENT
Mouna SEPEHRI

Directors representing employees

Frédéric BOUTEBBA
Bettina THEISSIG

GUIDO BARILLA

Chairman of the Board of Directors of BARILLA

Nominee to the Board of Directors SM

Born July 30, 1958, Italian nationality
BoD attendance rate 2017: N/A

Personal background – experience and expertise

After studying philosophy, Guido BARILLA began his career in 1982 with a two year experience abroad in the Sales Department at Barilla France, a subsidiary of the Barilla Group. Following his European training, he worked at several food companies in the United States. Once he returned to Parma, headquarter of the Barilla Group, he became an executive at the company in July 1986 and was mainly responsible for the Group's international expansion. In the same year, he was appointed as a member of the Board of Directors of Barilla G. & R. F.lli S.p.A., and was then named Vice Chairman in May 1988. Following his father's death, in October 1993, he became Chairman of the Board of Directors of Barilla G. e R. F.lli S.p.A. and Group Chairman as of March 2003. In 2009, he became Chairman of the Advisory Board of the Barilla Center for Food and Nutrition (BCFN), currently the BCFN Foundation.

Terms of office held at December 31, 2017

Listed companies

None

Unlisted companies

- Director and Chairman of BARILLA HOLDING S.P.A. (Italy), CO.FI.BA. S.R.L. (Italy), GELP - S.P.A. (Italy), BARILLA G. E R. FRATELLI S.P.A.[a] (Italy), BARILLA INIZIATIVE S.P.A.[a] (Italy), CONSUMER GOODS FORUM BOARD (France)
- Director of ARLANDA LIMITED (New Zealand), BARBROS S.R.L. (Italy), GAZZETTA DI PARMA FINANZIARIA S.P.A (Italy), GAZZETTA DI PARMA S.R.L. (Italy), PUBLIEDI - S.R.L. (Italy), RADIO TV PARMA S.R.L. (Italy), GUIDO M. BARILLA E F.LLI S.R.L (Italy),
- Special Procurator of BARILLA SERVIZI FINANZIARI S.P.A [a] (Italy), F.I.R.S.T. COMMERCIALE S.R.L[a] (Italy), F.I.R.S.T. RETAILING S.P.A.[a] (Italy)

Terms of office that expired over the past five years

None

(a) Barilla group company.

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FRÉDÉRIC BOUTEBBA

Head of Market Danone Eaux France S.A.E.M.E.

Director representing employees

Born August 18, 1967, French nationality

BoD attendance rate 2017: 100%

Personal background – experience and expertise

Frédéric BOUTEBBA joined Danone in 1992 where he held a number of responsibilities in the Sales Department. In 2006, he changed course and began to represent and defend employees' interests, joining various Employee Representative Bodies both at the head office of Danone Eaux France S.A.E.M.E. and at the national level.

Terms of office held at December 31, 2017

Listed companies

Director representing employees of DANONE SA

Unlisted companies

None

Terms of office that expired over the past five years

Listed companies

- Member of the Danone Group-level Works Council

Unlisted companies

- Shop Steward, member and Union Representative of the Works Council of DANONE EAUX FRANCE S.A.E.M.E.
- Member representing employees of the *BRANCHE EAUX, BIÈRES ET B.R.S.A.*
- Union Secretary of the *CFDT 24 AGRI-FOOD UNION*

CÉCILE CABANIS

Chief Financial Officer, IS/IT, Cycles and Procurement

Nominee to the Board of Directors SM

Born December 13, 1971, French nationality

BoD attendance rate 2017: N/A

Personal background – experience and expertise

Cécile Cabanis graduated from the Institut National Agronomique Paris-Grignon as an agricultural engineer. She began her career in 1995 at L'Oréal in South Africa, where she worked as logistics manager and head of management control, then in France as an internal auditor. In 2000, she joined Orange as Assistant Director in the group's Mergers-Acquisitions division. Cécile Cabanis came to Danone in 2004, where she carried out key duties in the Finance Division as a Corporate Financial Officer, then Head of Development. In 2010, she was appointed Chief Financial Officer of the Fresh Dairy Products Division. Since February 2015, she has been Danone's Chief Financial Officer and a member of the Executive Committee. She became the Head of Information Systems and Technologies in March 2017, and she has been in charge of Cycles, Procurement and Sustainable Resources Development at Danone since October 2017.

Terms of office held at December 31, 2017

Listed companies

- Director and Chair of the Audit and Risks Committee of SCHNEIDER ELECTRIC SE
- Member of the Supervisory Board of *MEDIAWAN*

Unlisted companies

- Chief Executive Officer, *DANONE CIS HOLDINGS BV*[a] (Netherlands)
- Director of *DANONEWAVE PUBLIC BENEFIT CORPORATION*[a] (United States)
- Director of *MICHEL ET AUGUSTIN SAS*[a]
- Member of the Supervisory Board of *SOCIÉTÉ ÉDITRICE DU MONDE*

Terms of office that expired over the past five years

Listed companies

None

Unlisted companies

- Director of DANONE SA[a] (Spain), DANONE DJURDJURA[a] (Algeria), DANONE CHIQUITA FRUITS[a], FRESH DAIRY PRODUCTS IBERIA[a] (Spain), CENTRALE DANONE[a] (Morocco), FROMAGERIE DES DOUKKALA[a] (Morocco), DAN TRADE B.V[a] (Netherlands), DANONE LIMITED[a] (UK), DANONE RUSSIA[a] (Russia), DANONE INDUSTRIA LLC[a] (Russia), DANONE SP. Z.O.O[a] (Poland)
- Member of the Supervisory Board of TOECA INTERNATIONAL COMPANY B.V.[a] (Netherlands)

(a) Danone group company or company in which Danone holds a stake.

GREGG L. ENGLES

Founder and Partner in CAPITOL PEAK PARTNERS

Non-Independent Director

Born August 16, 1957, U.S. nationality
BoD attendance rate 2017: 66.67%

Personal background – experience and expertise

Gregg L. ENGLES received a Bachelor's degree in economics at Dartmouth College and a juris doctorate degree in law at Yale University. After graduation, he founded and was President of several investment firms: Kaminski Engles Capital Corporation in 1988, Engles Capital Corporation in 1989, and Engles Management Corporation in 1993. Gregg L. ENGLES founded Suiza Foods Corporation in 1993 and became Chairman of the Board and Chief Executive Officer in 1994. Suiza Foods Corporation, later called Dean Foods Company, was founded to consolidate the U.S. fluid milk industry. Gregg L. ENGLES served as Chairman of the Board of Directors and Chief Executive Officer of Dean Foods Company, which became one of the nation's leading food and beverage companies, from 1994 until 2012, and became a listed company in 1996. Gregg L. ENGLES created a branded dairy alternative business within the Dean Foods portfolio and built The WhiteWave Foods Company through a series of successful acquisitions, including International Delight in 1997, Silk in 2002, Horizon Organic in 2004, and Alpro in 2009. Following the spin-off of Dean Foods Company, Gregg L. ENGLES became Chairman and Chief Executive Officer of WhiteWave Foods Company from October 2012 to April 2017, when the company was purchased by Danone.

Terms of office held at December 31, 2017

Listed companies

- Director of DANONE SA
- Director, Audit Committee Chairman, member of the Compensation Committee, member of the Nominating and Corporate Governance Committee, *LIBERTY EXPEDIA HOLDINGS, INC.* (United States)

Unlisted companies

- Manager of CAPITOL PEAK PARTNERS LLC (United States)

Terms of office that expired over the past five years

Listed companies

- Chairman and Chief Executive Officer of *THE WHITEWAVE FOODS COMPANY* (United States)

Unlisted companies

None

EMMANUEL FABER

Chairman and Chief Executive Officer of DANONE SA

Non-Independent Director

Born January 22, 1964, French nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Emmanuel FABER began his career as a consultant at Bain & Company before working as an investment banker at Baring Brothers. He joined Legris Industries and was appointed Chief Executive Officer in 1996. Emmanuel joined Danone in 1997 to head the Finance, Strategies and Information Systems department, and became a member of the Executive Committee in 2000. In 2005, he was appointed Chief Executive Officer of the Asia-Pacific region. In 2008 he became Deputy General Manager of Danone, and in 2011 he was appointed Vice-Chairman of the Board of Directors. He became Chief Executive Officer of Danone in October 2014. Since December 1, 2017, he is Danone's Chairman and Chief Executive Officer.

Emmanuel FABER is very engaged in the development of new, more inclusive business models. In 2005, he supervised the first social enterprise trials in Bangladesh with Grameen Bank, as well as the creation of Danone Communities, in close collaboration with Mohammad YUNUS, 2006 Nobel Peace Prize recipient. With Martin HIRSCH, Emmanuel FABER is also the founder and co-chairman of Action-Tank Entreprise et Pauvreté, an organization created in 2010 at the initiative of the HEC Paris Chair "Social Business - Enterprise and Poverty". This organization brings businesses, community organizations and academia together around a shared objective: contribute to reducing poverty and exclusion in France by developing innovative economic models. At the request of the Deputy Minister of Development, he drafted a report with Jay NAIDOO in 2013 titled: "Innover par la mobilisation des acteurs : 10 propositions pour une nouvelle approche de l'aide au développement" (Innovate by mobilizing stakeholders: 10 proposals for a new approach to development aid).

Terms of office held at December 31, 2017

Listed companies

- Chairman and Chief Executive Officer, and member of the Strategy Committee of *DANONE SA*

Unlisted companies

- Chairman and member of the Board of Directors of LIVELIHOODS FUND FOR FAMILY FARMING SAS [a]
- Director of COFCO DAIRY INVESTMENTS LIMITED (Hong Kong), GRAMEEN DANONE FOODS LIMITED (Bangladesh), danone.communities (SICAV) [a], PROMINENT ACHIEVER LIMITED (Hong Kong)
- Director and Vice-President of NAANDI COMMUNITY WATER SERVICES PRIVATE LTD [b] (India)

Terms of office that expired over the past five years

Listed companies

- Deputy General Manager, member of the Social Responsibility Committee of DANONE SA

Unlisted companies

- Member of the Steering Committee of *LIVELIHOODS FUND* [a] (Luxembourg)
- Member of the Supervisory Board of *LEGRIS INDUSTRIES SA*

(a) Duties performed within the framework of social projects initiated by Danone.
(b) Danone group company or company in which Danone holds a stake.

6

CLARA GAYMARD

Cofounder and Chief Executive Officer of RAISE CONSEIL and President of the WOMEN'S FORUM FOR THE ECONOMY AND SOCIETY

Independent Director

Born January 27, 1960, French nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Clara GAYMARD, a graduate of the École Nationale d'Administration (ENA, class of 1986, Denis Diderot), holds a degree in law and history from the Institut d'Études Politiques de Paris. She held numerous positions within the senior civil service from 1982 to 2006. Before entering the ENA, she was an administrative officer at the Paris Mayor's Office between 1982 and 1984. After leaving the ENA, she joined the French Public Audit Office (Cour des Comptes) as an auditor, where she was promoted to the position of public auditor in 1990. She then served as assistant to the head of the French Trade Office in Cairo (1991-1993) and later as head of the European Union office in the foreign economic relations department (DREE) of the Ministry of Economy and Finance. In June 1995, she was named cabinet director for the Minister for Solidarity between Generations. She was then appointed Assistant Director of SME Support and Regional Action at the DREE (1996-1999) before being named head of the SME Mission (1999-2003). From 2003, she served as Goodwill Ambassador in charge of foreign investments and as President of the French Agency for International Investments (AFII). She joined General Electric (GE) in 2006, where she became President of GE France and then President of the Northwest Europe region from 2008 to 2010. In 2009, she was named Vice-President of GE International in charge of the major public accounts, and then in 2010 Vice-President for Governments and Cities. In 2014, she was a member of the negotiating team on the acquisition of Alstom's power business. She left GE at the end of 2015 to focus on Raise, a company she co-founded with Gonzague DE BLIGNIERES. She also serves on the Boards of Directors of Veolia, Bouygues and LVMH and is President of the Women's Forum.

Terms of office held at December 31, 2017

Listed companies

- Director and member of the Nomination and Compensation Committee of DANONE SA
- Director and member of the Accounts Committee of BOUYGUES
- Director of LVMH
- Director, member of the Compensation Committee and the Research, Innovation and Sustainable Development Committee of VEOLIA ENVIRONNEMENT

Unlisted companies

- President of the WOMEN'S FORUM FOR THE ECONOMY AND SOCIETY, PABAFAJAMET, RAISE CARAS SAS
- Chief Executive Officer of RAISE CONSEIL, LE PONTON SAS

Terms of office that expired over the past five years

Listed companies

None

Unlisted companies

- Chair of GENERAL ELECTRIC FRANCE, GE INDUSTRIAL FRANCE
- Representative in France of GENERAL ELECTRIC INTERNATIONAL INC (United States)

JACQUES-ANTOINE GRANJON

Chairman and Chief Executive Officer of VENTE-PRIVEE.COM SA

Independent Director

Born August 9, 1962, French nationality
BoD attendance rate 2017: 66.67%

Personal background – experience and expertise

Jacques-Antoine GRANJON is a graduate of the European Business School in Paris. After completing his studies, his entrepreneurial spirit led him and a friend to found Cofotex SA in 1985, which specialized in wholesale close-outs. In 1996, he purchased the former printing plants of "Le Monde" newspaper, which were being sold as part of an urban renewal program for La Plaine-Saint-Denis, where he established the headquarters of Oredis group. He came up with a completely innovative concept: a Web platform dedicated to private sales of brand name products at deeply discounted prices. Together with his partners, in January 2001 he launched vente-privee.com in France. He thus took his experience in drawing down inventories of close-outs from leading fashion and home furnishing brands to the Internet by applying a dual approach: event-based and exclusive, while always emphasizing customer satisfaction. vente-privee.com was built in the image of its founder as a model corporate "citizen" promoting responsible growth, training and employability and a social conscience. In 2011, he partnered with Xavier NIEL and Marc SIMONCINI to create the École Européenne des Métiers de l'Internet.

Terms of office held at December 31, 2017

Listed companies

- Director of DANONE SA

Unlisted companies

- Chairman and Chief Executive Officer of VENTE-PRIVEE.COM SA
- Chairman of OREFI ORIENTALE ET FINANCIERE SAS [a],
- Chairman of the Board of Directors of PALAIS DE TOKYO SAS
- Member of the Supervisory Board of LE NOUVEL OBSERVATEUR

(a) Jacques-Antoine GRANJON also holds the following corporate offices in companies controlled by OREFI Orientale and Financière SAS:

- Chairman of HOLDING DE LA RUE MONSIGNY, HOLDING DE LA RUE BLANCHE SAS, ORIMM SAS, MB Wilson SAS, VENTE PRIVEE USA BRANDS, INC (United States), VENTE-PRIVEE.COM DEUTSCHLAND Gmbh (Germany), VENTE-PRIVEE.COM LIMITED (Great Britain), VENTA-PRIVADA IBERICA (Spain), VENDITA.PRIVATA ITALIA SRL (Italy) ORELOG Orientale et Logistique SAS, LES BOUFFES PARISIENS SAS
- Chairman and Chief Executive Officer of PIN UP SA;
- Chief Executive Officer of PROPER SAS;
- Manager of L'EGLISE WILSON SARL, ORIMM BIENS SARL;
- Co-Manager of VENTE-PRIVEE.COM IP SARL (Luxembourg) and Marques Holding Luxembourg SARL (Luxembourg);
- Director of VENTE-PRIVEE.COM HOLDING SA (Luxembourg), LOOKLET (Sweden), VENTE-PRIVEE USA, LLC (United States);
- Director of SOCIÉTÉ NOUVELLE D'EXPLOITATION DE RÉNOVATION ET DE RENAISSANCE DU THÉATRE DE PARIS SA;
- Manager of French civil partnerships (*sociétés civiles françaises*) SCI 249, BM WILSON SCI, FRUITIER WILSON SCI, LANDY WILSON SCI, LYON 3 SCI, MM WILSON SCI, PRESSENSE WILSON SCI, SCI BRETONS WILSON, SCI LE STADE WILSON, SCI SAINT WILSON, SCI HOTEL WILSON, SCI BEAUNE-WILSON, MALAKOFF WILSON SCI, SCI DE LA GRENOUILLE-ALLARD, SCI DE LA GRENOUILLE WILSON, SCI YVETTE WILSON, SCI AMBROISE WILSON, SCI TISSERAND-WILSON;
- Chairman of VENTE-PRIVEE HOLDING PRODUCTIONS SAS;
- Chairman of HOLDING DE LA RUE DE LA MICHODIÈRE SAS (France) and THÉATRE DE LA MICHODIERE SAS;
- Chairman of PRODUCTS AND BRANDS STUDIO SAS;
- Director of PRIVALIA VENTA DIRECTA, S.A.U.

Terms of office that expired over the past five years

Listed companies

None

Unlisted companies

- Director of GROUPE COURREGES SAS;
- Manager of SCI 247.

MICHEL LANDEL

Chief Executive Officer of SODEXO [a]

Nominee to the Board of Directors

Born November 7, 1951, French nationality
BoD attendance rate 2017: N/A

Personal background – experience and expertise

Michel Landel began his career in 1977 at Chase Manhattan Bank. In 1980 he became Director of a civil engineering products factory with the Poliet group. He was recruited by Sodexo in 1984 as Operations Manager for East and North Africa, then promoted to Director Africa (Remote Sites activities), and took over responsibility for the North American businesses in 1989. He contributed in particular to the 1998 merger with Marriott Management Services and the creation of Sodexho Marriott Services. In 1999 he became Chief Executive Officer of Sodexho Marriott Services, later Sodexo, Inc. In February 2000, Michel Landel was appointed Vice-Chairman of the Sodexo Executive Committee. From June 2003 to August 2005, Michel Landel served as Group Deputy General Manager in charge of North America, the United Kingdom and Ireland, as well as Remote Sites. Since 2005 he has served as Chief Executive Officer of Sodexo and Chairman of the Executive Committee. On January 23, 2018, he resigned from his functions as Chief Executive Officer and Chairman of the Executive Committee of Sodexo, of which he is now only a director.

Terms of office held at December 31, 2017

Listed companies

- Chief Executive Officer and director of SODEXO [a];

Unlisted companies

- Director of Louis Delhaize – Compagnie franco-belge d'Alimentation (Belgium), SODEXO INC. (United States)
- Member of the Supervisory Board of ONE SCA
- Member of the Board of Directors of SODEXO PASS INTERNATIONAL SAS, ONE SAS

Terms of office that expired over the past five years

Listed companies

None

Unlisted companies

None

(a) He resigned from his functions since January 23, 2018. He is now only a director of Sodexo.

JEAN LAURENT

Chairman of the Board of Directors of FONCIERE DES REGIONS SA

Independent Director and Lead Independent Director

Born July 31, 1944, French nationality
BoD attendance rate 2017: 83.33%

Personal background – experience and expertise

Jean LAURENT is a graduate of the École Nationale Supérieure de l'Aéronautique (1967) and has a Master of Sciences degree from Wichita State University. He spent his entire career at the Crédit Agricole group, first with Crédit Agricole de Toulouse, and later with Crédit Agricole du Loiret and then Crédit Agricole de l'Ile de France, where he carried out or supervised various retail banking activities. He then joined Caisse Nationale du Crédit Agricole, first as Deputy General Manager (1993-1999) and later as Chief Executive Officer (1999-2005). In that capacity, he was responsible for the public offering of Crédit Agricole SA (2001) and the acquisition and integration of Crédit Lyonnais into the Crédit Agricole group. He is also Chairman of the Board of Directors of Foncière des Régions. He has been Chairman of Danone's Nomination and Compensation Committee since 2011 and Lead Independent Director since 2013.

Terms of office held at December 31, 2017

Listed companies

- Lead Independant Director and Chairman of the Nomination and Compensation Committee of DANONE SA
- Chairman of the Board of Directors, member of the Strategy and Investments Committee of FONCIÈRE DES RÉGIONS SA

Unlisted companies

- Director and member of the Executive and Investment Committee of *BENI STABILI* (Italy)

Terms of office that expired over the past five years

Listed companies

- Chairman and member of the DANONE SA Board of Directors' Social Responsibility Committee
- Vice-Chairman of the Supervisory Board, Chairman of the Audit Committee and member of the Finance Committee of EURAZÉO SA

Unlisted companies

- Member of the Board of Directors of *UNIGRAINS SA*

GAËLLE OLIVIER

Member of the Management Committee of the AXA Group and Chair and Chief Executive Officer of Axa Global P&C [(a)]

Independent Director

Born May 25, 1971, French nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Gaëlle OLIVIER is a graduate of the École Polytechnique, the ENSAE and the Institut des Actuaires. After starting her career at Crédit Lyonnais in the equity derivatives trading room, in 1998 Gaëlle OLIVIER joined the AXA group where she held various positions in France and abroad in several of the group's business areas. After two years at AXA Investment Managers, she served for five years as Executive Assistant to AXA Group's Chairman and Chief Executive Officer Henri DE CASTRIES and Secretary of the Supervisory Board. In 2004, she joined AXA Life Japan as Head of Investment Operations and became a member of the Management Committee in charge of Strategy, Winterthur Japan Integration and Audit in 2006. In 2009, she became AXA group Head of Communications and Corporate Responsibility before being named Chief Executive Officer of the Property & Casualty Insurance business at AXA Asia in 2011. In January 2016, she became Chief Executive Officer of AXA Entreprises in France. In July 2016, she was appointed Chief Executive Officer of AXA Global P&C and joined the AXA group's Management Committee. In 2017, she was appointed Chair of the Board of Directors and director of AXA Global Direct SA. She left the Axa group on November 15, 2017.

Terms of office held at December 31, 2017

Listed companies

- Director and member of the Audit Committee of DANONE SA

Unlisted companies

None

Terms of office that expired over the past five years

Listed companies

None

Unlisted companies

- Chair and Chief Executive Officer of AXA GLOBAL P&C
- Chair and member of the Board of Directors of AXA THAILAND PUBLIC COMPANY LIMITED (Thailand), AXA ART (Germany)
- Chair of the Board of Directors and of the Compensation Committee of AXA CORPORATE SOLUTIONS ASSURANCE
- Director of AXA UK and AXA GLOBAL DIRECT SA
- Chief Executive Officer of AXA ENTREPRISES
- Director of AXA GENERAL INSURANCE HONG KONG LIMITED (China), AXA GENERAL INSURANCE CHINA LIMITED (China), AXA INSURANCE SINGAPORE PTE LTD (Singapore), AXA AFFIN GENERAL INSURANCE BERHAD (Malaysia), BHARTI – AXA GENERAL INSURANCE COMPANY LIMITED (India), WIN PROPERTY (SHANGHAI LINKS) LIMITED (China), AXA TECHNOLOGY SERVICES SINGAPORE PTE LTD (Singapore), AXA ASIA REGIONAL CENTRE PTE LTD (Singapore), AXA TIAN PING PROPERTY & CASUALTY INSURANCE COMPANY LIMITED (China)

(a) Until November 15, 2017

BENOÎT POTIER

Chairman and Chief Executive Officer of AIR LIQUIDE SA

Independent Director

Born September 3, 1957, French nationality
BoD attendance rate 2017: 83.33%

Personal background – experience and expertise

A graduate of the École Centrale de Paris, Benoît POTIER joined Air Liquide in 1981 as a Research and Development engineer. He then held positions as Project Manager in the Engineering and Construction Department and Head of Energy Development within the Large Industry segment. In 1993 he was named Head of Strategy-Organization and in 1994 he was appointed Head of Chemicals, Steel, Refining and Energy Markets. He became Deputy General Manager in 1995 and added to the aforementioned responsibilities that of Head of Construction Engineering and Large Industry for Europe. Benoît POTIER was appointed Chief Executive Officer in 1997, Director of Air Liquide in 2000 and Chairman of the Management Board in November 2001. In 2006, he was named Chairman and Chief Executive Officer of Air Liquide SA.

Terms of office held at December 31, 2017

Listed companies

- Director, Chairman of the Strategy Committee and member of the Nomination and Compensation Committee of DANONE SA
- Chairman and Chief Executive Officer of AIR LIQUIDE SA

Unlisted companies

- Chairman and Chief Executive Officer of AIR LIQUIDE INTERNATIONAL, AIR LIQUIDE INTERNATIONAL CORPORATION (United States)
- Director of AMERICAN AIR LIQUIDE HOLDINGS INC.[a] (United States)

Terms of office that expired over the past five years

Listed companies

- Member of the Supervisory Board and Member of the Audit Committee of MICHELIN

Unlisted companies

None

(a) Air Liquide group company.

FRANCK RIBOUD

Honorary Chairman of DANONE SA

Non-Independent Director

Born November 7, 1955, French nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Franck RIBOUD is a graduate of the École Polytechnique Fédérale de Lausanne. He joined the Group in 1981, where he held successive positions through 1989 in Management Control, Sales and Marketing. After serving as Head of Sales at Heudebert, in September 1989 he was appointed to head up the department responsible for the integration and development of new companies in the Biscuits Division. He was involved in the largest acquisition, at the time, by a French group in the United States, namely the acquisition of Nabisco's European activities by BSN. In July 1990, he was appointed Chief Executive Officer of Société des Eaux Minérales d'Évian. In 1992, he became Head of Danone's Development Department. Danone then launched its international diversification marked by increased development in Asia and Latin America and the creation of an Export Department. Between May 1996 and September 30, 2014, he was Chairman and Chief Executive Officer of Danone. He became Chairman of the Board of Directors in October 2014. Since December 2017, he has been the Honorary Chairman of Danone.

Terms of office held at December 31, 2017

Listed companies

- Honorary Chairman, Director and member of the Strategy Committee of DANONE SA

Unlisted companies

- Director of *BAGLEY LATINOAMERICA SA* [a](Spain), *RENAULT SAS*, *ROLEX SA* (Switzerland), *ROLEX HOLDING SA* (Switzerland), *QUIKSILVER, INC.* (United States)

Term of office that expired over the past five years

Listed companies

- Chairman of the Board of Directors, Chief Executive Officer, Chairman of the Strategy Committee of DANONE SA
- Director of RENAULT SA

Unlisted companies

- Member of the Steering Committee of LIVELIHOODS FUND (SICAV)[b] (Luxembourg)
- Chairman of the Board of Directors of Livelihoods Fund for Family Farming SAS[a]
- Chairman of the Board of Directors of danone.communities *(SICAV)*[b]
- Director of DANONE SA (Spain)

(a) Danone group company.
(b) Duties performed within the framework of social projects initiated by Danone.

ISABELLE SEILLIER

Vice President of J.P MORGAN Investment Bank for Europe, the Middle East and Africa

Non-Independent Director

Born January 4, 1960, French nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Isabelle SEILLIER is a graduate of Sciences-Po Paris (Economics-Finance, 1985) and holds a Master's degree in business law. In 1987, she began her professional career in the options division of Société Générale in Paris, where she headed the Sales Department for options products in Europe until 1993. She joined J.P. Morgan in Paris in 1993 as head of the sales department for derivative products in France for industrial companies. In 1997, she became an investment banker at J.P. Morgan & Cie SA as a banking advisor providing coverage for large industrial clients. In March 2005, she was appointed joint head of investment banking before being named sole head of this activity in June 2006. From 2008, she was Chair of J.P. Morgan for France while remaining in charge of investment banking for France and North Africa. Since January 2016, she has been Vice-President of Investment Banking for J.P. Morgan for Europe, the Middle East and Africa. She is involved in philanthropic activities, in particular children's support associations. Under her direction, J.P. Morgan France developed a philanthropic program that helps these associations.

Terms of office held at December 31, 2017

Listed companies

- Director and member of the Strategy Committee of DANONE SA

Unlisted companies

None

Terms of office that expired over the past five years

Listed companies

None

Unlisted companies

- Chair *J.P. MORGAN CHASE BANK*

MOUNA SEPEHRI

Executive Vice-President, office of the CEO, member of the Executive Committee of RENAULT SAS

Independent Director

Born April 11, 1963, French and Iranian nationalities
BoD attendance rate 2017: 83.33%

Personal background – experience and expertise

After receiving her law degree and being admitted to the Paris bar, Mouna SEPEHRI began her career in 1990 as a lawyer in Paris and then New York, where she specialized in Mergers & Acquisitions and International Business Law. She joined Renault in 1996 as the group's Deputy General Counsel. She played an integral part in the group's international growth and participated in the creation of the Renault-Nissan Alliance from the beginning (1999) as a member of the negotiating team. In 2007, she joined the Office of the CEO and was in charge of managing the cross-functional teams. In 2009, she was appointed Director of the Renault-Nissan Alliance CEO Office and Secretary of the Renault-Nissan Alliance Board of Directors. In 2010, she also became a member of the steering committee of the Alliance cooperation with Daimler. As a part of that mission, she was responsible for steering the implementation of Alliance synergies, coordinating strategic cooperation and heading new projects. In April 2011, she joined the Renault group's Executive Committee as Executive Vice-President, office of the CEO. She oversees the following functions: Legal, Public Affairs, Communications, Public Relations, Corporate Social Responsibility, Property and General Services, Prevention and group Protection, Cross-functional Support, the Operating Costs Effectiveness Program and Strategy and Group Planning. In 2013, she was appointed as a permanent member of the Management Board of the Renault-Nissan Alliance.

Terms of office held at December 31, 2017

Listed companies

- Director and member of the Audit Committee of DANONE SA
- Director, Chair of the Governance and Corporate Social Responsibility Committee (CGRSE) of ORANGE
- Member of the Supervisory Board, member of the Audit Committee of M6 SA (MÉTROPOLE TÉLÉVISION)
- Member of the Management Board of *RENAULT-NISSAN ALLIANCE* (Netherlands)

Unlisted companies

None

Terms of office that expired over the past five years

Listed companies

- Director of *NEXANS SA*

Unlisted companies

None

JEAN-MICHEL SEVERINO

Manager of I&P SARL

Independent Director

Born September 6, 1957, French nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Jean-Michel SEVERINO is a graduate of the École Nationale d'Administration, ESCP, IEP Paris and holds a postgraduate degree (DEA) in economics and a degree in law. After four years working at the Inspection générale des finances (French General Inspection of Finance) (1984-1988), he was named technical advisor for economic and financial affairs at the French Ministry of Cooperation (1988-1989). He later became the head of that Ministry's Department of Economic and Financial Affairs and then its Development Director. In 1996, he was recruited by the World Bank as Director for Central Europe at a time when this region was marked by the end of the Balkans conflict and reconstruction. He became the World Bank's Vice-President in charge of East Asia from 1997 to 2001 and focused on the management of the major macroeconomic and financial crisis that shook these countries. Then, he was named Chief Executive Officer of the Agence Française de Développement (AFD), where from 2001 to 2010 he led the expansion efforts to cover the entire emerging and developing world. In 2010, at the end of his third term of office, he returned to the Inspection Générale des Finances, where he was responsible for the French Water Partnership. In May 2011, he left the civil service to head up I&P (Investisseurs et Partenaires), a fund management company specializing in financing African small and medium-sized businesses. In addition to his professional duties, he has significant experience in the educational and research areas, notably as an associate professor at CERDI (Centre d'Études et de Recherches sur le Développement International). He was elected as a member of the Académie des Technologies (2010) and is currently a senior fellow and director of the Fondation pour les Études et Recherches sur le Développement International (FERDI) and a Member of the Académie des Technologies. He has published numerous articles and books.

Terms of office held at December 31, 2017

Listed companies

- Director, Chairman of the Audit Committee and member of the Strategy Committee of DANONE SA
- Director and member of the Audit Committee of ORANGE

Unlisted companies

- Chairman of the Board of Directors of EBI SA (ECOBANK INTERNATIONAL)
- Director of *I&P GESTION* (Mauritius), *I&P DEVELOPPEMENT* (Mauritius), PHITRUST IMPACT INVESTORS SA
- Chairman of the Board of Directors of *I&P AFRIQUE ENTREPRENEURS* (Mauritius)
- Director of *ADENIA PARTNERS* (Mauritius)
- Member of the Investment Committee of *ENERGY ACCESS VENTURES*
- Manager of *EMERGENCES DEVELOPPEMENT (EURL), I&P SARL (INVESTISSEURS ET PARTENAIRES)*

Terms of office that expired over the past five years

Listed companies

- Member of the Social Responsibility Committee of DANONE SA
- Member of the Governance and Corporate Social Responsibility Committee of ORANGE

Unlisted companies

- Member of the Investment Committee of *ADENIA PARTNERS* (Mauritius)

VIRGINIA A. STALLINGS

Professor of Pediatric Medicine at The CHILDREN'S HOSPITAL OF PHILADELPHIA

Independent Director SM

Born September 18, 1950, U.S. nationality
BoD attendance rate 2017: 83.33%

Personal background – experience and expertise

Virginia A. STALLINGS is a Professor of Pediatrics at the University of Pennsylvania Perelman School of Medicine, and holds a Chair in Gastroenterology and Nutrition. She is also Director of the Nutrition Center at The Children's Hospital of Philadelphia. She is a pediatrician and an expert in nutrition and growth in children with chronic illnesses. Her research interests are in nutrition-related growth in healthy children and those with chronic illnesses including obesity, sickle cell disease, osteoporosis, cystic fibrosis, cerebral palsy, Crohn's disease, HIV and congenital heart disease. She has been extensively involved in pediatric nutrition clinical care and research for more than 25 years. She recently founded a company, Medical Nutrition Innovation, LLC, to develop new nutrition products for infants, children and adults. Dr. STALLINGS plays a significant role in the community of nutrition scientists and physicians as a current or past member of the US National Academy of Medicine, the Food and Nutrition Board of the US National Academy of Sciences and the Council of the American Society for Nutrition. She steered the National Academy of Medicine committee reports entitled Nutrition Standards for Food in Schools, and School Meals: Building Blocks for Healthy Children, which led to the development of a new policy to improve the nutritional quality of school meals in the United States. She chaired the National Academy of Medicine Committee on "Food Allergies: Global Burden, Causes, Treatment, Prevention and Public Policy," which published its conclusions and recommendations in 2016. She has received research and teaching awards from the American Society of Nutrition, the American Academy of Pediatrics and the National Academy of Medicine.

Terms of office held at December 31, 2017

Listed companies

- Director, Chair and Member of the Social Responsibility Committee of DANONE SA

Unlisted companies

- Director of FITLY, digital health startup (United States)
- Founder of MEDICAL NUTRITION INNOVATION, LLC (United States)

Terms of office that expired over the past five years

None

BETTINA THEISSIG

Chair of the Works Council of MILUPA Gmbh

Director representing employees

Born July 2, 1962, German nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Bettina THEISSIG began her training in the industrial sector in 1978 at Milupa GmbH, a baby food and formula manufacturer that has been part of Danone's Early Life Nutrition Division since the acquisition of the Numico Group in 2007. She acquired her first professional experience in Milupa's advertising department. She then held various responsibilities in several departments, including marketing, sales, human resources and medical, which enabled her to gain further knowledge of the company. Her unwavering interest in the condition of employees and the protection of their rights prompted her to join Milupa's Works Council in 2002. She is currently Chair of Milupa's Works Council, Chair of Milupa's Central Works Council and Representative to the Works Council of Danone's sites in Germany. She is also a member of Danone's European Works Council and its steering committee. Bettina THEISSIG has also represented employees with disabilities since 1998.

Terms of office held at December 31, 2017

Listed companies

- Director representing employees, member of the Social Responsibility Committee and member of the DANONE SA European Works Council and its steering committee

Unlisted companies

- Chair of the Works Council, Chair of the Central Works Council, Representative of employees with disabilities, Health Officer, Representative to the Works Council of Danone's sites in Germany, *MILUPA GmbH* (Germany)

Terms of office that expired over the past five years

None

SERPIL TIMURAY

Member of the Executive Committee of the VODAFONE group

Independent Director SM

Born July 7, 1969, Turkish nationality
BoD attendance rate 2017: 100%

Personal background – experience and expertise

Serpil TIMURAY holds a degree in business administration from Bogazici University in Istanbul. She began her career in 1991 at Procter & Gamble, where she assumed several marketing roles and was subsequently appointed to the Executive Committee for Turkey. In 1999, she moved to Danone as Marketing Director and a member of the Executive Committee for the Fresh Dairy Products subsidiary in Turkey. From 2002 to the end of 2008, she served as General Manager of Danone Turkey, overseeing the acquisition and integration of several companies. In 2009, she joined the Vodafone group as Chief Executive Officer of Vodafone Turkey, leading the turnaround and substantial growth of the company. In January 2014, she was appointed as the Regional CEO of Africa, Middle East, Asia-Pacific and joined the Executive Committee of Vodafone Group. In October 2016, she was appointed as the Group Chief Commercial Operations and Strategy Officer and continues to be a member of the Executive Committee of Vodafone Group.

Terms of office held at December 31, 2017

Listed companies

- Director and member of the Social Responsibility Committee of DANONE SA
- Chief Commercial Operations & Strategy Officer for VODAFONE Group (United Kingdom)

Unlisted companies

- Chair of the Board of Directors of VODAFONE TURKEY [a] (Turkey)
- Director of GSMA (United Kingdom)

Terms of office that expired over the past five years

Listed companies

- Chief Executive Officer Africa, Middle East and Asia-Pacific Region and Designated Chief Executive Officer Africa, Middle East and Asia-Pacific Region for *VODAFONE GROUP* (United Kingdom)
- Chair and Chief Executive Officer of *VODAFONE TURKEY* (Turkey)
- Director, member of the Nomination Committee, member of the Compensation Committee of *VODACOM GROUP* [a] (South Africa)
- Director, member of the Nomination and Compensation Committee of *SAFARICOM KENYA* [a] (Kenya)
- Director of *VODAFONE QATAR* [a] (Qatar)

Unlisted companies

- Director, member of the Nomination Committee, member of the Compensation Committee of *VODAFONE HUTCHISON AUSTRALIA* [a] (Australia)
- Director, Chair of the Social Responsibility Committee, member of the Nomination and Compensation Committee of VODAFONE INDIA [a] (India)
- Director of *VODAFONE EGYPT* (Egypt)
- Chair of *VODAFONE and QATAR FOUNDATION LLC* [a] (Qatar)

(a) Vodafone group companies.

LIONEL ZINSOU-DERLIN

Vice-Chairman of the Supervisory Board of PAI Partners SAS

Independent Director

Born October 23, 1954, French and Beninese nationalities
BoD attendance rate 2017: 83.33%

Personal background – experience and expertise

Lionel ZINSOU-DERLIN is a graduate of the École Normale Supérieure (Paris), the London School of Economics and the Institut d'Études Politiques of Paris. He holds a Master's degree in Economic History and is an Associate Professor of Economic and Social Sciences. He started his career as a Senior Lecturer and Professor of Economics at Université Paris XIII. Between 1984 and 1986, he was an Adviser to the Minister of Industry and the Prime minister of Benin. In 1986, he joined Danone where he held various positions, including Group Corporate Development Director and then Chief Executive Officer of HP Foods and Lea & Perrins. In 1997, he joined Rothschild & Cie bank as Managing Partner where he was Head of the Consumer Products Group, Head of Middle East and Africa region and a member of the Global Investment Bank Committee. In 2008, he joined PAI Partners SAS, where he served as Chairman between 2009 and 2015 and was Chairman of the Executive Committee between 2010 and 2015. He has been Vice-Chairman of the Supervisory Board of PAI Partners SAS since 2015. From June 2015 to April 2016, he was the Prime Minister of Benin.

Terms of office held at December 31, 2017

Listed companies

- Director and member of the Nomination and Compensation Committee of DANONE SA
- Director of AMERICANA (United Arab Emirates)

Unlisted companies

- Vice-Chairman of the Supervisory Board of *PAI PARTNERS SAS*
- Chairman and Chief Executive Officer of *SOUTH BRIDGE FRANCE*
- Chairman of *SOUTHBRIDGE*
- Chairman of the Board of Directors of *SOUTH BRIDGE HOLDING* (Mauritius)
- Director of *INVESTISSEURS & PARTENAIRES* (Mauritius), *I&P AFRIQUE ENTREPRENEURS* (Mauritius), *SOUTH BRIDGE PARTNER* (Mauritius)
- Chairman and Member of the Supervisory Board of *LES DOMAINES BARONS DE ROTHSCHILD (LAFITE) SCA*
- Member of the Supervisory Board of *AP-HP INTERNATIONAL*
- Manager of *SOFIA - SOCIETE FINANCIERE AFRICAINE SAR*L

Terms of office that expired over the past five years

Listed companies

- Director of KAUFMAN & BROAD SA, ATOS

Unlisted companies

- Chairman of PAI PARTNERS SAS
- Director of *PAI SYNDICATION GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE III GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE IV GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE V GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE VI GENERAL PARTNER LIMITED* (Guernsey), STRATEGIC INITIATIVES FRANCE SAS
- Member of the Advisory Council of *MOET HENNESSY*
- Member of the Supervisory Board of *CERBA EUROPEAN LAB SAS*
- Alternate Director of *UNITED BISCUITS TOPCO LTD* (Luxembourg)

6

6.3 COMPENSATION AND BENEFITS OF GOVERNANCE BODIES

Contents

COMPENSATION POLICY FOR CORPORATE OFFICERS

This section entitled *Compensation policy for corporate officers* is the report on corporate governance prepared by the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code on the principles and criteria for determining, allocating and granting the fixed, variable and extraordinary components of compensation that make up the total compensation and benefits to which Danone's corporate officers are entitled for their terms of office for the 2018 fiscal year.

General principles

Role of the Nomination and Compensation Committee

Danone's compensation policy is regularly reviewed by the Nomination and Compensation Committee. This Committee is composed entirely of independent Directors and is chaired by the Lead Independent Director.

The Committee reviews the best market practices, based on (i) a benchmark prepared by a specialized and objective firm that consists of large international companies listed in France (CAC 40), and (ii) a peer group (or "panel") of leading global food and beverage groups. This panel is also used to determine the performance conditions for Group Performance Shares (GPS) and the severance pay of corporate officers. It currently includes Unilever N.V., Nestlé S.A., PepsiCo Inc., The Coca-Cola Company, General Mills Inc., Kellogg Company, The Kraft Heinz Company and Mondelez International Inc. Danone is seeking to position the compensation for these officers between the median compensation and the third superior quartile of the benchmark CAC 40 index companies. The Nomination and Compensation Committee takes particular care to ensure that:

- the compensation is such as to attract, retain and motivate talented individuals while remaining consistent with market practices and Danone's internal salary scales;
- multi-annual performance-based compensation is sufficiently significant compared to annual compensation, to encourage corporate officers to achieve high performance over the long term;
- the performance criteria for compensation are stringent, complementary and stable such that they compensate long-term performance to ensure that the interests of shareholders, in line with the targets announced by Danone to the financial markets, are aligned with the interests of management. In addition, these performance conditions reflect best compensation practices, such as "no payment under guidance" and "no payment below the median" for the external performance conditions;
- in its recommendations on the compensation of corporate officers and members of the Executive Committee, all the components of compensation are taken into account, including the potential benefit of a supplementary retirement plan, and their balance is ensured.

Basic principles for determining the compensation of corporate officers

According to the principles for determining the compensation of Danone's corporate officers, this compensation must:

- be tied to the Company's performance;
- be balanced and in line with investors' and shareholders' expectations;
- be subject to stringent conditions, aligned with shareholders' interests and in line with best market practices;
- be consistent with the principles that Danone applies to its 1,500 senior executives worldwide;
- be determined by the Board of Directors on the basis of the Nomination and Compensation Committee's recommendations, as described above, and in compliance with the AFEP-MEDEF Code, to which Danone adheres;
- take into account the manager's responsibilities and market practices;
- take into account all components of compensation in order to establish a global view of the overall compensation of corporate officers, including the components approved by the Shareholders' Meetings pursuant to Article L. 225-42-1 of the French Commercial Code and described in the Statutory auditors' special report on related party agreements and commitments.

Danone's compensation policy is based on these simple, stable and transparent principles, and their application results in:

- a long-term compensation component namely in the form of Group performance shares (GPS) (since 2010);
- the preponderance of the component of managers' compensation being subject to performance conditions;
- the implementation of an obligation requiring corporate officers and Executive Committee members to retain DANONE shares, thereby aligning their interests with those of shareholders;
- overall compensation being capped.

All the performance conditions related to these components of long-term compensation and the review of their achievement have been described in detail in Danone's Registration Document for several years.

Components of the compensation of the Chairman (non-executive corporate officer)

The following principles are applied in case of separation of the offices of Chairman of the Board of Directors and Chief Executive Officer.

Directors' fees

Pursuant to Danone's policy on the payment of directors' fees (see *Compensation of the other Board members*), the Chairman of the Board of Directors can receive directors' fees only if he does not receive a fixed compensation. Directors' fees must be allocated in accordance with the allocation rules decided by the Board of Directors.

Fixed compensation and benefits in kind

Fixed compensation

The Chairman's fixed compensation is determined by the Board of Directors on the basis of the Nomination and Compensation Committee's opinion and in accordance with the principles presented above, and in particular it is consistent with the Chairman's responsibilities and experience and with market practices.

The Chairman's fixed compensation may be reviewed at relatively long intervals.

Benefits in kind

The Chairman may be entitled to benefits in kind only if they comply with Danone's policy (such as access to the cars and drivers' pool).

Variable compensation

In accordance with the AFEP-MEDEF Code recommendations, the Chairman is not entitled to variable compensation.

Performance-based multi-annual compensation (GPU)

In accordance with the AFEP-MEDEF Code recommendations, the Chairman is not entitled to multi-annual compensation.

Performance-based long-term compensation (GPS)

In accordance with the AFEP-MEDEF Code recommendations, the Chairman is not entitled to long-term compensation.

Extraordinary compensation

In the event of the appointment of a new Chairman of the Board of Directors, the Board of Directors may, upon recommendation of the Nomination and Compensation Committee, decide to grant this person extraordinary compensation in order to offset, in whole or part, the potential loss of compensation resulting from the acceptance of his/her new duties.

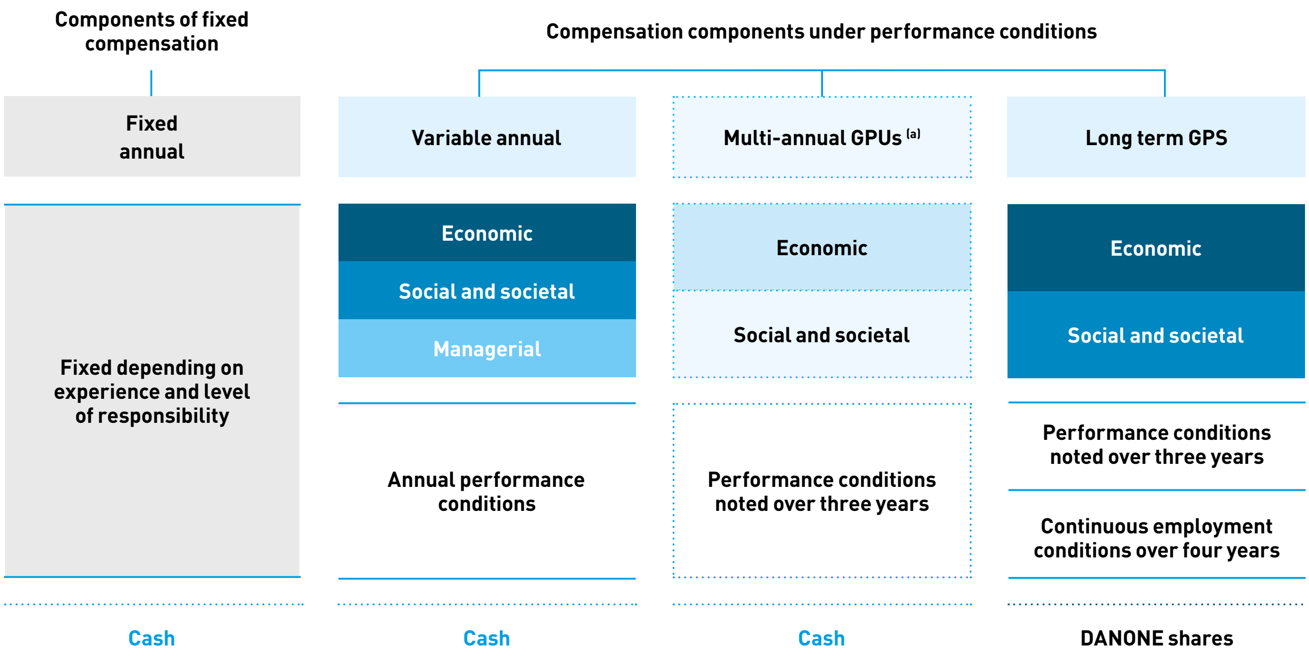
If such compensation is granted, it will, pursuant to Article L. 225-37-2 of the French Commercial Code, only be paid after it has been approved by the Shareholders' Meeting.

Other components of the Chairman's compensation

As indicated above, all the components of compensation are taken into consideration when assessing the overall compensation of the corporate officers. Therefore, where applicable, the determination of the Chairman's compensation takes into account the components approved by the Shareholders' Meeting pursuant to Article L. 225-42-1 of the French Commercial Code and described in the Statutory auditors' special report on related party agreements and commitments.

Compensation components of executive corporate officers

Compensation structure



(a) In an effort to simplify his compensation, no GPUs have been granted to Mr. Emmanuel FABER since 2017.

As a reminder, the components of variable or, where applicable, extraordinary compensation granted to the Chief Executive Officer for the previous year may be paid only after the relevant components have been approved by the Shareholders' Meeting under the conditions set out in Articles L. 225-37-2 and L. 225-100 of the French Commercial Code.

Directors' fees

Pursuant to Danone's policy on directors' fees (see the section hereinafter *Compensation of the other Board members*), executive corporate officers are not entitled to receive directors' fees.

Fixed compensation and benefits in kind

Fixed compensation

The fixed compensation of executive corporate officers is:

- determined by the Board of Directors on the basis of the Nomination and Compensation Committee's opinion and in accordance with the principles presented above, and taking into account their responsibilities, their experience and market practices;
- reviewed at relatively long intervals; and
- paid monthly.

For example, the fixed compensation of Mr. Emmanuel FABER, which remains unchanged since 2014, is €1 million.

Benefits in kind

Executive corporate officers may be entitled to benefits in kind only if they comply with Danone's policy (such as access to the cars and drivers' pool).

Variable compensation

Annual variable compensation

Principles

Annual variable compensation:

- is determined by the Board of Directors on the basis of the Nomination and Compensation Committee's opinion and in accordance with the principles presented above, and is consistent with the responsibilities and experience of the person concerned and with market practices;
- is subject to performance conditions based on quantifiable economic criteria and social and managerial criteria determined in an objective and precise manner and described hereinafter;
- has a target amount that may be up to 100% of the fixed compensation; and
- is capped at 200% of the fixed compensation.

Structure

Annual variable compensation is based on performance conditions determined in advance, which take into account the following components:

- a quantifiable economic component that is based on Danone's main financial targets, such as organic net sales growth, operating margin improvement and free cash flow delivery;
- a social and societal component, based on Danone's objectives; and
- a managerial component, based on Danone's business development objectives.

The cap for each of these components equals twice the target; short-term annual variable compensation for a given year is therefore capped at 200% of the fixed compensation, with no guaranteed minimum.

Multi-annual and long-term compensation

The multi-annual compensation and long-term compensation represent, at the grant time, approximatively 50% of the overall compensation in value of executive corporate officers and cannot exceed 60% of this total compensation.

Multi-annual compensation (GPU)

Multi-annual compensation is performance-based cash compensation over a three-year period that is based on one or more quantifiable economic criteria and, in some cases, additional societal criteria. These conditions are determined in advance by the Board of Directors, upon recommendation of the Nomination and Compensation Committee, which each year also determines whether or not targets are achieved for each GPU plan.

To simplify the Chief Executive Officer's compensation structure and increase its share-based component in value, no GPUs have been granted to Mr. Emmanuel FABER since 2017.

More information on GPU plans is provided in section 6.4 *Detailed information on long-term and multi-annual compensation plans,* including: (i) general principles; (ii) performance targets; (iii) other applicable rules; (iv) details of grants in 2017 and review of the potential achievement of performance conditions for 2017; and (v) detailed information on the plans in effect as of December 31, 2017.

Performance-based long-term compensation (GPS)

Long-term compensation:

- was introduced in 2010 to strengthen the commitment of beneficiaries (corporate officers, Executive Committee members and over 1,500 senior executives) to support Danone's development and increase its share price over the long term;
- has been approved annually by the Shareholders' Meeting since 2013;
- is granted by the Board of Directors upon recommendation of the Nomination and Compensation Committee in the form of DANONE performance-based shares (GPS);
- is subject to performance conditions that generally consist of complementary criteria that are representative of Danone's performance and consistent with the specific nature of its business, assessed over a three-year period. These reflect the key indicators monitored by investors and analysts to measure the performance of companies in the food and beverage sector. They may also include a societal and/or environmental criterion;
    - an external performance criterion, based on Danone's organic sales growth compared to that of a group of Danone's historical peers, composed of leading international groups in the food and beverage sector;
    - an internal performance criterion, based on a key financial indicator, such as operating margin, free cash flow or other; and
    - an external environmental performance criterion, based on the rating assigned by CDP for the Climate Change program.
- is set by the Board of Directors, which also reviews the potential achievement of the performance conditions after a preliminary review by the Nomination and Compensation Committee;
- is granted definitively subject to a continuous employment condition applicable to all beneficiaries, with the exceptions specified in the plan rules (namely in the event of death or disability) or as decided by the Board of Directors; however, in the case of executive corporate officers, the Board of Directors may decide to waive the continuous employment condition only partially, on a prorata basis and based on a reasoned opinion;
- DANONE shares vested to corporate officers and Executive Committee members must be retained according to the principles determined by the Board of Directors and described hereinafter;
- is capped as follows: the number of performance shares granted to corporate officers may not exceed 60% of each corporate officer's overall target compensation in terms of accounting valuation (in accordance with the IFRS standards) estimated at the time of the grant.

More information on GPS plans is provided in section 6.4 *Detailed information on long-term and multi-annual compensation plans,* including: (i) general principles; (ii) performance targets; (iii) other applicable rules; (iv) GPS granted in 2017 and review of the potential achievement of performance conditions under previous plans; and (v) detailed information on the plans in effect as of December 31, 2017.

Extraordinary compensation

In the event of the appointment of a new executive corporate officer, further to an external hiring, the Board of Directors may, under the conditions set out in the AFEP-MEDEF Code and upon recommendation of the Nomination and Compensation Committee, decide to grant this person extraordinary compensation mainly in the form of multi-annual and long-term compensation subject to performance conditions, in order to offset, in whole or part, the potential loss of compensation resulting from the acceptance of his/her new duties.

If such compensation is granted, it will, pursuant to Article L. 225-37-2 of the French Commercial Code, only be paid after it has been approved by the Shareholders' Meeting.

Mr. Emmanuel FABER has never received any extraordinary compensation.

Other components of the compensation of executive corporate officers

The Nomination and Compensation Committee takes into account all components of compensation in order to establish a global view of the overall compensation of corporate officers, namely the components approved by the Shareholders' Meetings pursuant to Article L. 225-42-1 of the French Commercial Code and described in the Statutory auditors' special report on related party agreements and commitments.

Concerning Mr. Emmanuel FABER, the Committee took into account the severance pay and the non-compete indemnity to which he is entitled, as well as the defined benefit pension plan put into place for certain key managers having the "Group Director" status, which was closed to new beneficiaries on December 31, 2003.

These components are detailed in section 6.6 *Related party agreements and commitments.*

It should be noted that, if a new executive corporate officer were to be appointed, he/she could be eligible for severance pay in an amount of up to two years of gross annual compensation (fixed and variable) and which would be subject to stringent performance conditions.

COMPENSATION AND BENEFITS GRANTED TO CORPORATE OFFICERS FOR 2017 AND COMPENSATION PRINCIPLES FOR 2018

Summary of the situation of Danone's corporate officers

Overall amount of compensation payable and the value, on the grant date, of GPU and GPS granted in 2016 and 2017 to each corporate officer (information required by Table 1 of the French Financial Markets Authority's recommendation on the compensation of corporate officers)

	Year ended December 31	
(in €)	**2016**	**2017**
Franck RIBOUD		
Annual compensation [a]	2,000,000	1,833,333 [e]
Benefits in kind [b]	4,620	4,235
Multi-annual compensation (maximum value of the GPUs granted for the year) [c]	–	–
Long-term compensation (book value of the GPS granted for the year) [d]	–	–
Total	**2,004,620**	**1,837,568**
Emmanuel FABER		
Annual compensation [a]	2,200,000	2,200,000
Benefits in kind [b]	4,620	4,620
Multi-annual compensation (maximum value of the GPUs granted for the year) [c]	600,000	–
Long-term compensation (book value of the GPS granted for the year) [d]	2,012,670	2,013,007
Total	**4,817,290**	**4,217,627**

(a) Fixed and variable amounts due.
(b) Benefits in kind correspond to the cars and drivers' pool made available to all corporate officers.
(c) The maximum values are €30 per GPU granted in 2016. In 2017, in an effort to simplify his compensation, no GPUs were granted to Mr. Emmanuel FABER.
(d) The amount corresponds to the total estimated value on the grant date according to IFRS 2, assuming that the performance conditions have been met (see details above and Note 7.4 of the Notes to the consolidated financial statements).
(e) This amount corresponds to an annual fixed compensation of €2 million over 11 months, given that Mr. Franck RIBOUD resigned as Chairman of the Board of Directors on November 30, 2017.

Summary of the Corporate officers' contracts, plans and indemnities

Contracts, plans and indemnities to which Danone's corporate officers are entitled in 2017 (information required by the AMF recommendation on disclosures in registration documents on the compensation of corporate officers – Table 11 of the AMF recommendation)

Name	Employment contract		Supplementary retirement plan		Indemnities or benefits due or likely to be due as a result of termination or change in function		Indemnities related to a non-compete clause	
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Franck RIBOUD Chairman of the Board *(until Novem-ber 30, 2017)* First appointment: 1992 Current appointment ends: 2017	✓[a]		✓			✓		✓
Emmanuel FABER Chairman and Chief Executive Officer (since December 1, 2017, previously Chief Executive Officer) First appointment: 2002 Current appointment ends: 2019	✓		✓		✓		✓	

(a) Mr. Franck RIBOUD resigned as Chairman of the Board of Directors on November 30, 2017. He remains Director of Danone, his term of office expiring in 2019

Mr. Franck RIBOUD's compensation in 2017

Compensation and benefits granted in 2017

Breakdown of monetary compensation and benefits due and paid to Mr. Franck RIBOUD

Amount of annual compensation due and paid and benefits granted in 2016 and 2017 to Mr. Franck RIBOUD (information required by Table 2 of the AMF recommendation on the compensation of corporate officers)

	Year ended December 31			
	2016		**2017**	
(in €)	**Amount due**	**Amount paid**	**Amount due**	**Amount paid**
Annual fixed compensation [a]	2,000,000	2,000,000	1,833,333 [e]	1,833,333
Annual variable compensation	N/A	N/A	N/A	N/A
Compensation due with respect to pension benefits	N/A	N/A	119,199	N/A
Multi-annual compensation [b]	N/A	N/A	N/A	650,000
Benefits in kind [c]	4,620	4,620	4,235	4,235
Extraordinary compensation	N/A	N/A	N/A	N/A
Directors' fees [d]	N/A	N/A	12,000	N/A
Total	**2,004,620**	**2,004,620**	**1,968,767**	**2,499,568**

(a) Gross amount. The amounts due are the amounts allocated for the current year. The amounts paid are the amounts actually paid during the year and include amounts due from the previous year.
(b) These are the amounts actually paid during the year.
(c) Benefits in kind include the cars and drivers' pool made available to all corporate officers.
(d) Mr. Franck RIBOUD was not entitled to directors' fees while serving as Chairman of the Board of Directors. Since December 1, 2017, he has been Honorary Chairman and can receive directors' fees.
(e) This amount corresponds to an annual fixed compensation of €2 million over 11 months, given that Mr. Franck RIBOUD resigned on November 30, 2017.

Annual fixed compensation for 2017

The fixed compensation due to Mr. Franck RIBOUD for 2017, in his capacity as Chairman of the Board of Directors, until the end of his term of office remained stable relative to that received in 2016 and totaled €1,833,333.

In 2017, in addition to overseeing the work of the Board of Directors, and within the framework of his enhanced duties, Mr. Franck RIBOUD played an active role in various projects, including:

- active involvement in the discussion and decision-making process regarding the change in governance alongside the Lead Independent Director and the Chairman of the Nomination and Compensation Committee through regular, sustained dialogue both internally and externally;
- Chairman of the Strategy Committee;
- regular meetings with the teams of Danone and its subsidiaries, namely with new employees as part of his role to promote the company's culture, strategy and history: participation in numerous Conventions and several openings of industrial and administrative sites (for example, a new Evian plant, a new Blédina head office in the Lyon region, etc.);
- representing Danone vis-à-vis the government authorities of several countries of strategic importance to its development, to support the Chief Executive Officer;
- relations with Danone's long-time strategic partners in various activities (minority shareholders of certain subsidiaries or majority shareholders of companies in which Danone has a minority interest who have a long personal relationship with Franck RIBOUD);
- regular dialogue with General Management regarding certain management projects and decisions related to organizational changes and innovation; and
- Chairman of Livelihoods Fund for Family Farming SAS and Chairman of the Board of Directors of the danone.communities mutual investment fund (SICAV).

The Chairman of the Board of Directors was therefore able to share his vision and experience on certain General Management projects and decisions, particularly with respect to organizational matters.

Annual variable compensation for 2017

As a reminder, during his term as Chairman of the Board, Mr. Franck RIBOUD did not receive annual variable compensation.

Multi-annual compensation and long-term compensation

It should be noted that no GPS or GPUs have been granted to the Chairman of the Board of Directors since his appointment in October 2014.

The characteristics of GPU and GPS plans and the plans still in effect are presented in section 6.4 *Detailed information on long-term and multi-annual compensation plans.*

Group Performance Units

No GPUs have been granted to Mr. Franck RIBOUD since October 2014. In 2017, he received the last delivery of GPUs under the last grant made to him in July 2014.

	Year ended December 31	
(in €)	**2016**	**2017**
Franck RIBOUD	0 [a]	650,000 [b]

(a) The Group Performance Units granted in 2013 were valued at €0 since no target was fully achieved in 2013, 2014 and 2015.
(b) Amount paid in respect of the last Group Performance Units granted to Mr. Franck RIBOUD in 2014.

Group Performance Shares

As Chairman and Chief Executive Officer, Mr. Franck RIBOUD was granted the following GPS prior to October 1, 2014:

Date of Board meeting that granted the GPS	7/26/2012	7/26/2013	7/24/2014
Number of GPS	*54,500*	*54,500*	*50,000*
Value of the GPS granted during the year [a]	*2,197,985*	*1,882,413*	*2,513,500*
Number of GPS void or canceled [b]	–	–	–
Number of GPS that have become available	*27,250*	*36,334*	–
Delivery date [c]	*7/27/2016*	*7/27/2017*	*7/25/2018*

(a) For each year (except 2013), the value of the GPS represents the total estimated value on the grant date according to IFRS 2, assuming that the performance conditions have been met (see details above and Note 7.4 of the Notes to the consolidated financial statements). For 2013, the amount indicated reflects the non-achievement of the performance condition related to operating margin, which reduced the value of the Group Performance Shares granted in July 2013 by one-third.
(b) The notion of void or canceled Group Performance Shares covers the cases where the continuous employment condition was not met and does not include the Group Performance Shares that were not delivered because of the non-achievement of performance conditions.
(c) These shares are subject to a conservation period.

In accordance with the GPS rules, in July 2018 Mr. Franck RIBOUD will receive the last delivery of shares in respect of the last GPS granted to him in July 2014. In fact, these rules stipulate that, in case of retirement more than 12 months after GPS are granted, all beneficiaries continue to be eligible for delivery of the GPS granted to them provided that the performance conditions of these GPS have been achieved, as for any GPS beneficiary. It should be noted that the performance conditions were achieved in April 2017, when Mr. Franck RIBOUD was still at the Company.

Stock options exercised

Since Mr. Franck RIBOUD exercised no stock options in 2017, Table 5 of the AMF Nomenclature referred to in the AMF's recommendation on disclosures in registration documents on the compensation of corporate officers does not apply.

Approval of the components of compensation paid or granted in 2017

Pursuant to Article L. 225-100 of the French Commercial Code, the components of fixed, variable and extraordinary compensation that make up the total compensation and benefits paid or granted to Mr. Franck RIBOUD for 2017 will be submitted to the Shareholders' Meeting for approval on April 26, 2018. Pursuant to article L.225-100 of the French Commercial Code, it is reminded that the components of variable or extraordinary compensation granted for 2017 can only be paid with the prior approval of the Shareholders' Meeting: this provision does not apply to Mr. Franck RIBOUD, to whom such grants were not made in 2017.

Compensation paid or granted to Mr. Franck RIBOUD for his duties as Chairman of the Board between January 1 and November 30, 2017

Components of compensation paid or granted for 2017	Amount or accounting valuation submitted to a vote	Presentation
Fixed compensation	€1,833,333	The fixed annual compensation has not changed since 2014. The smaller amount paid in 2017 (€1,833,333) compared to 2016 (€2 million) was due to the calculation on a prorata basis, given that Mr. Franck RIBOUD resigned as Chairman of the Board on November 30, 2017. This fixed compensation is presented in detail in the section entitled *Compensation policy for corporate officers*.
Annual variable compensation	Not applicable	In accordance with the *Compensation policy for corporate officers*, no annual variable compensation was paid to the Chairman of the Board for 2017.
Multi-annual variable compensation	Not applicable	In accordance with the *Compensation policy for corporate officers*, no multi-annual variable compensation was granted to the Chairman of the Board for 2017.
Extraordinary compensation	Not applicable	In accordance with the *Compensation policy for corporate officers*, no extraordinary compensation was granted or paid to the Chairman of the Board for 2017.
Long-term compensation	Not applicable	In accordance with the *Compensation policy for corporate officers*, no long-term compensation (GPS) was granted to the Chairman of the Board for 2017.
Stock options	Not applicable	In 2017, no stock options were granted to the Chairman of the Board.

Components of compensation paid or granted for 2017	Amount or accounting valuation submitted to a vote	Presentation
Directors' fees	Not applicable	In accordance with the *Compensation policy for corporate officers*, no directors' fees were grant-ed or paid to the Chairman of the Board for 2017.
Benefits in kind	€4,235	This amount represents the cars and drivers' pool made available to the Chairman of the Board until November 30, 2017.
Severance pay	Not applicable	Mr. Franck RIBOUD's resignation as Chairman of the Board did not give rise to any severance pay.
Non-compete indemnities	Not applicable	The Chairman of the Board is not entitled to a non-compete in-demnity. When he resigned as Chairman of the Board, Mr. Franck RIBOUD did not receive a non-compete indemnity.
Supplementary retirement plan	Not applicable	At the time of his resignation as Chairman of the Board, Mr. Franck RIBOUD claimed his pension rights on December 1, 2017. This defined benefit pension plan, put in place for all key managers having the "Group Director" status, was closed on December 31, 2003. The details of this plan are provided hereinafter and in section 6.6 *Related party agreements and commitments*. The annual gross amount payable by Danone for this defined benefit pension plan (after deduction of the amount payable by social security and the supplementary pension plan) was €1,430,392.

Mr. Emmanuel FABER's compensation in 2017

Compensation and benefits granted in 2017

Breakdown of monetary compensation and benefits due and paid to Mr. Emmanuel FABER

Amount of annual compensation due and paid and benefits granted in 2016 and 2017 to Mr. Emmanuel FABER (information required by Table 2 of the AMF's recommendation on the compensation of corporate officers)

				Year ended December 31
		2016		2017
(in €)	Amount due	Amount paid	Amount due	Amount paid
Annual fixed compensation [a]	1,000,000	1,000,000	1,000,000	1,000,000
Annual variable compensation [a]	1,200,000	1,240,000	1,200,000	1,200,000
Multi-annual compensation [b]	600,000	–	–	468,000
Benefits in kind [c]	4,620	4,620	4,620	4,620
Extraordinary compensation	N/A	N/A	N/A	N/A
Directors' fees [d]	N/A	N/A	N/A	N/A
Total	**2,804,620**	**2,244,620**	**2,204,620**	**2,672,620**

(a) Gross amount. The amounts due are the amounts allocated for the current year. The amounts paid are the amounts actually paid during the year and include amounts due from the previous year.
(b) The amounts due are the maximum value of the GPU for the year. The amounts paid are the GPU actually paid during the year.
(c) Benefits in kind include the cars and drivers' pool made available to all corporate officers.
(d) Mr. Emmanuel FABER is not entitled to directors' fees.

Annual fixed compensation for 2017

The fixed compensation due to Mr. Emmanuel FABER for 2017 is €1 million and has not changed since he was appointed Chief Executive Officer in September 2014.

This compensation takes into account both his experience and his level of responsibility.

Annual variable compensation for 2017

Compensation target and annual cap set for 2017

Target amount of annual variable compensation: €1,000,000 (remains unchanged since 2014)

Performance conditions and cap

	Performance indicators	Portion of the target amount	Potential variation of this portion	Potential variation after weighting
Économic Quantifiable portion, calculated on the basis of Danone's targets communicated to the market	Organic sales growth	25%	0% to 200%	0% to 50%
	Recurring operating margin growth	25%	0% to 200%	0% to 50%
	Free cash flow delivery	10%	0% to 200%	0% to 20%
	Total	**60%**	**0% to 200%**	**0% to 120%**
Social and societal Reference to Danone's targets (development of talent and organizations, development of societal and environmental initiatives)	Quality of workplace environment, employees commitment as measured by a comprehensive external survey	10%	0% to 200%	0% to 20%
	Spread of Danone's influence through initiatives in the societal (food revolution) and environmental (climate commitment) areas	10%	0% to 200%	0% to 20%
	Total	**20%**	**0% to 200%**	**0% to 40%**
Managerial Reference to the implementation of Danone's strategy (product innovations, market share, expansion into new regions) and the performance of the management teams.	Closing of the WhiteWave acquisition, integration, development of the activity and synergies Implementation of the Protein cost reduction plan	10%	0% to 200%	0% to 20%
	Management team's achievements and progress as well as management of the operating activities	10%	0% to 200%	0% to 20%
	Total	**20%**	**0% to 200%**	**0% to 40%**
Total		**100%**	**0% to 200%**	**0% to 200%**

Review of the achievement of objectives and weightings

At its meeting on February 15, 2018, upon recommendation of the Nomination and Compensation Committee, the Board of Directors determined the level of fulfillment for Emmanuel FABER's annual variable compensation.

It determined Mr. Emmanuel FABER's annual variable compensation for 2017 to be 120% of the target compensation on the basis of the following fulfillment figures:

Indicators	Weighting	Percentage of achievement	Percentage after weighting	Achievement amount *(in €)*
Economic	60%	125%	75%	750,000
Social and societal	20%	125%	25%	250,000
Managerial	20%	100%	20%	200,000
Total variable compensation for 2017	**100%**	**-**	**120%**	**1,200,000**

After the Audit Committee's validation of the financial statements, the Board of Directors determined the following fulfillment levels for the economic indicators constituting the economic target, namely:

Indicators	Weighting	Percentage of achievement	Weighted
Sales	25%	60%	15%
Margin	25%	160%	40%
Free cash flow	10%	200%	20 %
Total	**60%**	**-**	**75%**

The Board of Directors considered that the levels of each of the indicators had been achieved as follows:

Economic component: 125% of the target

- partial achievement of the organic net sales growth criterion due to a 2.5% growth;
- achievement exceeding the recurring operating margin target due to a 70 basis point increase;
- maximum achievement of the free cash flow target due to the delivery of a free cash flow totaling €2,083 million.

With respect to the social and societal and managerial components, the Board of Directors estimated that:

Social and societal component: 125% of the target

- acknowledgement of Danone's high employee commitment level, which was measured by an anonymous survey conducted by an external firm for all of the company's employees around the world between September and October 2017. This assessment is implemented by Danone every two years. For the 2017 edition, the survey had an 89% participation rate and the results for the Danone's "Sustainable Commitment" are well above the average in the FMCG sector (+8 points in 2017).

  The "Sustainable Commitment" level is calculated on the basis of three indicators (Commitment, Support and Stimulation) for measuring the pride in belonging, the willingness to contribute further, the support and stimulation brought on a daily basis to the employees, within the workplace environment, in order to achieve a high level of productivity. This indicator of competitiveness linked to the company's human capital allows a comparison with the "norm" of the FMCG sector.
- with respect to the societal component, the Board of Directors assessed Danone's commitments with respect to climate change and noted the recognition of the Science Based Targets Initiative (SBTi), consistent with the global measures articulated in the Paris Agreement to prevent global temperatures from rising by more than 2 degrees Celsius. This recognition attests to Danone's commitment as it transitions toward a less carbon-intensive economy, notably by working on more sustainable agriculture, whose carbon footprint currently represents 57% of total carbon emissions. In that light, Danone also joined the "4/1,000: Soils for Food Security and Climate" international initiative launched by the French government to promote productive and resilient agriculture, based on sustainable soil management. Danone also joined the RE100 initiative and made a commitment to shift to 100% renewable energy sources for electricity by 2030, with an intermediary step of 50% by 2020.

Managerial component: 100% of the target

- closing of the WhiteWave acquisition and the integration of that company, the creation of synergies and the launch of the Protein cost-reduction program.
- regarding the progressive actions of management teams, the Board pointed in particular to the new streamlined organization of the Executive Committee as part of Danone's new governance.

Multi-annual compensation and long-term compensation

Group Performance Units

Grants in 2017 and over the past two years

Date of Board meeting that granted the Group Performance Units	7/23/2015	7/27/2016	7/26/2017
Number of Group Performance Units	*20,000*	*20,000*	–
Maximum value of Group Performance Units granted during the year [a]	*580,000*	*600,000*	–
Amount paid	*Pending*	*Pending*	–
Delivery date	7/24/2018	7/28/2019	

(a) €30.

Amounts paid

		Year ended December 31
(in €)	**2016**	**2017**
Emmanuel FABER	– [a]	468,000 [b]

(a) The GPUs granted in 2013 are valued at €0 since no target was fully achieved in 2013, 2014 and 2015.
(b) Amounts paid out in respect of GPUs granted in 2014 in view of the partial achievement of targets for 2014 and 2015, and full achievement of the targets set for 2016.

Group Performance Shares

Grants in 2017 and over the past five years

Date of Board meeting that granted the GPS	7/26/2012	7/26/2013	7/24/2014	7/23/2015	7/23/2016	7/26/2017
Number of GPS	41,250	41,250	36,000	36,000	34,200	35,021 [d]
Value of the GPS granted for the year [a]	1,663,613	1,424,775	1,809,720	2,034,360	2,012,670	2,013,007
Number of GPS void or canceled [b]	–	–	–	–	–	–
Number of GPS that have become available	20,625	27,500	–	–	–	–
Delivery date [c]	7/27/2016	7/27/2017	7/25/2018	7/24/2019	7/28/2020	7/27/2021

(a) For each year (except 2013) the value of the GPS represents the full value estimated on the grant date in accordance with IFRS 2 assuming that the performance conditions have been met (see breakdown above and Note 7.4 of the Notes to the consolidated financial statements). For 2013, the amount indicated reflects the non-achievement of the margin performance target, which reduced the value of the Group Performance Shares granted in July 2013 by one third.
(b) Void or cancelled GPS occur when the continuous employment condition was not met and do not include GPS that were not delivered because performance conditions were not achieved.
(c) These shares are subject to a conservation period.
(d) If the continuous employment condition is validated, the performance condition related to the free cash flow delivery is fully met and the net sales growth condition is overperformed, Mr. Emmanuel FABER could receive 36,772 shares in 2021.

The characteristics of GPS plans and the plans still in effect are presented in section 6.4 *Detailed information on long-term and multi-annual compensation plans.*

Stock-options exercised

Since Mr. Emmanuel FABER exercised no stock options in 2017, Table 5 of the AMF Nomenclature pursuant to the AMF's recommendation on "information on the compensation of corporate officers to be included in registration documents" does not apply.

Approval of the components of compensation paid or granted in 2017

Pursuant to Article L.225-100 of the French Commercial Code, the fixed, variable and extraordinary components of compensation that make up the total compensation and benefits in kind paid or granted to Mr. Emmanuel FABER for fiscal year 2017 will be subject to approval by the Shareholders' Meeting of April 26, 2018. However, only the variable and extraordinary components granted for the prior fiscal year cannot be paid without the approval of the Shareholders' Meeting.

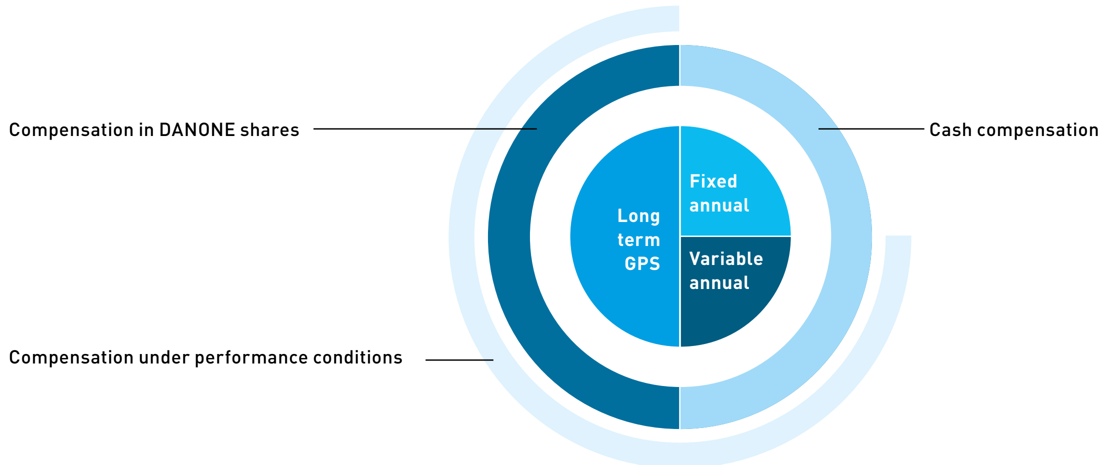
Compensation paid or granted to Mr. Emmanuel FABER for 2017

Components of compensation paid or granted for fiscal year 2017	Amounts or accounting valuation submitted to a vote	Presentation
Fixed compensation	€1,000,000	Fixed compensation takes into account Mr. Emmanuel FABER's experience and level of responsibility. It has not changed since 2014 and represented approximately 25% of his total compensation in 2017.
Annual variable compensation *(payment of this compensation is subject to approval by the Shareholders' Meeting)*	€1,200,000	The target annual variable compensation was set by the Board at €1,000,000. This compensation, subject to performance conditions based on the fulfillment of quantifiable economic criteria (representing 60% of the target compensation), social criteria (representing 20% of the target compensation) and managerial criteria (representing 20% of the target compensation) is capped at 200% of fixed compensation.
Multi-annual variable compensation	Not applicable	In order to simplify the overall compensation of the Chief Executive Officer, the decision was made in 2017 not to grant him group performance units (GPUs).
Extraordinary compensation	Not applicable	Danone has not put in place any mechanisms for granting extraordinary compensation to Mr. Emmanuel FABER.
Long-term compensation	GPS: €2,013,007 (35,021 shares)	Long-term compensation takes the form of Group performance shares (GPS). GPS are shares of the Company subject to performance conditions. Mr. Emmanuel FABER was granted 35,021 GPS 2017 on July 26, 2017, representing a book value of €2,013,007. This grant, whose performance conditions are described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*, represents 0.01% of Danone's share capital. If the continuous employment condition is validated, the performance condition related to the cash flow delivery is fully met and the net sales growth condition is overperformed, Mr. Emmanuel FABER could receive 36,772 shares in 2021.
Stock options	Not applicable	No stock options granted. The last time stock options were granted to corporate officers was in November 2009.
Directors' fees	Not applicable	In accordance with the Compensation policy for corporate officers, no directors' fees were granted or paid to Mr. Emmanuel FABER for fiscal year 2017.
Benefits in kind	€4,620	This amount corresponds to the cars and drivers' pool made available to corporate officers.
Severance pay	No amount owed for 2017	Severance payments for corporate officers are subject to performance conditions. In addition, the amount of these payments has been capped, and such payments have been made in only a small number of cases. Mr. Emmanuel FABER's severance pay is presented in the *Severance pay* section hereinafter.
Non-compete indemnity	No amount owed for 2017	Mr. Emmanuel FABER's non-compete indemnity is presented in the *Non-compete indemnity* section hereinafter.
Supplementary retirement plan	No amount owed for 2017	Corporate officers are also entitled to a defined-benefits retirement plan established for certain key managers having the "Group Directors" status; 115 employees continue to benefit from this plan. This retirement plan has been closed to new beneficiaries since December 31, 2003. Eligibility for this plan is subject to the conditions described in the *Supplementary retirement plan for corporate officers* section hereinafter.

Compensation principles for 2018

Upon recommendation of the Nomination and Compensation Committee, the Board of Directors determined, at its meeting of February 15, 2018, the principles of the compensation for Mr. Emmanuel FABER for fiscal year 2018.

The structure and components of compensation will therefore be as follows:



Fixed compensation €1,000,000	The amount of Emmanuel FABER's annual fixed compensation, which remains unchanged since 2014, was confirmed by the Board of Directors at its meeting of February 15, 2018, upon recommendation of the Nomination and Compensation Committee.
Annual variable compensation The target amount of the annual variable compensation for 2018, its components and the maximum compensation percentage are the same as the previous year. • Target amount: €1,000,000 • Maximum cap equal to 200% • No floor	As in 2017, it will consist of three components – an economic component that is based on Danone's main financial targets, a social and societal component and a managerial component, with the same weightings as the previous years. In accordance with the French financial markets authority's recommendation no. 2012-02 of February 9, 2012, the expected level of fulfillment for each of these criteria was specified in advance by the Board of Directors, upon recommendation of the Nomination and Compensation Committee, but is not disclosed publicly for reasons of confidentiality. In accordance with AFEP-MEDEF Code recommendations, the allocation of this performance-based variable compensation will be specifically disclosed at the close of the 2018 fiscal year. It will also be presented in the 2018 Registration Document. In addition, pursuant to Article L.225-100 of the French Commercial Code, the fixed, variable and extraordinary components that make up the total compensation and benefits in kind paid or granted for fiscal year 2018 will be subject to approval by the 2019 Shareholders' Meeting. The variable and extraordinary components of compensation granted for fiscal year 2018 will be paid only after approval by the 2019 Shareholders' Meeting.

OTHER COMPENSATION AND BENEFITS TO WHICH CORPORATE OFFICERS ARE ENTITLED

Suspension of employment contract

Suspension of Mr. Emmanuel FABER's employment contract

At its meeting of February 13, 2008, the Board of Directors approved an amendment to his employment contract to specify the terms under which his employment contract (which had been suspended when he was appointed a Danone corporate officer) would be resumed if his term of office ended, for whatever reason. This amendment stipulates that:

- the amount of time during which he will have served as a Danone corporate officer will be fully taken into account in respect of his length of service and the associated rights under his employment contract;
- Danone agrees to offer him a position with responsibilities that are comparable to those currently exercised by the members of Danone's Executive Committee;
- his annual compensation cannot be less than the annual average total compensation (gross base salary, benefits in kind, any bonuses) paid to the members of the Executive Committee during the 12 months preceding the resumption of his employment contract;
- he will benefit from the supplementary retirement plan for managers on the basis of his total length of service as a corporate officer and under his employment contract;
- the indemnity to be paid if the employment contract is terminated will be cancelled.

At the time of the renewal of his term of office as Director and upon recommendation of the Nomination and Compensation Committee, on February 22, 2016 the Board of Directors confirmed the position it took in September 2014, as it had considered that:

- the employment contract of Mr. Emmanuel FABER should be maintained (although it should remain suspended), given his age, personal situation and seniority as a Danone employee. The Board had considered this arrangement to be appropriate for corporate officers whom Danone has employed for at least ten years. This serves to promote the principles of internal promotion and sustainable management to which Danone is committed, since terminating an employment contract could dissuade employees from accepting a position as a corporate officer; and
- implementing the recommendations of the AFEP-MEDEF Code to permanently terminate this employment contract would cause him to lose the rights and benefits gradually acquired under his employment contract during his career at Danone on the basis of seniority (*i.e.* 20 years for Mr. Emmanuel FABER) and actual service, particularly the severance pay and long-term benefits, such as participation in group plans, the total amount of which, in any case, would not exceed the cap of two years of compensation (fixed and variable).

In addition, the Board had noted that the AMF (the French financial markets authority) considers that a detailed explanation of why a corporate officer's employment contract has been maintained can justify the decision not to observe the AFEP-MEDEF Code's recommendation.

Termination of Mr. Franck RIBOUD's employment contract

Mr. Franck RIBOUD terminated his employment contract with effect from November 30, 2017. He received no severance pay at that time.

Information about his employment contract is presented in the *Related party agreements* section.

Supplementary retirement plan for Mr. Emmanuel FABER

Defined-benefits retirement plan

Mr. Emmanuel FABER is entitled to a defined-benefits retirement plan that was established for certain key managers, subject to the provisions of Article L.137-11 of the French Social Security Code.

This retirement plan was set up in 1976 to retain key managers having the status of "Group Directors" as at December 31, 2003, from which date the plan was closed to new beneficiaries. On December 31, 2017, 115 Group Directors were members of this plan (excluding plan beneficiaries who had already claimed their pension benefits), compared to 170 potential beneficiaries in 2003.

General principles

Eligibility

Eligibility for the defined-benefits retirement plan shall be subject to the following conditions:

- The beneficiary must still be employed at Danone at the time of retirement, it being specified that the beneficiary of the plan shall be maintained in the following exceptions:
  - the employee is terminated after the age of 55, provided that he or she does not take up paid employment elsewhere; and
  - the employee incurred a 2nd or 3rd class disability, as defined under French social security law, while working for Danone.

  Although these two exceptions are in accordance with French regulations and the position of social security authorities, they are not however included in the AFEP-MEDEF Code recommendations. They serve to protect all beneficiaries between the age of 55 and the retirement age from the risk of termination or disability;
- Danone 'Group Directors' (within the meaning of the retirement plan rules) must have served for at least five years in order to be eligible. The number of years of service includes employment under an employment contract and as a corporate officer. All benefits will be lost if the plan member leaves the company before the age of 55.

The supplementary retirement plan is a collective contractual commitment that benefits a number of Danone's key managers. Given the way in which the plan was set up and in which the potential beneficiaries were informed of the plan, its amendment would require the individual agreement of each plan member.

Coverage and funding

The amount provisioned for the defined-benefits retirement plan constitutes Danone's commitment at December 31, 2017 in accordance with IFRS, *i.e.* a total of €22.6 million for Danone's corporate officers and Executive Committee members.

Partial cover of this plan has been outsourced to insurance companies.

Related payroll taxes and social security contributions

- during the build-up phase the beneficiary owes no contribution or other charge;
- premiums paid to the insurance company are deductible from the corporate income tax base and are subject to the employer's contribution of 24%, pursuant to Article L.137-11, 2° of the French Social Security Code.

Calculation of the annuity and cap

The defined-benefits retirement plan to which Mr. Emmanuel FABER, like other key managers, is entitled provides for the payment of an annuity which:

- equals 1.5% of the 1st bracket of the reference compensation (which is defined under the plan rules as being the portion of the compensation between 3 to 8 times the French social security ceiling) per year of service (up to 20 years of service), and 3% of the 2nd bracket of the reference compensation (which is defined under the plan rules as being the portion of the compensation that exceeds 8 times the French social security ceiling) per year of service (up to 20 years of service);
  - the reference compensation defined under the plan's rules is the average of the compensation received for the last three years (either before retirement, a 2nd or 3rd class disability or termination after age 55), including the annual base salaries and the average of the last three bonuses and excluding any other component of compensation.
  - the recommendation of the AFEP-MEDEF Code, which calls for a 45% cap on the reference income, does not apply to this retirement plan, since it was closed to new members on December 31, 2003 and this cap does not apply to retirement plans that are closed to new members (see Article 24 of the AFEP-MEDEF Code, as amended in November 2016).
- may not exceed 30% of the 1st bracket of the reference compensation and 60% of the 2nd bracket of the reference compensation;
- is paid after the deduction of certain pensions representing the total retirement rights acquired under a non-contributory supplementary retirement plan provided by the Company.

Other information

- the size of the potential amounts under this plan in respect of Mr. Emmanuel FABER depends mainly on his length of service (20 years) and not on the percentage of the calculation base per year of service, which is limited to between 1.5% and 3% per year (see details hereafter);
- pursuant to Articles L. 225-22-1 and L. 225-42-1 of the French commercial code (as amended by Act No. 2015-990 of August, 6 2015, the "Macron Act"), the Board of Directors' meeting of February 22, 2016, acting upon recommendation of the Nomination and Compensation Committee, decided (i) to subject the annual increase in Mr. Emmanuel FABER's retirement benefits to a performance condition starting with the renewal of his appointment in 2016; and (ii) to make this increase in these conditional future retirement benefits subject to the approval of the April 28, 2016 Shareholders' Meeting. This Board decision was published on Danone's website and Mr. Emmanuel FABER's pension commitments were approved by a 92.75% majority of shareholders at the meeting of April 28, 2016;
- the meeting of the Board of Directors of October 18, 2017, which mainly addressed the combination of the functions of the Chairman of the Board of Directors and of the Chief Executive Officer, found that the retirement commitment made to Mr. Emmanuel FABER should remain unchanged; and that
- the Nomination and Compensation Committee and the Board of Directors have taken the material benefit to Mr. Emmanuel FABER stemming from this retirement plan into account when determining the overall compensation of the corporate officers.

Details on the calculation of the annuity for Mr. Emmanuel FABER:

Reference compensation used to calculate the annuity	The compensation that is used to calculate the annuity (the "Base") is the average of the annual fixed and variable compensation received during three full years of service at Danone just before retirement. The period of reference used to calculate benefits therefore spans several years. For example, on December 31, 2017 the Base for Mr. Emmanuel FABER would be €2,044,396.

The increase in potential benefits	The annual increase is progressive and represents only a small percentage of the beneficiary's compensation:
	• the amount of the life annuity to which Mr. Emmanuel FABER is entitled is (i) 1.5% of the Base per year of service (for the portion of the Base that is between 3 to 8 times the French social security ceiling) and (ii) 3% of this Base per year of service (for the portion that exceeds 8 times the French social security ceiling), it being specified that this amount will however be:
	• capped at a maximum length of service of 20 years; and
	• subject to the deduction of all pension entitlements that Mr. Emmanuel FABER has acquired under Danone's non-contributory supplementary defined-contributions retirement plan.
	Therefore, given the above percentages and the maximum potential length of service of 20 years, the life annuity cannot exceed 60% of the Base.
	• If Mr. FABER retires without satisfying the conditions for obtaining a full social security pension, his annuity will be reduced by 1.25% per quarter between his age at retirement and the age at which he would have received a full social security pension;
	• Furthermore, as of the Shareholders' Meeting of April 28, 2016 and in compliance with the provisions of the Macron Act, the increase in Mr. Emmanuel FABER's pension entitlement for each fiscal year depends on:
	  ◦ the arithmetic average of internal ("organic") growth in Danone's net revenue (CA in French) (the "Group Revenue") during that fiscal year and the five previous fiscal years (the "Reference Period"); and
	  ◦ the arithmetic average of internal ("organic") growth in revenue achieved by the Panel members (the "Panel Revenue") over the Reference Period.
	Thus, in April 2017, the Board noted a 3% increase in Mr. Emmanuel FABER's benefits for the year 2016.

Estimated amount at December 31, 2017	As of December 31, 2017, Mr. Emmanuel FABER had been with Danone for 20 years. The overall retirement package he could receive would be equivalent to 60% of the portion of his compensation that exceeds eight times the French social security ceiling, as defined above. Therefore, assuming that the performance condition to be determined at the Board of Directors' meeting of April 2018 is achieved, the increase in rights for 2017 would be 3%. As of December 31, 2017, the estimated amount of the annuity that Mr. Emmanuel FABER could receive would be €1,095,522. From this must be deducted all retirement annuities and pensions to which he is entitled under Danone's supplementary defined-contributions retirement plan. This amount was determined: • by estimating the annuity on an annual basis; • by taking into account Mr. Emmanuel FABER's years of service at the end of 2017 (20 years); • using the reference compensation specified in the plan rules (the average of the compensation for the past three years, including the base salary and the average of the past three bonuses and excluding any other component of compensation); • by calculating the estimated annuity independently of the terms of the commitment, as if Mr. Emmanuel FABER could receive the annuity immediately after the fiscal year.

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Definition	
Group Revenue	The arithmetic average of internal ("organic") growth in Danone's revenue over the Reference Period (on a consolidated and a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates).
Each Panel member's Revenue	The arithmetic average of internal ("organic") growth in net revenue posted by a given Panel member over the Reference Period (on a consolidated and a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates).
Panel Revenue	The combined Revenue of all Panel members.
Median Revenue of the Panel	The Panel member Revenue that half of the Panel members exceed (*i.e.* there are as many Panel members with Revenue exceeding or equal to the Median as there are with Revenues that are less than or equal to the Median). If there is an even number of Panel members, the Median Sales of the Panel will be the arithmetic average of the two central Panel amounts of Revenue.
Panel	Eight leading international groups in the food and beverage sector: Kellogg Company, Unilever N.V., Nestlé S.A., The Kraft Heinz Company (Kraft Foods Group Inc. until 2014), Mondelez International Inc., PepsiCo Inc., The Coca-Cola Company and General Mills Inc.
Over the Reference Period (*i.e.* at the end of each fiscal year):	• if the Group's Revenue is equal to or greater than the Median Revenue of the Panel, the increase in Mr. Emmanuel FABER's conditional retirement benefits for the fiscal year will vest (provided that the other conditions stipulated in the retirement plan have been fulfilled); • if the Group's Revenue is less than the Median Revenue of the Panel, Mr. Emmanuel FABER will not receive an increase in conditional future rights to pension benefits for that fiscal year (expressed as a percentage of the Basis). Each year, prior to the Shareholders' Meeting held to approve the previous financial statements, the Board of Directors shall issue a statement as to whether this performance condition has been satisfied, based on the report of a financial advisor, and will determine the increase in Mr. Emmanuel FABER's pension benefits for that fiscal year, through duly justified decisions made upon recommendation of the Nomination and Compensation Committee. This performance condition is similar to the one that applies to the severance pay granted to Mr. Emmanuel FABER in the event he ceases to be the Chief Executive Officer.

Others applicables rules

Ensure that the Revenue amounts obtained are comparable	Revenue figures may be readjusted (for example, to correct for changes in consolidation scope or exchange rates) only when this is strictly necessary to ensure that the method for calculating the Revenue of all Panel members and the Group's Revenue is consistent over the entire Reference Period. The Board of Directors may, by a duly justified decision, change the composition of the Panel in the event of the acquisition, absorption, dissolution, spin-off, merger or change of activity of one or more of the Panel members, provided that it maintains its overall consistency.
Event of no publication or late publication of audited accounting or financial data	By one Panel member: the Board of Directors may, exceptionally and by a duly justified decision, exclude this member from the Panel; By two or more Panel members: the Board of Directors will make a duly justified decision on the basis of the audited financial statements published by these Panel members and by Danone over the last five fiscal years for which financial statements are available for all Panel members and for Danone.
The acquisition, absorption, dissolution, spin-off or merger of a Panel member or a change of its business activity	The Board of Directors may, through a duly justified subsequent decision, change the composition of the Panel, provided that it maintains its overall consistency.

In April 2018, when the Panel members have published their annual financial statements, the Board of Directors will determine whether performance conditions for the 2017 fiscal year have been achieved over the aforementioned Reference Period.

Mr. Emmanuel FABER was born on January 22, 1964 and may exercise his rights to the defined-benefits retirement plan as from February 2026, provided he remains employed at Danone.

Defined-contributions retirement plan

The corporate officers are also entitled to a defined-contributions retirement plan that is available to all Danone employees who are affiliated with the AGIRC pension fund pursuant to Articles 4 and 4b of the collective bargaining agreement of March 14, 1947 and whose annual compensation exceeds 3 times the French social security ceiling. Annuities that may be paid under this plan will be deducted from any annuities to be paid under the defined-benefits retirement plan.

This plan was established pursuant to Article L. 242-1, paragraphs 6 and 7 of the French Social Security Code.

Under this plan, retirement benefits:

- may be claimed no earlier than:
  - the pension entitlement date of a compulsory pension plan or,
  - the minimum age stipulated under Article L. 351-1 of the French Social Security Code.
- are funded through quarterly contributions that are paid exclusively by Danone to an insurance company:
  - at a rate of 6% of brackets B and C of the compensation paid to plan beneficiaries;
  - are excluded from the social security contributions calculation base, up to a limit of 5% of the compensation up to a maximum of 5 times the French social security ceilings (*i.e.* €9,654 in 2016); and
  - are subject to the fixed-rate "social tax" (*forfait social*) of 20%.

Danone's employer contributions paid for this plan for the 2017 fiscal year were €16,219 for Mr. Emmanuel FABER.

Annuities that may be paid under this plan will be deducted from any annuities to be paid under the defined-benefits retirement plan.

Supplementary retirement plan for Mr. Franck RIBOUD

Mr. RIBOUD was entitled, as corporate officer, to a defined-benefits retirement plan established for certain key managers, subject to Article L 137-11 of the French Social Security Code, which was closed on December 31, 2003 and is described in section 6.7 *Related party agreements and commitments*.

With the termination of his duties as Chairman of the Board of Directors, Mr. Franck RIBOUD claimed his pension benefits on December 1, 2017.

Severance pay

In October 2017, when the offices of Chairman of the Board and Chief Executive Officer were combined, Mr. Emmanuel FABER was named Chairman and Chief Executive Officer. At that time, the Board, upon recommendation of the Nomination and Compensation Committee, acknowledged the continuation of the entire severance package for which Mr. Emmanuel FABER was already eligible as Chief Executive Officer. This plan, identical to the previous plan, had been approved by the Shareholders' Meeting of April 28, 2016 when Mr. Emmanuel FABER was reappointed as Director.

Mr. Emmanuel FABER's severance pay has the following characteristics:

- stringent performance conditions that cover a five-year period prior to the termination of the corporate officer's duties;
- the amount of severance pay due in certain cases of termination is capped at two years of gross compensation (fixed annual and variable annual). The capped amount may also include the indemnity paid to salaried employees when their employment is terminated. The cap therefore applies to all termination indemnities paid in respect of a term of office or an employment contract; and

- the severance payment is only made in the event of a forced termination, of whatever type or form, that is the result of a change in control or of strategy.

All information concerning Mr. Emmanuel FABER's severance pay is provided in section *6.7 Related party agreements and commitments.*

Non-compete ndemnity

The non-compete clause that applies to Chief Executive Officer Emmanuel FABER enables Danone to either enforce the clause for a period of 18 months in exchange for the payment of gross monthly financial compensation equivalent to 50% of Mr. FABER's gross average fixed and target variable compensation paid over the last 12 months (the "Consideration for the non-compete clause"), or release Mr. FABER from his obligations under the clause with no financial compensation. This non-compete clause aims to protect Danone.

Furthermore, to avoid any aggregation of (i) the indemnity provided under Danone's collective agreement which applies to all Danone employees (the "Indemnity for Termination of an Employment Contract"); (ii) the indemnity that is due in certain cases of the termination of a corporate officer's term of office; and (iii) the Consideration for the Non-Compete Clause that could exceed twice the gross annual compensation (comprising both fixed and variable compensation) and which would therefore not comply with the AFEP-MEDEF Code's recommendations; at its meeting of February 10, 2010, the Board of Directors, upon recommendation of the Nomination and Compensation Committee, amended Mr. Emmanuel FABER's suspended employment contract such that Danone may only enforce the non-compete clause if Mr. FABER resigns, in which case neither the indemnity for termination of the employment contract nor the indemnity that is due in certain cases of termination of his office would be paid.

COMPENSATION OF THE OTHER BOARD MEMBERS

Principle

Directors receive directors' fees; however, the members of the Executive Committee, the Company's executive corporate officers, the honorary Directors, the Chairman of the Board (if he receives fixed compensation) and the Directors representing employees do not receive any directors' fees.

The Shareholders' Meeting must approve the total maximum amount of directors' fees to be divided among the Directors. These fees must be allocated in accordance with the allocation rules the Board of Directors has decided.

The allocation of directors' fees takes into account the Directors' attendance at Board and Committee meetings with a variable component that constitutes the greater portion of these fees.

Amount authorized by the Shareholders' Meeting and paid

	Year ended December 31	
(in €)	**2016**	**2017**
Total annual amount authorized	1,000,000	1,000,000
Date of the Shareholders' Meeting that authorized this amount	4/29/2015	4/29/2015
Amount paid	687,000	720,000

Allocation rules since February 15, 2018

(in €)	Annual fixed amount	Amount per meeting	For travel – residing in Europe (not in France)	For travel – residing outside of Europe
Lead Independent Director	80,000	–	–	–
Director	10,000	–	–	–
Board meeting	–	–	–	–
Director	–	3,000	2,000	4,000
Committee meeting	–	–	–	–
Chairs	–	8,000	2,000	4,000
Members	–	4,000	2,000	4,000

Application

Compensation and benefits of the Board members

The amount of annual compensation due and paid and benefits granted in 2016 and 2017 to members of the Board of Directors who are not corporate officers (Table 3 of the French financial markets authority's recommendation on the compensation of corporate officers)

Year ended December 31

	2016			2017		
(in €)	**Directors' fees [a]**	**Benefits in kind**	**Total of annual compensation**	**Directors' fees [a]**	**Benefits in kind**	**Total of annual compensation**
Name	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**
Bruno BONNELL	55,000	–	55,000	60,000	–	60,000
Gregg ENGLES [b]	–	–	–	5,000	–	5,000
Clara GAYMARD	11,000	–	11,000	58,000	–	58,000
Jacques-Antoine GRANJON	25,000	–	25,000	25,000	–	25,000
Jean LAURENT	121,000	–	121,000	126,000	–	126,000
Gaëlle OLIVIER	64,000	–	64,000	46,000	–	46,000
Benoît POTIER	68,000	–	68,000	59,000	–	59,000
Isabelle SEILLIER	67,000	–	67,000	50,000	–	50,000
Mouna SEPEHRI	41,000	–	41,000	37,000	–	37,000
Jean-Michel SEVERINO	91,000	–	91,000	78,000	–	78,000
Virginia A. STALLINGS	60,000	–	60,000	70,000	–	70,000
Serpil TIMURAY	60,000	–	60,000	51,000	–	51,000
Lionel ZINSOU-DERLIN	24,000	–	24,000	55,000	–	55,000
Total	**687,000**	**–**	**687,000**	**720,000**	**–**	**720,000**

(a) Gross amount paid in the fiscal year before the withholding tax.
(b) Mr. Gregg ENGLES was appointed as Director by the Shareholders' Meeting of April 27, 2017.

The two Directors who represent employees have an employment contract with Danone and therefore receive compensation in that capacity that is unrelated to their duties on the Board. This compensation is therefore not disclosed.

The amounts paid for each fiscal year consist of the amounts due for the second half of the previous fiscal year (paid in January/February) and for the first half of the fiscal year in question (paid in July/August).

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6.4 DETAILED INFORMATION ON LONG-TERM AND MULTI-ANNUAL COMPENSATION PLANS

Contents

GROUP PERFORMANCE SHARES

Principal rules

General principles

Authorization by the Shareholders' Meeting
Group Performance Shares were introduced in 2010. The grant of GPS must be authorized by the Shareholders' Meeting. Since 2013, this authorization has been granted until the end of each fiscal year and is therefore subject to shareholders approval the following year.

Cap on the number of Group Performance Shares granted
Danone's Group Performance Shares have always had limited impact on capital dilution and share ownership.

GPS grants are subject to a double cap approved by the Shareholders' Meeting that limits both (i) the total number of GPS that may be granted and (ii) the total number of GPS that may be granted to corporate officers.

Limitations for GPS not yet delivered

Shareholders' Meeting that approved the GPS	4/29/2014	4/29/2015	4/28/2016	4/27/2017
Maximum number of GPS that may be granted [a]	0.2%	0.2%	0.2%	0.2%
Of which the maximum number of GPS that may be granted to all corporate officers [a]	*0.05%*	*0.03%*	*0.03%*	*0.03%*

(a) Expressed as a percentage of that year's share capital subsequent to the Shareholders' Meeting that authorized the plans. This number of shares does not reflect any adjustments that may be made pursuant to legal and regulatory requirements or any contractual provisions that may require other adjustments in order to maintain the rights of shareholders and other rights-holders.

A new authorization with the same caps as those approved by the Shareholders' Meeting of April 27, 2017 will be submitted to the Shareholders' Meeting of April 26, 2018 for approval.

Grant by the Board of Directors
Group Performance Shares are granted annually by the Board of Directors on the recommendation of the Nomination and Compensation Committee, at the same times each year. In principle, they are therefore granted at the end of July and, if necessary, are granted to certain new employees in October. It should be noted that, in accordance with the compensation policy, the number of GPS granted to the corporate officers may not exceed 6% of each corporate officer's overall target compensation in terms of accounting valuation (in accordance with the IFRS standards) estimated at the time of the grant.

Review of the achievement of performance objectives by the Board of Directors
The Board of Directors determines whether or not performance objectives have been achieved, after an initial review by the Nomination and Compensation Committee.

Valuation and accounting in the consolidated financial statements
Long-term compensation in the form of GPS is valued and accounted for in Danone's consolidated financial statements pursuant to IFRS 2, *Share-based payments* (see Note 7.4 of the Notes to the consolidated financial statements).

Performance conditions

The performance conditions for GPS are determined in advance at the beginning of the year and are indicated in the comments on the resolutions submitted to the Shareholders' Meeting describing the resolution related to GPS.

Performance conditions are determined by the Board of Directors at the recommendation of the Nomination and Compensation Committee. They are the same for all GPS beneficiaries and apply to all the GPS granted.

Performance conditions are stringent and consistent with Danone's current environment. They include complementary criteria that are representative of Danone's performance and adapted to the specific nature of its business.

These criteria reflect the key indicators monitored by investors and analysts to measure the performance of companies in the food and beverage sector.

Some of these criteria are internal and some are external.

Regarding the external financial performance criterion, the composition of the panel that has been used to determine the GPS, severance pay of corporate officers and the annual review of the Chief Executive Officer's retirement rights, is essentially the same since 2007. However, the following adjustments were required:

- the first time in 2013, when Kraft Foods Group, Inc. was spun off in 2012 and replaced by the two resulting companies: Kraft Foods Group Inc. and Mondelez International Inc.; and
- the second time in 2015, subsequent to the merger of Kraft Foods Group Inc. with Heinz, which resulted in the replacement of Kraft Foods Group Inc. with The Kraft Heinz Company.

All the criteria related to GPS are subject to a three-year reference period.

On the recommendation of the Nomination and Compensation Committee, the Board of Directors determines whether the continuous employment conditions were met.

Continuous employment condition

The definitive grant of GPS is subject to a four-year continuous employment condition that applies to all beneficiaries. Therefore, a beneficiary of a share grant who leaves Danone before the end of the conservation period may not retain his or her shares except in the cases allowed by law (including death and disability), and barring exceptions decided by the Board of Directors based on a reasoned opinion.

However, in the specific case where an employee retires at the legal age (or prior to this as allowed by law), the GPS granted in the 12 months preceding the retirement date are cancelled without any possible exception.

Regarding the executive corporate officers, the Board of Directors may, where applicable, decide an exception to the continuous employment condition, solely partially and on a prorata basis.

Finally, as a reminder, the GPS plans enable beneficiaries to be exempted from the continuous employment and performance conditions in the event of a change of control of the Company.

Definitive grant

The grants of Group performance shares become final and DANONE shares are delivered to their beneficiaries at the end of the vesting period set by the Board of Directors.

In 2010, 2011 and 2012, the Board set up "3+2" plans (three-year vesting period and two-year holding period) and "4+0" plans (four-year vesting period and no holding period) depending on the social security contributions regime of beneficiaries (*i.e.* "3+2" for the French regime and "4+0" for those of other countries). Since 2013, the Board of Directors has only set up "4+0" plans.

Notwithstanding the provisions of Act No. 2015-990 of August 6, 2015 known as the "Macron Law", which shortened the minimum vesting period for shares subject to performance conditions, Danone decided to maintain a four-year vesting period with no holding period.

Others applicables rules

The rules that govern GPS plans prohibit beneficiaries from hedging in any manner (i) their position with respect to their right to receive GPS, or (ii) their position with respect to shares which they have already received and are still subject to the holding period. For the corporate officers, the prohibition of hedging extends to all DANONE shares or financial instruments related to these shares which they own or may be in a position to own. In addition, each beneficiary of GPS has personally agreed not to use hedging instruments. To Danone's knowledge, no hedging instruments have been used. In addition, an obligation to hold DANONE shares resulting from GPS applies to corporate officers and other Executive Committee members. They must hold (in registered form) a number of shares resulting from GPS (and until termination of their duties) that is equivalent to 35% of the gain at exercise, net of tax and social security contributions, that they would be able to realize if they sold all the shares obtained from each GPS plan.

Given the significant level of the holding obligation applicable to corporate officers and other Executive Committee members, on the recommendation of the Nomination and Compensation Committee, the Board of Directors decided that it was not necessary to require them to purchase a certain number of DANONE shares at the end of the holding period for their shares subject to performance conditions.

In addition, at the proposal of the Nomination and Compensation Committee, the Board of Directors, at its meeting on February 14, 2012, decided to add to the current scheme an overall holding ceiling for the requirement to hold shares resulting from the grant of performance shares or from exercises of stock options representing the equivalent in shares of four years of fixed compensation for corporate officers and two years of fixed compensation for the other Executive Committee members.

The Board of Directors confirmed this holding obligation when it renewed Mr. Emmanuel FABER's term of office as Director on February 22, 2016 and when it approved the grant of GPS at its meeting on July 26, 2017.

Summary of GPS delivered in 2017 and not yet delivered

Summary of GPS plans at December 31, 2017

Characteristics of outstanding Group Performance Share plans as of December 31, 2017, grants made under these plans and changes in these plans during 2017 (information required pursuant to the French Financial Markets Authority's recommendation related to disclosures in registration documents about the compensation of corporate officers)

Outstanding Group Performance Share plans		
Shareholders' Meeting authorizing the GPS		4/25/2013
Number of GPS authorized by the Shareholders' Meeting		1,268,724
Of which number of GPS not granted		*447,081*
Date of the Board of Directors' meeting authorizing the GPS	7/26/2013	10/23/2013
Plans	"4+0"	"4+0"
Number of GPS granted	**817,993**	**3,650**
GPS characteristics		
Share delivery date	7/27/2017	10/24/2017
End date of holding period	–	–
Performance conditions	• weighted two-thirds, average growth in sales greater than or equal to the Panel median sales in 2013, 2014 and 2015; • weighted one-third, achievement of the trading operating margin growth targets on a like-for-like basis for 2013 and 2014.	
Assessment of achievement of performance conditions	• Sales growth target from 2013 to 2015: achieved; • Non-achievement of the operating margin target: zero value for one-third of the GPS granted.	
Changes in 2017 and situation as of December 31, 2017		
Group Performance Shares at December 31, 2016	**407,146**	**1,269**
GPS granted in 2017	–	–
Of which GPS granted to the corporate officers	–	–
GPS void or cancelled in 2017	(24,628)	–
Of which GPS cancelled in 2017 due to non-fulfillment of some performance conditions	–	–
Transfer of GPS "3+2" Plan to "4+0" Plan	–	–
Shares delivered in 2017	(382,518)	(1,269)
Of which shares delivered to corporate officers	*(27,500)*	–
Of which GPS granted to the 10 employees (excluding corporate officers) who received the largest number of shares in 2017	*(36,334)*	–
Group Performance Shares at December 31, 2017		
Of which GPS granted to the corporate officers	*137,000*	–
Of which GPS granted to Executive Committee members	*239,500*	–
Of which number of Executive Committee members beneficiaries	*10*	–
Of which GPS granted to the 10 Danone employees (excluding corporate officers) who received the largest number of shares in 2017 [a]	–	–
Number of beneficiaries [a]	1,578	9
Void or cancelled Group Performance Shares at December 31, 2017	**(434,241)**	**(2,381)**

(a) Total number of beneficiaries for the "3+2" and "4+0" plans granted by the Board.

(b) Up to 676,741 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.

(c) Up to 3,546,955 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.

						Total
		4/29/2014	4/29/2015	4/28/2016	4/27/2017	
		1,262,056	1,287,584	1,309,902	1,311,784	
		483,685	*642,212*	*685,074*	*667,364*	
	7/24/2014	10/17/2014	7/23/2015	7/27/2016	7/26/2017	
	"4+0"	"4+0"	"4+0"	"4+0"	"4+0"	
	776,521	**1,850**	**645,372**	**624,828**	**644,420 [b]**	**3,514,634 [c]**
	7/25/2018	10/18/2018	7/24/2019	7/28/2020	7/27/2021	
	–	–	–	–	–	
	• weighted two-thirds, average growth in sales greater than or equal to the Panel median sales in 2014, 2015 and 2016; • weighted one-third, average growth in the operating margin in 2014, 2015 and 2016 on a like-for-like basis.		• weighted two-thirds, average growth in sales greater than or equal to the Panel median sales in 2015, 2016 and 2017; • weighted one-third, improvement over three years (2015, 2016 and 2017) in growth in the operating margin on a like-for-like basis.	• weighted by 50%, average growth in sales greater than or equal to the Panel median sales in 2016, 2017 and 2018; • weighted by 50%, improvement over three years (2016, 2017 and 2018) in growth in the operating mar-gin on a like-for-like basis.	• weighted by 50%, average growth in sales greater than or equal to the Panel median sales in 2017, 2018 and 2019; • weighted by 50%, achievement of a free cash flow level of more than €6 billion in 2017, 2018 and 2019.	
	• Sales growth target from 2014 to 2016: achieved; • Margin-related criterion: achieved.		• Sales growth target from 2015 to 2018: the Board of Directors will determine achievement in April 2018. • Margin-related criterion: achieved.	A review will be conducted in 2019 by the Board of Directors to determine whether these criteria were achieved.	A review will be conducted in 2020 by the Board of Directors to determine whether these criteria were achieved.	
	647,603	**1,850**	**619,436**	**622,263**		**2,299,567**
	–	–	–	–	644,420	644,420 [b]
	–	–	–	–	*35,021*	*35,021 [d]*
	(83,885)	–	(81,400)	(52,809)	(1,162)	(243,884)
	–	–	–	–	–	–
	–	–	–	–	–	–
	(450)	–	(405)	(471)	–	(385,113)
	–	–	–	–	–	*(27,500)*
	–	–	–	–	–	*(36,334)*
	563,268	**1,850**	**537,631**	**568,983**	**643,258**	**2,314 990**
	122,000	–	*36,000*	*34,200*	*35,021 [d]*	*364,221 [e]*
	217,500	–	*109,710*	*104,268*	*89,158 [f]*	*760,136*
	10	–	*12*	*12*	*8*	–
	–	–	–	–	*102,256 [g]*	–
	1,327	4	1,332	1,394	1,499	–
	(211,453)	**–**	**(106,616)**	**(55,374)**	**(1,162)**	**(811,227)**

(d) Up to 36,772 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.
(e) Up to 365,972 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.
(f) Up to 93,615 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.
(g) Up to 107,368 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.

Impact on share capital dilution and share ownership

Year ended December 31

	2016		2017	
	Number of shares	Percentage of share capital [a]	Number of shares	Percentage of share capital [a]
Grants during the year				
Group Performance Shares granted	624,828	0.10%	644,420 [c]	0.10%
Of which GPS granted to the Chief Executive Officer	*34,200*	*0.01%*	*35,021 [d]*	*0.01%*
Balance as of December 31 [b]				
GPS not yet vested	2,299,567	0.35%	2,314,990 [e]	0.35%
Of which GPS granted to corporate officers	*329,200*	*0.05%*	*364,221 [f]*	*0.06%*

(a) Percentage of share capital at December 31.
(b) Balance of GPS not yet vested at December 31.
(c) Up to 676,741 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.
(d) Up to 36,772 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.
(e) Up to 2,347,311 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.
(f) Up to 365,972 GPS in case of fulfillment of the continuous employment condition, maximum achievement of the free cash flow condition and overperformance of the sales condition.

Presentation of 2018 GPS submitted to the Shareholders' Meeting for approval on April 26, 2018

General rules

A proposal is made to the Shareholders' Meeting to set up a new GPS plan for 2018. All beneficiaries would receive GPS from a single plan, the 4+0 plan, *i.e.* with a four-year vesting period and no holding period.

Performance conditions

The 2018 GPS would be subject to performance conditions based on three complementary criteria that are representative of Danone's performance and adapted to the specific nature of its business.

- weighted by 50%, an external performance condition related to sales growth;
- weighted by 30%, an internal performance condition related to the achievement of a free cash flow level; and
- weighted by 20%, an external environmental performance condition;

under the conditions described hereinafter.

Sales growth performance condition, weighted by 50%

PRINCIPLE

The average growth in Danone's consolidated net sales ("CA") is compared, on a like-for-like basis, with that of a benchmark panel over a three-year period, *i.e.* 2018, 2019 and 2020.

- if Danone's CA is less than the Median Panel CA, the definitive grant will be 0% of the shares subject to the sales-related performance condition, pursuant to the "no payment under the median" principle;
- if Danone's CA is equal to the Median Panel CA, the definitive grant will be 90% of the shares subject to the sales-related performance condition;
- if Danone's CA is between the Median Panel CA and 120% of the Median Panel CA, the definitive grant will be between 90% and 110% of the shares subject to the sales-related performance condition based on a linear graduate scale between 100% and 120% of the Median Panel CA;
- if Danone's CA is greater than or equal to 120% of the Median Panel CA, the definitive grant will be 110% of the shares subject to the sales-related performance condition.

DEFINITIONS	
Danone's CA	Average internal ("organic") growth in Danone's net sales (on a consolidated and like-for-like basis) in 2018, 2019 and 2020, it being specified that "net sales" and changes "on a like-for-like basis" correspond to financial indicators used by Danone and not defined by IFRS, the calculation of which is indicated in the financial press releases published by the Company (see also section 3.6 *Financial indicators not defined by IFRS*).
Each Panel member's CA	Average internal ("organic") growth in sales generated (on a consolidated and like-for-like basis) by a given Panel member in 2018, 2019 and 2020.
Panel CA	Median Panel CA
Median Panel CA	Value of the Panel member CA that half of the Panel members exceed (*i.e.* there are as many Panel members with CA exceeding or equal to the Median as there are with CA less than or equal to the Median). If there is an even number of Panel members, the Median Panel CA will be the arithmetic average of the two central Panel CA.
Panel	Eight leading international groups in the food and beverage sector: Unilever N.V., Nestlé S.A., PepsiCo Inc., The Coca-Cola Company, The Kraft Heinz Company, Mondelez International Inc., General Mills Inc. and Kellogg Company.
OTHERS APPLICABLES RULES	
Ensure the consistency of the calculation method for the CA of all Panel members and Danone's CA over the entire period under review	Restatements (mainly adjustments for changes in scope and/or exchange rates) may be made only to the extent strictly necessary to ensure that the method of calculating the CA of all Panel members and Danone's CA is consistent over the entire period under review.
No publication or late publication of audited accounting or financial data	By one Panel member: the Board of Directors may, exceptionally and by a duly justified decision indicated in the Board's report to the Shareholders' Meeting, exclude this member from the Panel. By two or more Panel members: the Board of Directors will make a duly justified decision, on the basis of the most recent audited financial statements published by these Panel members and by Danone over the last three fiscal years for which financial statements are available for all Panel members and for Danone.
The acquisition, absorption, dissolution, spin-off, merger or change in the business activity of one or more Panel members	The Board of Directors may, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, change the composition of the Panel, provided that it maintains the overall consistency of the panel.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this performance condition has been achieved	The Board of Directors must state whether this performance condition was achieved, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation, and based on a financial advisor's report.
Date of assessment of achievement of the performance condition	In 2021, after the companies in the Panel have published their sales figures.

Performance condition related to the attainment of a free cash flow level, weighted by 30%

PRINCIPLE	
Attainment of a free cash flow ("FCF") level of more than €6 billion over a three-year period, *i.e.* for 2018, 2019 and 2020	If the sum of the FCF is: • less than or equal to €6 billion, the definitive grant will be 0% of the shares subject to the FCF performance condition; • between €6 billion and €6.5 billion, the definitive grant will be between 0% and 100%, based on a linear graduate scale between €6 billion and €6.5 billion; • greater than or equal to €6.5 billion, the definitive grant will be 100%.
DEFINITION	
Sum of the "FCF"	Sum of the amounts of "Free Cash Flow" for 2018, 2019 and 2020, it being specified that "Free Cash Flow" is a financial indicator not defined by IFRS, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined by IFRS*), excluding changes in scope and exchange rates.
OTHESR APPLICABLES RULES	
Percentage of shares subject to this performance condition	30% of the shares granted subject to performance conditions will be subject to this performance condition related to the attainment of a free cash flow level over three years. However, this percentage may be increased to 40% or 50% in case of no publication or late publication of the Level related to the environmental performance condition defined hereinafter.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this performance condition has been achieved	The Board of Directors must determine the level of achievement of this second performance condition, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation.
Date of assessment of achievement of the performance condition	In early 2021, after the approval of the 2020 financial statements.

Environmental performance condition, weighted by 20%

PRINCIPLE	
Levels assigned to Danone by CDP under its Climate Change pro-gram in 2019, 2020 and 2021 (taking into account, in particular, Danone's environmental performance in 2018, 2019 and 2020 fiscal year)	If the «Leadership» Level: • is not assigned to Danone or is assigned only one year between 2019 and 2021, the definitive grant will be 0% of the shares subject to the environmental performance condition; • is assigned to Danone two years between 2019 and 2021, the definitive grant will be 50% of the shares subject to the environmental performance condition; • is assigned to Danone in 2019, 2020 and 2021, the definitive grant will be 100% of the shares subject to the environmental performance condition.
DEFINITIONS	
CDP	CDP, a not-for-profit organization that runs a global disclosure system for investors, companies, cities, states and regions to help them as-sess and manage their environmental impacts.
Level	Level assigned by CDP each year to Danone under its Climate Change program in its 2019, 2020 and 2021 publications, based on Danone's environmental performance in 2018, 2019 and 2020.
"Leadership" Level	A score of "A" or "A-" assigned by CDP under its Climate Change program or, in case of a change in the range of scores used by CDP for this program, any other score representing the upper fourth of the range of scores assigned by CDP, or the highest score if this new range of scores assigned by CDP includes fewer than four scores.

OTHERS APPLICABLES RULES	
Many Levels during the same year	If, in a single year, CDP publishes two different Levels, the lower Level will be taken into account.
Change in the name of CDP or the Climate Change program	If the name of CDP or the Climate Change program changes without a change in their scoring methods, the publications of the entity or program whose name was changed will, for the purposes of this grant of shares, be considered the publications produced by CDP or the Climate Change program.
No publication or late publication of the Level	If, by December 31 of 2019 and/or 2020 and/or 2021, CDP has not assigned a Level to Danone under the Climate Change program during the year in question, the following rules will apply, as an exception to the above: • if no Level was published in 2021 and the "Leadership" Level was assigned to Danone in 2019 and in 2020, the definitive grant will be 100% for one-half of the shares subject to the environmental performance condition and the other half will increase the basis of the shares subject to the FCF condition (in this case, the FCF condition will affect 40% of the shares granted); • if no Level was published in 2021 and the "Leadership" Level was assigned to Danone neither in 2019 nor in 2020, the definitive grant will be 0% of the shares subject to the environmental performance condition; • if no Level was published in 2021 and the "Leadership" Level was achieved by Danone in one year (2020 or 2019), the definitive grant will be 0% for one-half of the shares subject to this environmental performance condition and the other half will increase the basis of the shares subject to the FCF condition (in this case, the FCF condition will affect 40% of the shares granted); • if no Level was published in 2020 and the "Leadership" Level was not achieved by Danone in 2019, the definitive grant will be 0% for one-half of the shares subject to this environmental performance condition and the other half will increase the basis of the shares subject to the FCF condition (in this case, the FCF condition will affect 40% of the shares granted); • if no Level was published in 2020 and the "Leadership" Level was assigned to Danone in 2019, all the shares subject to the environmental performance condition will increase the basis of the shares subject to the FCF condition (in this case, the FCF condition will affect 50% of the shares granted); and • if no Level was published in 2019, all the shares subject to the environmental performance condition will increase the basis of the shares subject to the FCF condition (in this case, the FCF condition will affect 50% of the shares granted).
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this performance condition has been achieved	The Board of Directors must determine the level of achievement of this third performance condition, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, after the Nomination and Compensation Committee's recommendation.
Date of assessment of achievement of the performance condition	Early 2022.

Review of the conditions related to GPS not yet delivered

GPS granted in 2017

The 2017 GPS are subject to the two performance conditions described hereinafter.

Sales growth performance condition, weighted by 50%

PRINCIPLE

The average growth in Danone's consolidated net sales ("CA") is compared, on a like-for-like basis, with that of a benchmark panel over a three-year period, *i.e.* 2017, 2018 and 2019.

- if Danone's CA is less than the Median Panel CA, the definitive grant will be 0%, pursuant to the "no payment under the median" principle;
- if Danone's CA is equal to the Median Panel CA, the definitive grant will be 90% of the shares subject to the sales-related performance condition;
- if Danone's CA is between the Median Panel CA and 120% of the Median Panel CA, the definitive grant will be between 90% and 110% of the shares subject to the sales-related performance condition based on a linear graduate scale between 100% and 120% of the Median Panel CA;
- if Danone's CA is greater than or equal to 120% of the Median Panel CA, the definitive grant will be 110% of the shares subject to the sales-related performance condition.

DEFINITIONS

Danone's CA	Average internal ("organic") growth in sales (on a consolidated and like-for-like basis) in 2017, 2018 and 2019.
Each Panel member's CA	Average internal ("organic") growth in sales generated (on a consolidated and like-for-like basis) by a given Panel member in 2017, 2018 and 2019.
Net sales and change on a like-for-like basis	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined in IFRS* of the 2017 Registration Document).
Panel CA	The CA of all Panel members
Median Panel CA	Value of the Panel member CA that half of the Panel members exceed (*i.e.* there are as many Panel members with CA exceeding or equal to the Median as there are with CA less than or equal to the Median). If there is an even number of Panel members, the Median Panel CA will be the arithmetic average of the two central Panel CA.
Panel	Eight leading international groups in the food and beverage sector: Unilever N.V., Nestlé S.A., PepsiCo Inc., The Coca-Cola Company, The Kraft Heinz Company, Mondelez International Inc., General Mills Inc. and Kellogg Company.
Change on a like-for-like basis	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined in IFRS*).

AUTRES RÈGLES APPLICABLES	
Ensure the consistency of the calculation method for the CA of all Panel members and Danone's CA over the entire period under review	Restatements (mainly adjustments for changes in scope and/or ex-change rates) may be made only to the extent strictly necessary to ensure that the method of calculating the CA of all Panel members and Danone's CA is consistent over the entire period under review.
No publication or late publication of audited accounting or financial data	**By one Panel member**: the Board of Directors may, exceptionally and by a duly justified decision indicated in the Board's report to the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members**: the Board of Directors will make a duly justified decision indicated in the Board's report to the Shareholders' Meeting, on the basis of the most recent audited financial statements published by the Panel members and by Danone over the last three years for which financial statements were published by all Panel members and by Danone.
The acquisition, absorption, dissolution, spin-off, merger or change in the business activity of one or more Panel members	The Board of Directors may, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, change the composition of the Panel, provided that it maintains the overall consistency of the panel.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this perfor-mance condition has been achieved	The Board of Directors must state whether this performance condition was achieved, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation, and based on a financial advisor's report.
Date of assessment of achievement of the performance condition	In 2020, after the companies in the Panel have published their sales figures.

Performance condition related to the attainment of a free cash flow level, weighted by 50%

PRINCIPLE	
Attainment of a free cash flow ("FCF") level of more than €6 billion over a three-year period, *i.e.* for 2017, 2018 and 2019	If the sum of the FCF over three years (2017, 2018 and 2019) is: • less than or equal to €6 billion, the definitive grant will be 0% of the shares subject to the FCF performance condition; • between €6 billion and €6.5 billion, the definitive grant will be between 0% and 100%, based on a linear graduate scale between €6 billion and €6.5 billion; • greater than or equal to €6.5 billion, the definitive grant will be 100%.
DEFINITIONS	
Sum of the "FCF"	Sum of the amounts of "Free Cash Flow" for 2017, 2018 and 2019 ("Free Cash Flow" is a financial indicator not defined by IFRS, the calculation of which is indicated in Danone's financial press releases) (see also section 3.6 Financial indicators not defined by IFRS of the 2017 Registration Document), excluding changes in scope (but including the WhiteWave entities for all of 2017) and exchange rates.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this performance condition has been met	The Board of Directors must determine the level of achievement of this second performance condition, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation.
Date of assessment of achievement of the performance condition	Early 2020, after the approval of the 2019 financial statements.

GPS granted in 2016

The 2016 GPS are subject to the two performance conditions described hereinafter.

Sales growth performance condition, weighted by 50%

PRINCIPLE	
The average growth in Danone's consolidated net sales ("CA") is compared, on a like-for-like basis, with that of a benchmark panel over a three-year period, *i.e.* 2016, 2017 and 2018	• if Danone's CA is greater than or equal to the Median Panel CA, the definitive grant will be 100%; and • if Danone's CA is less than the Median Panel CA, the definitive grant will be 0%, pursuant to the "no payment under the median" principle.
DEFINITIONS	
Danone's CA	Average internal ("organic") growth in sales (on a consolidated and like-for-like basis) in 2016, 2017 and 2018.
Each Panel member's CA	Average internal ("organic") growth in sales generated (on a consolidated and like-for-like basis) by a given Panel member in 2016, 2017 and 2018.
Panel CA	The CA of all Panel members
Median Panel CA	Value of the Panel member CA that half of the Panel members exceed (*i.e.* there are as many Panel members with CA exceeding or equal to the Median as there are with CA less than or equal to the Median). If there is an even number of Panel members, the Median Panel CA will be the arithmetic average of the two central Panel CA.
Panel	Eight leading international groups in the food and beverage sector: Unilever N.V., Nestlé S.A., PepsiCo Inc., The Coca-Cola Company, The Kraft Heinz Company, Mondelez International Inc., General Mills Inc. and Kellogg Company.
Change on a like-for-like basis	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined by IFRS*).
OTHER APPLICABLE RULES	
Ensure the consistency of the calculation method for the CA of all Panel members and Danone's CA over the entire period under review	Restatements (mainly adjustments for changes in scope and/or exchange rates) may be made only to the extent strictly necessary to ensure this consistency.
No publication or late publication of audited accounting or financial data	**By one Panel member**: the Board of Directors may, exceptionally and by a duly justified decision indicated in the Board's report to the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members**: the Board of Directors will make a duly justified decision indicated in the Board's report to the Shareholders' Meeting, on the basis of the most recent audited financial statements published by the Panel members and by Danone over the last three years for which financial statements were published by all Panel members and by Danone.
The acquisition, absorption, dissolution, spin-off, merger or change in the business activity of a Panel member	The Board of Directors may, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, exclude this Panel member, provided that it maintains the overall consistency of the panel.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this performance condition has been met	The Board of Directors must state whether this performance condition was met, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation, and based on a financial advisor's report.
Date of assessment of achievement of the performance condition	In early 2019, after the companies in the Panel have published their sales figures.

Trading operating margin performance condition, weighted by 50%

PRINCIPLE	
Improvement in growth in the trading operating margin on a like-for-like basis over a three-year period, *i.e.* for 2016, 2017 and 2018	If growth in the trading operating margin on a like-for-like basis over three years (2016, 2017 and 2018) is: • greater than or equal to +35 basis points, the definitive grant will be 100%; • less than +35 basis points, the definitive grant will be 0%.
DÉFINITIONS	
Trading operating margin Trading operating income Change on a like-for-like basis	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined inIFRS*).
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this performance condition has been achieved	The Board of Directors must state whether this performance condition was achieved, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation.
Date of assessment of achievement of the performance condition	Early 2019, after the approval of the 2018 financial statements.

GPS granted in 2015

The 2015 GPS are subject to the two performance conditions described hereinafter.

Sales growth performance condition, weighted by two-thirds

PRINCIPLE	
The average growth in Danone's net sales ("CA") is compared, on a like-for-like basis, with that of a benchmark panel over a three-year period, *i.e.* 2015, 2016 and 2017	• if Danone's CA is greater than or equal to the Median Panel CA, the definitive grant will be 100%; and • if Danone's CA is less than the Median Panel CA, the definitive grant will be 0%, pursuant to the "no payment under the median" principle.
DEFINITIONS	
Danone's CA	Average internal ("organic") growth in Danone's sales in 2015, 2016 and 2017 (on a consolidated and like-for-like basis).
Each Panel member's CA	Average internal ("organic") growth in the sales generated by a given Panel member in 2015, 2016 and 2017 (on a consolidated and like-for-like basis).
Panel CA	The CA of all Panel members
Median Panel CA	Value of the Panel member CA that half of the Panel members exceed (*i.e.* there are as many Panel members with CA exceeding or equal to the Median as there are with CA less than or equal to the Median). If there is an even number of Panel members, the Median Panel CA will be the arithmetic average of the two central Panel CA.
Panel	Eight leading international groups in the food and beverage sector: Unilever N.V., Nestlé S.A., PepsiCo Inc., The Coca-Cola Company, Kraft Foods Group Inc. (which became The Kraft Heinz Company in 2015), Mondelez International Inc., General Mills Inc. and Kellogg Company.
Change on a like-for-like basis	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined in IFRS*).

OTHERS APPLICABLES RULES	
Ensure the consistency of the calculation method for the CA of all Panel members and Danone's CA over the entire period under review	Restatements (mainly adjustments for changes in scope and/or exchange rates) may be made only to the extent strictly necessary to ensure this consistency.
No publication or late publication of audited accounting or financial data	**By one Panel member**: the Board of Directors may, exceptionally and by a duly justified decision indicated in the Board's report to the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members**: the Board of Directors will make a duly justified decision indicated in the Board's report to the Shareholders' Meeting, on the basis of the most recent audited financial statements published by the Panel members and by Danone over the last three years for which financial statements were published by all Panel members and by Danone.
Exclusion of a Panel member in case of acquisition, absorption, dissolution, spin-off, merger or change in its business	The Board of Directors may, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, exclude this Panel member, provided that it maintains the overall consistency of the panel.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
The Board of Directors' procedure for determining that this perfor-mance condition has been met	The Board of Directors must state whether this performance condition was met, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation, and based on a financial advisor's report.
Date of assessment of achievement of the performance condition	In the first half of 2018, after the companies in the Panel have published their sales figures.

Trading operating margin performance condition, weighted by one-third

PRINCIPLE	
Improvement in growth in the trading operating margin on a like-for-like basis over three years, *i.e.* for 2015, 2016 and 2017	If the average growth in the trading operating margin calculated over three years (2015, 2016 and 2017) is: • positive (*i.e.* greater than or equal to +1 basis point), the definitive grant will be 100%; • equal to zero or negative, the definitive grant will be 0%.
DEFINITIONS	
Average growth in the trading operating margin	Average growth in the trading operating margin on a like-for-like basis: • in 2015 compared to 2014; • in 2016 compared to 2015; and • in 2017 compared to 2016.
Sales	Danone's consolidated sales, as defined under IFRS.
Trading operating margin Trading operating income Change on a like-for-like basis	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined by IFRS*).
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
Assessment of achievement of the performance condition	**Upon recommendation of the Nomination and Compensation Committee, on February 15, 2018 the Board of Directors noted the achievement of the operating margin condition, with growth of +65 basis points.**

Review of the rules related to the GPS granted in 2014 and to be delivered in 2018

The 2014 GPS are subject to the two performance conditions described hereinafter.

Sales growth performance condition, weighted by two-thirds

The average growth in Danone's net sales ("CA") is compared, on a like-for-like basis, with that of a benchmark panel over three years (*i.e.* 2014, 2015 and 2016)	• if Danone's CA is greater than or equal to the Median Panel CA, the definitive grant will be 100%; and • if Danone's CA is less than the Median Panel CA, the definitive grant will be 0%, pursuant to the "no payment under the median" principle.
DEFINITIONS	
Danone's CA	Average internal ("organic") growth in Danone's sales in 2014, 2015 and 2016 (on a consolidated and like-for-like basis, *i.e.* excluding changes in scope, in exchange rates and in the applicable accounting principles).
Each Panel member's CA	Average internal ("organic") growth in the sales generated by a given Panel member in 2014, 2015 and 2016 (on a consolidated and like-for-like basis, *i.e.* excluding changes in scope, in exchange rates and in the applicable accounting principles).
Panel CA	The CA of all Panel members
Median Panel CA	Value of the Panel member CA that half of the Panel members exceed (*i.e.* there are as many Panel members with CA exceeding or equal to the Median as there are with CA less than or equal to the Median). If there is an even number of Panel members, the Median Panel CA will be the arithmetic average of the two central Panel CA.
Panel	Eight leading international groups in the food and beverage sector: Unilever N.V., Nestlé S.A., PepsiCo Inc., The Coca-Cola Company, Kraft Foods Group Inc. (which became The Kraft Heinz Company in 2015), Mondelez International Inc., General Mills Inc. and Kellogg Company.
OTHERS APPLICABLES RULES	
Ensure the consistency of the calculation method for the CA of all Panel members and Danone's CA over the entire period under review	Restatements (mainly adjustments for changes in scope and/or exchange rates) may be made only to the extent strictly necessary to ensure that the method of calculating the CA of all Panel members and Danone's CA is consistent over the entire period under review.
No publication or late publication of audited accounting or financial data	**By one Panel member**: the Board of Directors may, exceptionally and by a duly justified decision indicated in the Board's report to the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members**: the Board of Directors will make a duly justified decision indicated in the Board's report to the Shareholders' Meeting, on the basis of the most recent audited financial statements published by the Panel members and by Danone over the last three years for which financial statements were published by all Panel members and by Danone.
Exclusion of a Panel member in case of acquisition, absorption, dissolution, spin-off, merger or change in its business	The Board of Directors may, by a duly justified decision indicated in the Board of Directors' report to the Shareholders' Meeting, exclude this Panel member, provided that it maintains the overall consistency of the panel.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
Assessment of achievement of the performance condition	**Upon recommendation of the Nomination and Compensation Committee, on April 27, 2017 the Board of Directors noted that this criterion had been achieved.**

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Trading operating margin performance condition, weighted by one-third

Growth in the trading operating margin over three years (*i.e.* 2014, 2015 and 2016)	If the average growth in the trading operating margin calculated over three years (2014, 2015 and 2016) is: • positive (*i.e.* greater than or equal to +1 basis point), the definitive grant will be 100%; • equal to zero or negative, the definitive grant will be 0%.
DEFINITIONS	
Average growth in the trading operating margin	Average growth in the trading operating margin on a like-for-like basis: • in 2014 compared to 2013; • in 2015 compared to 2014; and • in 2016 compared to 2015.
Trading operating margin	Ratio of trading operating income to sales.
Sales	Danone's consolidated sales, as defined under IFRS.
Trading operating income	Danone's operating income excluding Other operating income (expense). In accordance with CNC Recommendation 2009-R.03 "on the format of financial statements of entities applying international accounting standards", "Other operating income (expense)" includes significant items which, because of their extraordinary nature, cannot be viewed as inherent to Danone's current activities. This mainly includes capital gains and losses on disposals of consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major external growth transactions, and costs (incurred or estimated) related to major crises and litigation. Under revised IFRS 3, Business Combinations, in the "Other operating income (expense)" item Danone also presents (i) costs to acquire companies in which the Group acquires a controlling interest, (ii) revaluation variances recorded following a loss of control, and (iii) changes in additional purchase prices subsequent to the acquisition of a controlling interest.
Change in the trading operating margin on a like-for-like basis	Increase or decrease, mainly after exclusion of the impact of: (i) changes in exchange rates, with both previous year and current year indicators calculated based on the same exchange rates (the exchange rate used is a projected annual rate determined by Danone for the current year and applied to both years), (ii) changes in consolida-tion scope, with indicators related to the current year calculated on the basis of the scope of consolidation of the previous year, and (iii) changes in applicable accounting principles.
ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
Achievement of the performance condition	**Upon recommendation of the Nomination and Compensation Committee, on February 14, 2017 the Board of Directors noted that the margin condition had been satisfied, since its average growth between 2014 and 2016 was positive.**

FORMER STOCK-OPTION PLANS (SITUATION AT DECEMBER 31, 2017)

Summary of the former stock-option plans

Characteristics of the former plans and changes in these plans in 2017 (information required by Tables 8 and 9 of the French Financial Markets Authority's recommendation about the compensation of corporate officers)

This information includes adjustments made to the number of stock options granted subsequent to the June 25, 2009 share capital increase, and to the exercise prices of the plans in effect on that date. The maximum number of stock options authorized by the various Shareholders' Meetings was not changed.

Stock-option plans in effect			**Total**
Shareholders' Meeting authorizing the options	**4/26/2007**	**4/23/2009**	
Options authorized by the Shareholders' Meeting	6,000,000 [b]	6,000,000	
Of which options not granted	*476,942* [c]	*5,979,600*	
Date of Board of Directors' meeting that authorized the options	4/23/2009 [d]	10/20/2009	
Total number of shares that can be subscribed or purchased			
Of which number that can be subscribed or purchased by:			
Franck RIBOUD	164,300		
Emmanuel FABER	82,150		
Options granted [a]	**2,704,611**	**20,400**	**2,725,011**
Option characteristics			
First exercise date [e]	4/23/2013	10/20/2013	
Expiration date	4/22/2017	10/19/2017	
Exercise price	34.85	40.90	
Changes in 2017 and situation as of December 31, 2017			**Total**
Active options at December 31, 2016	**325,916**	**7,100**	**333,016**
Void or cancelled options in 2017	(39,644)	–	(39,644)
Options exercised in 2017	(286,272)	(7,100)	(293,372)
Of which options exercised by the corporate officers in 2017	*(82,150)*	–	*(82,150)*
Active options at December 31, 2017	–	–	–
Of which options granted to the corporate officers	–	–	–
Of which options granted to Executive Committee members	–	–	–
Of which number of Executive Committee member beneficiaries	–	–	–
Void or cancelled options at December 31, 2017	**(546,429)**	**(4,000)**	**(550,429)**

(a) The number of options granted was adjusted to reflect the June 25, 2009 capital increase.
(b) The number of options authorized was not adjusted to reflect the June 25, 2009 capital increase.
(c) The number of options not granted was not adjusted to reflect the June 25, 2009 capital increase.
(d) Date of last grant of options to the corporate officers.
(e) The first exercise date corresponds to the end of the vesting period.

Obligation to hold Danone shares resulting from the exercise of stock options

An obligation to hold DANONE shares resulting from the exercise of stock options applies to all corporate officers and other Executive Committee members. The Chairman and Chief Executive Officer must hold (in registered form) a certain number of shares resulting from the exercise of options granted under each stock-option plan approved as of January 1, 2007 until his term of office is terminated.

The Board of Directors decided (i) that this obligation to hold a portion of the shares would apply to a number of shares corresponding to 35% of the capital gain upon acquisition, net of tax and social security contributions, realized on all the shares resulting from an exercise of stock options by the officer concerned under this plan; and (ii) to make all other Executive Committee members subject to this obligation to hold shares under the same conditions.

In addition, at the proposal of the Nomination and Compensation Committee, the Board of Directors, at its meeting on February 14, 2012, decided to add to the current scheme an overall holding ceiling for the requirement to hold shares resulting from performance shares or from the exercise of stock options representing the equivalent in shares of four years of fixed compensation for corporate officers and two years of fixed compensation for the other Executive Committee members.

Moreover, in accordance with the AFEP-MEDEF Code and at the recommendation of the Nomination and Compensation Committee, the Board of Directors, at its meeting on February 22, 2016, re-examined and confirmed these obligations to hold shares resulting from the exercise of stock options and performance shares as part of the review of the compensation of the corporate officers and the renewal of their terms of office.

Impact on share capital dilution and share ownership

	Year ended December 31, 2009	
	Number of shares	**Percentage of share capital [a]**
Grants during the year		
Stock options granted	2,725,011	0.4%
Of which stock options granted to all corporate officers	*575,050*	*0.1%*

(a) Percentage of share capital on the grant date (date of the Shareholders' Meeting that authorized the stock-option grants).

	Year ended December 31			
		2016		**2017**
	Number of shares	**Percentage of share capital [a]**	**Number of shares**	**Percentage of share capital [a]**
Balance as of December 31 [b]				
Active stock options	333,016	0.05%	0	0%
Of which stock options granted to all corporate officers	*0*	*0%*	*0*	*0%*

(a) Percentage of share capital at December 31.
(b) Balance of exercisable stock options at December 31.

GROUP PERFORMANCE UNITS

Principles

Danone's multi-annual compensation consists of Group Performance Units (GPUs) that are subject to multi-annual performance conditions over a three-year period.

GPUs were introduced in 2005 to more closely align the compensation of the corporate officers, Executive Committee members and 1,500 senior executives with Danone's overall medium-term operational and economic performance.

Group Performance Units are granted each year by a decision of the Board of Directors and at the recommendation of the Nomination and Compensation Committee for a three-year period.

Value

Each GPU has a maximum value of €30. Information on the valuation of existing GPUs is provided hereinafter in section *Group Performance Units, Annual objectives*.

Performance objectives

The Board of Directors determines the objective(s) for Group Performance Units on the basis of recommendations by the Nomination and Compensation Committee. These objectives are based on one or more key financial indicators and/or one or more societal indicators. The Board of Directors, at the recommendation of the Nomination and Compensation Committee, assesses the achievement of each plan's objectives. These objectives are the same for all beneficiaries of Group Performance Units.

Continuous employment condition

The payment of GPUs is subject to a three-year continuous employment condition that applies to all beneficiaries. However, in case of a change of control, the performance objectives for the valuation period, *i.e.* the three calendar years during which the three-year performance objectives will be assessed, would be:

- valued on the basis of the achievement of the objectives validated by the Board of Directors;
- considered fully achieved if the objectives were not yet validated by the Board of Directors on the date of change of control. A payment would be made for all outstanding Group Performance Unit plans in the month following the change of control.

Moreover, the continuous employment and performance conditions are partially waived in case of a beneficiary's death or voluntary or non-voluntary retirement.

For the corporate officers, in case of departure before the end of the term set for assessing the performance criteria, payment of multi-annual compensation is cancelled, except under exceptional circumstances justified by the Board. Therefore, in case of the voluntary or non-voluntary retirement of a corporate officer:

- he/she loses all rights to the Group Performance Units granted during the 12 months preceding his/her departure;
- the Group Performance Units granted previously (a) are considered vested by said beneficiary and the three-year continuous employment condition does not apply; and (b) are valued as of the date of the event based on the following rules:
  - the calendar year(s) for which the financial statements were approved by the Board of Directors are assessed based on achievement of the objectives;
  - the current or future calendar year(s) is/are deemed to have no value.

Situation as of December 31, 2017

Outstanding Group Performance Unit plans					
Year of grant	**2014**	**2015**	**2016**	**2017**	**Total**
Date of Board meeting that granted the Group Performance Units	7/24/2014	7/23/2015	7/27/2016	7/26/2017	N/A
Number of Group Performance Units granted	967,017	927,439	943,266	952,130	**3,789,852**
Of which number granted to corporate officers	61,000 [a]	20,000 [b]	20,000 [b]	– [c]	**101,000**
Number of beneficiaries	1,330	1,331	1,394	1,498	
Group Performance Unit characteristics					
Year paid	**2017**	**2018**	**2019**	**2020**	
Objectives [d]	Annual objectives for 2014, 2015 and 2016	Annual objectives for 2015, 2016 and 2017	Annual objectives for 2016, 2017 and 2018	Objectives set in 2017 for a three-year period	
Unit value of the Group Performance Units	€26, since the 2014 and 2015 objectives were partially achieved and the 2016 objective was fully achieved	€29, since the 2015 objective was partially achieved and the 2016 and 2017 objectives were fully achieved	Maximum €30, since the 2016 and 2017 objectives were fully achieved	Maximum €30	

(a) Grant to Mr. Emmanuel FABER and Mr. Franck RIBOUD. This was the last grant to Mr. Franck RIBOUD.
(b) Grant to Mr. Emmanuel FABER.
(c) Since 2017, Mr. Emmanuel FABER no longer receives GPUs.
(d) The objectives and information concerning their achievement are presented in detail hereinafter.

Objectives applicable to the GPUs in effect

Objective applicable for 2014

Objective applicable to the first year of the 2014 GPUs

Objective	Objective achievement level in 2015	Value of each GPU for 2015 *(in €)*	Level of achievement	Value
Increase in sales of at least 5% on a like-for-like basis	< 4.5%	0	On February 14, 2015, the Board of Directors noted that this objective had been achieved to a value of €7.	€7
	≥ 4.5%	5		
	≥ 4.6%	6		
	≥ 4.7%	7		
	≥ 4.8%	8		
	≥ 4.9%	9		
	≥ 5%	10		

Objective applicable for 2015

Objective applicable to the second year of the 2014 GPUs and to the first year of the 2015 GPUs

Objective	Objective achievement level in 2015	Value of each GPU for 2015 *(in €)*	Level of achievement	Value
Increase in sales of at least 4.5% on a like-for-like basis	< 4.0%	0	On February 22, 2016, the Board of Directors noted that this objective had been achieved to a value of €9.	€9
	≥ 4.0%	5		
	≥ 4.1%	6		
	≥ 4.2%	7		
	≥ 4.3%	8		
	≥ 4.4%	9		
	≥ 4.5%	10		

Objective applicable for 2016

Objective applicable to the third year of the 2014 GPUs, to the second year of the 2015 GPUs and to the first year of the 2016 GPUs

Objective	Objective achievement level in 2015	Value of each GPU for 2015 *(in €)*	Level of achievement	Value
Growth in the operating margin on a like-for-like basis	< +25 bps	0	The Board noted that 100% of the 2016 objective was achieved and therefore valued the GPUs for 2016 at €10.	€10
	≥ +25 pbs	5		
	≥ +26 pbs	6		
	≥ +27 pbs	7		
	≥ +28 pbs	8		
	≥ +29 pbs	9		
	≥ +30 pbw	10		

Objectives applicable for 2017

Objectives applicable to the third year of the GPU 2015 and the second year of the GPU 2016

Objective	Objective achievement level in 2015	Value of each GPU for 2015 *(in €)*	Level of achievement	Value
Earnings per share	⩾ +10%	10	The Board noted that 100% of the 2017 objective was achieved and therefore valued the GPUs for 2017 at €10.	€10
	< +10 %	0		

Objectives of the GPUs granted in 2017

Objectives	Level of achievement of the objec-tive	Value of the objective *(in €)*	Level of achievement	Value
Growth in the operating margin on a like-for-like basis over a three-year period, *i.e.* for 2017, 2018 and 2019	⩾ +100 bps	24	A review will be conducted in 2020 by the Board of Directors to determine	Max. €30
	= +90 bps	21		
	= +80 bps	18		
	= +70 bps	15		
	= +60 bps	12		
	< +60 bps	0		
Annual reduction of the carbon footprint over a three-year period, *i.e.* for 2017, 2018 and 2019	⩾ +4% < +4%	3 0		
Level of employee commitment based on the Danone People survey compared to that of the FMCG sector over a three-year period, *i.e.* for 2017, 2018 and 2019	> FMCG ⩽ FMCG	3 0		

6.5 DANONE SHARES HELD BY THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE MEMBERS

NUMBER OF DANONE SHARES HELD BY THE BOARD MEMBERS AND THE EXECUTIVE COMMITTEE MEMBERS (WHICH INCLUDES 1 DIRECTOR)

	As of December 31, 2017
Board of Directors	
Franck RIBOUD	234,495
Emmanuel FABER	61,955
Frédéric BOUTEBBA	–
Gregg L. ENGLES	4,000
Clara GAYMARD	4,100
Jacques-Antoine GRANJON	4,235
Jean LAURENT	5,284
Gaëlle OLIVIER	4,242
Benoît POTIER	8,645
Isabelle SEILLIER	4,073
Mouna SEPEHRI	4,234
Jean-Michel SEVERINO	4,361
Virginia A. STALLINGS	4,000
Bettina THEISSIG	–
Serpil TIMURAY	4,418
Lionel ZINSOU-DERLIN	4,104
Executive Committee (excluding Emmanuel FABER)	**36,861**
Total number of shares	**389,007**
Total percentage of the Company's share capital	**0.06%**

TRANSACTIONS ON DANONE SHARES

Transactions on DANONE shares completed in 2017 by individuals with managerial responsibilities

Name	Title	Type of security	Type of transaction	Date of transaction	Gross unit price[a]	Number of shares[a]	Total gross amount
Franck RIBOUD	Chairman	Shares	Disposal	5/2/2017	€63.97	18,580	€1,188.552.46
		Shares	Disposal	5/2/2017	€63.88	4,000	€255,533.60
		Shares	Disposal	5/2/2017	€63.88	17,420	€1,112,879.31
		Shares	Disposal	9/8/2017	€66.63	36,832	€2,454,130.89
		Shares	Disposal	9/8/2017	€66.63	3,168	€211,085.11
		Shares	Disposal	11/2/2017	€69.78	9,050	€631,476.42
		Shares	Disposal	11/2/2017	€69.88	7,382	€515,829.06
		Shares	Disposal	11/3/2017	€70.15	24,252	€1,701,396.63
A legal entity related to Franck RIBOUD		Shares	Disposal	2/24/2017	€62.63	3,160	€197,910.80
Emmanuel FABER	Chief Executive Officer	Shares	Donation to a non-profit legal entity	11/15/2017	€00.00	33,260	€00.00
Gregg ENGLES	Director	Shares	Acquisition	5/23/2017	$75.14	4,000	$300,580.09
Serpil TIMURAY	Director	Shares	Acquisition	8/28/2017	€66.43	296	€19,663.28

(a) The amounts have been rounded to two decimals for the gross unit price and to the whole number for the number of shares.

Corporate officers and Executive Committee members are required to hold their DANONE shares resulting from Group Performance Shares and stock options. This requirement is described in the above sections *Others aplicables rules* extracted from the section 6.4 *Detailed information on long-term and multi-annual compensation plans*, and *Obligation to hold DANONE shares acquired from the exercise of stock options*.

6.6 RELATED PARTY AGREEMENTS AND COMMITMENTS

On a preliminary basis, it should be noted that, based on an in-depth analysis, the Board of Directors considered that the syndicated facilities agreement of July 28, 2011 entered into between the Company and 12 other banks, including the J.P Morgan group, as well as its subsequent amendments, were no longer regarded as related party agreement, given the nature, the amount and the number of contracting parties, as well as the functions of Mrs. Isabelle SEILLIER within J.P Morgan, the fact she does not hold any corporate office within J.P Morgan and any decision authority, and the fact she is not granted with any compensation linked to the syndicated facilities agreement and its subsequent amendments.

STATUTORY AUDITORS' SPECIAL REPORT ON RELATED PARTY AGREEMENTS AND COMMITMENTS

To the Danone Shareholders' Meeting,

In our capacity as Statutory auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of as well as of the reasons for those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are useful or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code, to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R. 225-31 of the French Commercial Code concerning the implementation, during the year, of the agreements and commitments already approved by the shareholders' meeting.

We have performed the due diligence procedures that we deemed necessary in accordance with the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) for this type of assignment. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

AGREEMENTS AND COMMITMENTS SUBMITTED FOR APPROVAL BY THE SHAREHOLDERS' MEETING

We hereby inform you that we were not notified of any agreement or commitment authorized during the previous year to be submitted for Shareholders' Meeting approval in accordance with the provisions of Article L. 225-38 of the French Commercial Code.

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE SHAREHOLDERS' MEETING

Agreements and commitments approved in prior fiscal years

a) whose implementation continued during the past fiscal year

In accordance with Article R. 225-30 of the French Commercial Code, we have been informed that the execution of the agreements and commitments described below, already approved by the Shareholders' Meeting in prior fiscal years, continued during the past fiscal year.

1. With the danone.communities mutual investment fund (SICAV)

Persons concerned

Mr. Franck Riboud, Chairman of the Board of Directors until November 30, 2017 and director as of December 1, 2017, Chairman of the Board of Directors of the danone.communities mutual investment fund until November 30, 2017, and Mr. Emmanuel Faber, Chief Executive Officer until November 30, 2017 and Chairman and Chief Executive Officer as of December 1, 2017, director of the danone.communities mutual investment fund.

Cooperation agreement within the framework of the Danone Communities project

Nature, purpose and conditions

On April 26, 2007, within the framework of the Danone Communities project, the company's Board of Directors unanimously authorized the signing of a cooperation agreement established between your company, the danone.communities mutual investment fund (Société d'Investissement à Capital Variable – SICAV), the danone.communities FCPR (venture capital fund, now FPS), and companies of the Crédit Agricole group, namely IDEAM (which was merged into Amundi in 2011) and Crédit Agricole Private Equity (now renamed Omnes Capital), respectively management companies for the SICAV and the FPS, it being specified that as of the date of this Board meeting, Mr. Jean Laurent, Director of your company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole group, and abstained from voting. This agreement governs the relations between your company and other entities that have taken part in the Danone Communities project, and in particular provided for the initial subscription of shares of the danone.communities SICAV by your company for a maximum amount of €20 million, as well as the annual financial contribution by your company of a maximum amount of €1.5 million for the first fiscal year, it being specified that this amount must be revised annually by your company's Board of Directors.

On February 14, 2017, the Board of Directors voted unanimously (with Messrs. Franck Riboud and Emmanuel Faber abstaining) to set your company's annual financial contribution for 2017 at a maximum of €3.95 million (the total amount of financial contributions by your company to Danone Communities for 2017 was therefore €3.7 million).

On February 15, 2018, the Board of Directors voted unanimously (with Mr. Emmanuel Faber abstaining) to set your company's annual financial contribution for 2018 at a maximum of €3.7 million.

2. With Mr. Franck Riboud, Chairman of the Board of Directors until November 30, 2017 and a director since December 1, 2017

1) Agreement related to the conditions under which Mr. Franck Riboud's employment contract would be resumed following the conclusion of his term as a corporate officer

Nature, purpose and conditions

On July 21, 2004, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Franck Riboud abstaining) to update the conditions under which Mr. Franck Riboud's employment contract, which was suspended on August 26, 1994 when he was appointed a corporate officer of your company, would be resumed if his term of office ended, for whatever reason, and established that:

- the amount of time during which he exercised his duties as a corporate officer for the benefit of your company will be entirely taken into account with respect to seniority and his resulting rights within the framework of his employment contract;
- the company undertakes to offer him a position involving duties comparable to those currently exercised by the members of your company's Executive Committee;
- the annual compensation that will be paid out to him cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the 12 months preceding the resumption of his employment contract; and
- he will benefit from the company's defined benefit pension plan based on his seniority as a corporate officer and his seniority under his employment contract.

This agreement remained in effect in 2017 but was not implemented. It ended as Mr. Franck Riboud resigned from his suspended employment contract with effect on November 30, 2017.

2) Amendment to the suspended employment contract of Mr. Franck Riboud

Nature, purpose and conditions

On February 10, 2010, the Board of Directors amended the suspended employment contract of Mr. Franck Riboud (who abstained from the vote) such that:

- the indemnity provided under the company's collective agreement applicable to all Company employees (the "Indemnity for Termination of the Employment Contract") is: (i) subject to a limit of two years' fixed and variable gross compensation; and (ii) in the event of the payment of both the Indemnity for Termination of the Employment Contract and the indemnity due in certain instances of the termination of the term of office of a corporate officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment contract;
- the portion of the Indemnity for Termination of the Employment Contract corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same performance conditions as the indemnity due in certain instances of the termination of the term of office of the corporate officer;
- in the exclusive event that a change in control results in the forced termination of his term of office as a corporate officer, provided he has not committed serious misconduct or gross negligence, the person concerned may request the termination of his employment contract in the form of termination within three months from the date of the termination of his term of office as a corporate officer (*i.e.* the date on which his employment contract is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of a corporate officer, the performance conditions applicable to the portion of the Indemnity for Termination of the Employment Contract corresponding to the seniority acquired in respect of the term of office will be automatically amended.

The portion of the Indemnity for Termination of the Employment Contract which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the authorization from the Board of Directors and the approval of the shareholders on each occasion the term of office is renewed.

It should be noted that Mr. Franck Riboud is not subject to any non-compete clause.

This agreement remained in effect in 2017 but was not implemented. It ended as Mr. Franck Riboud resigned from his position covered by the suspended employment contract with effect on November 30, 2017.

3) Commitment concerning the defined benefit pension plan of Mr. Franck Riboud

Nature, purpose and conditions

On February 13, 2008, the Board of Directors unanimously confirmed (with Mr. Franck Riboud abstaining) your company's commitment on behalf of Mr. Franck Riboud, a corporate officer, relative to the payment of a defined-benefit pension in the form of an annuity (with a reversion option), calculated on the basis of the following elements:

- the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the last three entire years of activity within the group. The length of service taken into account would include the period corresponding to the term of office;
- in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity;
- the amount of the annuity that would be paid to Mr. Franck Riboud would correspond to 2% of this calculation basis per year of service (this amount will, however, be capped at 65% of the calculation basis), less the full amount of the pension rights vested by Mr. Franck Riboud during his professional life, including the supplementary pension plan fully funded by the company.

Mr. Franck Riboud is eligible to benefit from this pension plan only if he was performing his duties within the group at the time of retirement (it being specified that in the event he leaves the group before reaching the age of 55, all vested rights will be lost, and that in the event such officer is terminated after the age of 55, the benefit derived from this plan will be preserved, on condition that he does not take up a salaried position).

On February 22, 2016, upon renewing the term of office of Mr. Franck Riboud as Chairman, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Franck Riboud abstaining) to:

- take due note of existing retirement commitments taken by the company on behalf of Mr. Franck Riboud, approved by the Shareholders' Meeting of April 29, 2008 and submitted to shareholders for an advisory opinion as part of the so-called "say on pay" resolutions approved at each Shareholders' Meeting since 2014;
- observe that in light of his length of service at your company, Mr. Franck Riboud had in 2014 reached the ceiling on annuity payments that he was eligible to receive;
- and then note that given the absence of any annual increase in his conditional rights to a pension during his future term of office, there was no need to consider performance conditions or submit these conditional rights to the Shareholders' Meeting for approval.

This agreement remained in effect in 2017 and was implemented, as Mr. Franck Riboud exercised his rights to the pension as of December 1, 2017. The annuity paid out to him in 2017 totaled €0.12 million.

b) not implemented during the last fiscal year

We were also informed that the following agreements and commitments, which had already been approved by the Shareholders' Meeting in previous years, remained in effect but were not implemented during the last fiscal year.

With Mr. Emmanuel Faber, Chief Executive Officer until November 30, 2017 and Chairman and Chief Executive Officer since December 1, 2017.

1. Agreement concerning conditions for resuming the employment contract of Mr. Emmanuel Faber at the conclusion of his term of office

Nature, purpose and conditions

On February 13, 2008, the Board of Directors voted unanimously (with Mr. Emmanuel Faber abstaining) to authorize an amendment to the company's employment contract with Mr. Emmanuel Faber, for the purpose of determining the conditions under which his employment contract would be resumed (it was suspended when he was appointed a corporate officer of the company), assuming that his term of office ends for whatever reason.

This amendment provides that:

- his entire length of service as a corporate officer on behalf of your company will be taken into account for the purpose of seniority and the resulting rights within the framework of his employment contract;
- the company undertakes to offer him a position involving duties comparable to those currently exercised by the members of your company's Executive Committee;
- the annual compensation that will be paid out to him cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the 12 months preceding the resumption of his employment contract;
- he will benefit from your company's defined-benefit pension plan based on his seniority as a corporate officer and his seniority under the employment contract;
- the contractual indemnity due in the event of the termination of his employment contract will be canceled.

2. Amendments to the suspended employment contract of Mr. Emmanuel Faber

Nature, purpose and conditions

On February 10, 2010, the Board of Directors amended the suspended employment contract of Mr. Emmanuel Faber, who abstained from voting, such that:

- the indemnity provided under the company's collective agreement applicable to all Company employees (the "Indemnity for Termination of the Employment Contract") is: (i) subject to a limit of two years' fixed and variable gross compensation; and (ii) in the event of the payment of both the Indemnity for Termination of the Employment Contract and the indemnity due in certain instances of the termination of the term of office of a corporate officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment contract;
- the portion of the Indemnity for Termination of the Employment Contract corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same

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performance conditions as the indemnity due in certain instances of the termination of the term of office of the corporate officer;

- in the exclusive event that a change in control results in the forced termination of his term of office as a corporate officer, the person concerned may, provided he has not committed serious misconduct or gross negligence, request the termination of his employment contract in the form of termination within three months from the date of the termination of his term of office as a corporate officer (*i.e.* the date on which his employment contract is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of a corporate officer, the performance conditions applicable to the portion of the Indemnity for Termination of the Employment Contract corresponding to the seniority acquired in respect of the term of office will be automatically amended.

The portion of the Indemnity for Termination of the Employment Contract which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the agreement of the Board of Directors and the authorization of shareholders on each occasion the term of office is renewed.

In addition, the non-compete clause included in the suspended employment contract of Mr. Emmanuel Faber was amended such that it may not be implemented by your company and trigger the payment of consideration except in the case of a resignation.

As part of the reunification of the Chairman and Chief Executive Officer functions, the Board of Directors on October 18, 2017 took note to the extent necessary and acting on the recommendation of the Nomination and Compensation Committee, that the non-compete clause contained in the suspended employment contract of Mr. Emmanuel Faber remained unchanged.

3. Commitment concerning the indemnification conditions applicable to Mr. Emmanuel Faber in certain cases of termination of his term of office as Chief Executive Officer

Nature, purpose and conditions

At the time of the appointment of Mr. Emmanuel Faber as Deputy General Manager, the Board of Directors meeting of February 13, 2008 approved in a unanimous vote, with Mr. Emmanuel Faber abstaining, the principle and conditions of the indemnification rights in certain cases of termination of his term of office.

On February 18, 2013, the Board of Directors (excluding Mr. Emmanuel Faber who abstained from voting) unanimously decided, at the time of renewal of Mr. Emmanuel Faber's term of office subject to approval by the Shareholders' Meeting of April 25, 2013, to renew his rights to indemnity in certain cases of termination of his duties. These rights to indemnity had been renewed on the same basis as that set by the Board of Directors on February 10, 2010 and approved by the Shareholders' Meeting of April 22, 2010, subject to certain amendments made in order to ensure compliance with the provisions of the AFEP-MEDEF Code or to make the payment conditions more restrictive. The indemnification rights, amended slightly by the Board of Directors on February 18, 2013, were approved by the Shareholders' Meeting of April 25, 2013.

On September 2, 2014, in connection with the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer and Mr. Emmanuel Faber's appointment as Chief Executive Officer, the Board of Directors (excluding Mr. Emmanuel Faber who abstained from voting) decided that his rights to indemnity should remain unchanged (as decided by the Board of Directors meeting on February 18, 2013). These indemnification rights were approved by the Shareholders' Meeting of April 29, 2015.

In connection with the renewal of Mr. Emmanuel Faber's term of office as Chief Executive Officer, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Emmanuel Faber abstaining) on February 22, 2016 to keep Mr. Faber's indemnification rights identical to those approved by the Shareholders' Meeting of April 29, 2015.

These indemnification rights were approved by the Shareholders' Meeting of April 28, 2016, following which Mr. Emmanuel Faber's term of office as Chief Executive Officer was renewed.

As part of the reunification of the Chairman and Chief Executive Officer functions, the Board of Directors on October 18, 2017 took note to the extent necessary and acting on the recommendation of the Nomination and Compensation Committee, that the indemnification rights of Mr. Emmanuel Faber in the event his term of office as Chief Executive Officer ends remained unchanged.

The indemnification rights decided by the Board of Directors meeting of February 18, 2013 and maintained without changes since then are described below.

(i) Amount of the Indemnity

Mr. Emmanuel Faber will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice his gross annual compensation (including both fixed and variable compensation) received in respect of his term of office during the 12 months preceding the date of termination of said duties.

The sum of the amounts of: (i) the indemnity provided under the company's collective agreement applicable to all Company employees (the "Indemnity for Termination of the Employment Contract"), with the portion of this indemnity that corresponds to the length of service acquired for the term of office being subject to performance conditions; and (ii) the Indemnity must not exceed twice the gross annual compensation (including both fixed and variable compensation) received in respect of the term of office over the last 12 months.

In the event that the amount of the Indemnity and the amount of the Indemnity for Termination of the Employment Contract exceeds this ceiling of twice the gross annual compensation, and to ensure strict compliance with this ceiling, the amount actually paid to Mr. Emmanuel Faber will first be charged to the Indemnity and then, where applicable, to the portion of the Indemnity for Termination of the Employment Contract subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

(ii) Cases of payment of the Indemnity

The Indemnity will be payable to Mr. Emmanuel Faber only in case of termination of his term of office as corporate officer related to a change in control or strategy, on the initiative of the Board of Directors, regardless of the form of such termination, in particular dismissal or non-renewal (except in case of serious misconduct, *i.e.* an extremely serious fault which precludes any continuation of his term of office, or gross negligence, *i.e.* an extremely serious fault committed with the intention of harming the company), and subject to the performance conditions being met. It is specified that "change of control" means any change in the company's legal situation resulting, in particular, from a merger, restructuring, sale, takeover bid or exchange offer, following which a shareholder that is a legal entity or individual, acting either alone or in concert, comes to hold, directly or indirectly, more than 50% of your company's share capital or voting rights.

Moreover, in accordance with the recommendations of the AFEP-MEDEF Code, no payment of the Indemnity will be due if Mr. Emmanuel Faber is able to avail himself of his pension benefits within a short period of time under the terms and conditions defined by the pension plans.

Given the automatic resumption of Mr. Emmanuel Faber's employment contract in the event of the termination of his term as a corporate officer, the Indemnity will be due if Mr. Emmanuel Faber ceases to carry out his duties under said employment contract or resigns from his salaried position within the three months following the date on which his term as a corporate officer came to an end due to a change of control.

Where applicable, no Indemnity pursuant to the office will be due if Mr. Emmanuel Faber resumes a salaried position and does not request that such position be terminated within the aforementioned three-month period.

(iii) Performance conditions governing payment of the Indemnity

Payment of the Indemnity will be based on:

a) the arithmetic average internal ("organic") growth in the Danone Group's net sales (the "Group's CA") over the five completed fiscal years preceding the date of termination of the term of the corporate officer (the "Reference Period"); and

b) the arithmetic average internal ("organic") growth in net sales recorded by the Panel members ("CA of the Panel") over the Reference Period.

For the application of these conditions, it is noted that:

- the Group's CA refers to the arithmetic average internal ("organic") growth in Danone Group's net sales over the Reference Period (on a consolidated basis and on a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates);
- the CA of each Panel member refers to the arithmetic average internal ("organic") growth in net sales recorded by said Panel member over the Reference Period (on a consolidated basis and on a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates);
- the CAs of the Panel refer to the CAs of all members of the Panel;
- the Median CA of the Panel refers to the value of the CA of a Panel member that divides the Panel CAs into two equal parts (*i.e.* such that there are as many Panel members with a CA exceeding or equal to the Median as Panel members with a CA being less than or equal to the Median), it being specified that if the Panel members are an even number, the Median CA of the Panel will be equal to the arithmetic average of the two central values of the Panel CA;
- the Panel consists of eight benchmark international groups in the food and beverage sector, namely Kellogg Company, Unilever N.V., Nestlé S.A., Kraft Heinz Company (Kraft Foods Group Inc. until 2014), Mondelez International Inc., PepsiCo Inc., The Coca-Cola Company and General Mills Inc.

The Board of Directors must determine whether these performance conditions are met within three months of the date of termination of the term of office of the corporate officer. Its explicit decision must be duly justified and mentioned in the Board of Directors' report to the Shareholders' Meeting, following a recommendation by the Nomination and Compensation Committee, and based on a report of a financial advisor.

To ensure the comparability of the CAs used, it is specified that:

- restatements may be made (such as corrections related to changes in consolidation scope and exchange rates) to the strict extent necessary in order to ensure that the method of calculating the CAs of all Panel members and the Group's CA is consistent over the Reference Period;
- in the event that the audited accounting or financial results of one of the Panel members are not published or are published late, the Board of Directors may, exceptionally, exclude this member from the Panel through a duly justified decision;
- in the event that the audited accounting or financial results of two or more members of the Panel are not published or are published late, the Board of Directors will make a decision duly justified at a later date, on the basis of the most recent audited financial statements published by the members of the Panel and by the company over the last five fiscal years for which financial statements were published for all members of the Panel and for your company;
- the Board of Directors may, through a duly justified decision taken at a later date, change the Panel members in the event of an acquisition, absorption, dissolution, spin-off, merger or change of activity of one or more members of the Panel, provided that it maintains the overall consistency of the peer group.

During the Reference Period:

- if the Group's CA exceeds or is equal to the Median CA of the Panel, 100% of the Indemnity will be paid to Mr. Emmanuel Faber; and
- if the Group's CA is lower than the Median CA of the Panel, no Indemnity will be paid to Mr. Emmanuel Faber.

In accordance with the amendment to Mr. Emmanuel Faber's employment contract (authorized by the Board of Directors on February 10, 2010), it should be noted that the same performance conditions will apply to the portion of the Indemnity for Termination of the Employment Contract corresponding to the length of service acquired pursuant to the office and that the sum of the Indemnity pursuant to the office and of the Indemnity for Termination of the Employment Contract may not exceed twenty-four (24) months of gross fixed and variable compensation.

At the time of each renewal of Mr. Emmanuel Faber's term of office, these performance conditions and, where appropriate, the composition of the Panel will be reexamined by the Board of Directors and, where appropriate, modified to take into account changes affecting your company and its business sectors.

(iv) Payment of the Indemnity

The amount of the Indemnity determined according to the above rules will be paid within 30 days following the date of the Board of Directors' meeting which will decide whether the performance conditions governing payment of the Indemnity have been met.

Meanwhile, it is noted that in accordance with the employment contract of Mr. Emmanuel Faber, amended by the decision of the Board of Directors on February 10, 2010, the performance conditions applicable to the portion of the Indemnity for Termination of the Employment Contract corresponding to seniority acquired as part of his term of office will be adjusted automatically through the approval of this commitment.

4. Commitment concerning the defined benefit pension plan of Mr. Emmanuel Faber

Nature, purpose and conditions

On February 13, 2008 and with Mr. Emmanuel Faber abstaining, the Board of Directors unanimously confirmed the company's commitment on behalf of Mr. Emmanuel Faber, Deputy General Manager, relative to the payment of a defined benefit pension in the form of an annuity (with a reversion option), calculated on the basis of the following elements:

- the basis of calculation for the annuity corresponds to the average of annual base compensation and bonuses for the three full years of activity at your company before retirement, with the length of service taken into account including the period corresponding to the term of office (the "Basis");

- in the event of a retirement that does not satisfy the conditions necessary for obtaining the full rate with respect to the social security pension, the annuity will be reduced by 1.25% per quarter between the age at which Mr. Emmanuel Faber retired and the age at which he would have received his full rate social security pension;
- the amount of the annuity to be attributed to Mr. Emmanuel Faber would correspond to: (i) 1.5% per year of seniority (including the period as a corporate officer) of the Basis, for the tranche of the Basis between three and eight French Social Security Ceiling levels; and (ii) 3% per year of seniority (including the period as a corporate officer) of the Basis, for the tranche that is higher than these eight Ceiling levels (this amount will nevertheless be capped on the basis of 20 years maximum seniority) less the full amount of pension rights vested by Mr. Emmanuel Faber through the implementation of the supplementary pension plan fully funded by your company.

Mr. Emmanuel Faber is eligible to benefit from this pension plan only if he was performing his duties within the group at the time of retirement (it being specified that in the event the person leaves the group before reaching the age of 55, all vested rights will be lost, and that in the event such officer is terminated after the age of 55, the benefit derived from this plan will be preserved, on condition that the person does not take up a salaried position).

On February 22, 2016, in connection with the renewal of Mr. Emmanuel Faber's term of office as Chief Executive Officer, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Emmanuel Faber abstaining) to:

- recognize that Mr. Emmanuel Faber has amassed 18 years' seniority at your company and take note of the company's existing pension obligations toward Mr. Emmanuel Faber and approved by the Shareholders Meeting of April 29, 2008;
- decide, in accordance with Articles L. 225-22-1 and L.225-42-1 of the French Commercial Code (as amended by law No. 2015-990 of August 6, 2015 known as the "Macron law"): (i) to subordinate the annual increase of his conditional rights that may be granted starting from the renewal of his term of office as Chief Executive Officer to the performance condition described below; and (ii) to make increases in his future conditional pension rights subject to the approval of the Shareholders' Meeting of April 28, 2016.

As part of the reunification of the Chairman and Chief Executive Officer functions, the Board of Directors on October 18, 2017 took note to the extent necessary and acting on the recommendation of the Nomination and Compensation Committee, to that the pension obligation on behalf of Mr. Emmanuel Faber in his capacity as Chief Executive Officer remained unchanged.

(i) Performance condition related to the increase in conditional pension rights

As of the Shareholders' Meeting of April 28, 2016, the increase in Mr. Emmanuel Faber's pension rights for each fiscal year will depend on:

a) the arithmetic average internal ("organic") growth in the Danone Group's net sales (the "Group's CA") during the said fiscal year and five previous fiscal years (the "Reference Period"); and

b) the arithmetic average internal ("organic") growth in net sales by members of the Panel (the "CA of the Panel") during the Reference Period;

it being noted that the terms "CA of the Group", "CA of each member of the Panel", "CA of the Panel", "Median CA of the Panel" and "Panel" are defined as indicated above in section b) 3 (iii) regarding the performance conditions of the indemnity for termination of Mr. Emmanuel Faber's term as a corporate officer, and that the Board of Directors may apply the principles described in that paragraph to ensure the comparability of sales (CA) used.

During the Reference Period (*i.e.* at the end of each fiscal year):

- if the Group's CA is equal to or greater than the Median CA of the Panel, the increase in Mr. Emmanuel Faber's future conditional pension rights for that fiscal year will vest (assuming the retirement plan's other performance conditions have been satisfied);
- if the Group's CA is less than the Median CA of the Panel, Mr. Emmanuel Faber will not qualify to receive an increase in future conditional pension rights for that fiscal year (expressed as a percentage of the calculation Basis);

it being noted that in all cases, the amount of the annuity that would be paid to Mr. Emmanuel Faber will remain capped on the basis of twelve years' maximum seniority, less the sum of pension benefits vested by Mr. Emmanuel Faber through the implementation of the supplementary pension plan fully funded by the company.

(ii) Determination as to whether the performance condition has been satisfied and whether to increase pension benefits

Each year, prior to the Shareholders' Meeting held to approve the previous fiscal year's financial statements, the Board of Directors will decide whether this performance condition has been satisfied, based on the report of a financial advisor, and will determine the increase in Mr. Emmanuel Faber's pension benefits for said fiscal year, through duly justified decisions taken after a recommendation from the Nomination and Compensation Committee.

On April 27, 2017, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, determined through a unanimous vote (with Mr. Emmanuel Faber abstaining) that the performance condition was satisfied and approved the increase in pension rights in connection with the 2016 fiscal year.

Neuilly-sur-Seine and Paris La Défense, March 5, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

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SHARE CAPITAL AND SHARE OWNERSHIP

7.1 COMPANY'S SHARE CAPITAL

TRANSACTIONS ON THE SHARE CAPITAL IN THE LAST FIVE YEARS AND SHARE CAPITAL AS OF DECEMBER 31, 2017

Effective date of the transaction	Shares created / (cancelled) by the transaction	Type of transaction	Nominal amount of the transaction	Amount of share capital after the transaction	Shares making up the share capital after the transaction
	(number of shares)		*(in €)*	*(in €)*	*(number of shares)*
February 18, 2013	(8,800,000)	Capital decrease by cancellation of shares	(2,200,000.00)	158,590,500.00	634,362,000
May 13, 2013	918,000	Capital increase reserved for employee members of a company savings plan	229,500.00	158,820,000.00	635,280,000
July 26, 2013	(4,252,000)	Capital decrease by cancellation of shares	(1,063,000.00)	157,757,000.00	631,028,000
June 3, 2014	11,932,014	Capital increase for the payment of the dividend in shares	2,983,003.50	160,740,003.50	642,960,014
June 5, 2014	831,986	Capital increase reserved for employee members of a company savings plan	207,996.50	160,948,000.00	643,792,000
June 11, 2015	838,052	Capital increase reserved for employee members of a company savings plan	209,513.00	161,157,513.00	644,630,052
July 23, 2015	10,321,148	Capital increase for the payment of the dividend in shares	2,580,287.00	163,737,800.00	654,951,200
May 17, 2016	940,800	Capital increase reserved for employee members of a company savings plan	235,200.00	163,973,000.00	655,892,000
June 1, 2017	13,835,487	Capital increase for the payment of the dividend in shares	3,458,871.75	167,431,871.75	669,727,487
June 8, 2017	982,913	Capital increase reserved for employee members of a company savings plan	245,728.25	167,677,600.00	670,710,400
Share capital as of December 31, 2017				**167,677,600.00**	**670,710,400**

SHARES CONSTITUTING THE SHARE CAPITAL

Shares are fully paid-up, are all of the same class and have a nominal value of €0.25. Each share gives the right to ownership of a proportion of the Company's assets, profits and liquidation surplus, based on the percentage of share capital that it represents.

7.2 TREASURY SHARES AND DANONE CALL OPTIONS HELD BY THE COMPANY AND ITS SUBSIDIARIES

This section 7.2 describes the share buyback program set up in accordance with Articles 241-1 et seq. of the General Regulations of the French Financial Markets Authority.

AUTHORIZATION GRANTED TO THE COMPANY TO BUY BACK ITS OWN SHARES

Existing authorization

The Shareholders' Meeting of April 27, 2017 authorized the Board of Directors, for an 18-month period, to buy back a number of shares representing a maximum of 10% of the Company's share capital at a maximum purchase price of €75 per share. This authorization superseded the authorization previously granted by the Shareholders' Meeting of April 28, 2016.

This authorization was used during fiscal year 2017 (see section *Transactions on Company shares in 2017 and situation as of December 31, 2017* hereafter).

Authorization subject to approval by the Shareholders' Meeting

The Board of Directors will submit a new authorization, valid for 18 months, to the Shareholders' Meeting to be held on April 26, 2018 to repurchase up to 10% of the total number of shares comprising the share capital of the Company (*i.e.* for information purposes, 67,041,040 shares as of December 31, 2017, representing a maximum potential purchase amount – excluding transaction fees – of approximately €5.7 billion) at a maximum purchase price of €85 per share.

Subject to approval of the authorization by the Shareholders' Meeting of April 26, 2018, the buyback by the Company of its own shares may be executed for the purpose of:

- the allocation of shares with respect to the exercise of stock-options by employees and/or corporate officers of the Company and of companies or economic interest groups related to it, pursuant to applicable statutory and regulatory provisions;
- the implementation of any plan for the allocation of Group performance shares to employees and/or corporate officers of the Company and of companies or economic interest groups related to it, pursuant to applicable statutory and regulatory provisions;
- the sale of shares to employees (either directly or through an employee savings mutual fund) within the context of employee shareholding plans or company savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the later delivery of shares as payment or for exchange in the context of external growth transactions;
- the cancellation of shares within the maximum legal limit; and/or
- supporting the market for shares in connection with a liquidity contract entered into with an investment service provider, in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Share buybacks may be carried out, in whole or in part, by acquisition, sale, exchange or transfer, on one or more occasions, by any means on any stock markets, including multilateral trading facilities (MTF), through a systematic internalizer or over the counter, including by acquisition or disposal of blocks of shares (without limiting the portion of the share repurchase program that may be completed this way). These means include the use of any financial contract or derivative instrument (including in particular any future or any option), except the sale of put options, in accordance with applicable regulations.

These transactions may be carried out during an 18-month period beginning April 26, 2018 (with the exception of periods of public tender offers on the Company's shares) within the limits allowed by the applicable regulations.

AUTHORIZATION TO CANCEL SHARES AND REDUCE THE SHARE CAPITAL FOLLOWING THE BUYBACK BY THE COMPANY OF ITS OWN SHARES

The Shareholders' Meeting of April 27, 2017 authorized the Board of Directors, for a period of 24 months, to cancel shares acquired in the context of a share buyback program, within a limit of 10% of the existing share capital as of the day of the Meeting. This authorization was not used in 2017.

DANONE CALL OPTIONS HELD BY THE COMPANY

Purchase of DANONE call options by the Company in 2011

In October 2011, as part of its share buyback program, the Company acquired DANONE call options to hedge part of the stock-options granted to some of its employees and corporate officers and still in force, as a substitute for their existing hedge by treasury shares held.

Prior to this date, in order to satisfy its legal obligations, the Company held treasury shares specifically allocated to hedge these stock-option plans. These treasury shares were earmarked for gradual release into circulation on the market as and when beneficiaries exercised stock-options until the expiry of the plans still in force, *i.e.* until October 2017. In order to limit the dilutive effect of the exercise of these options, in 2011 the Company decided to hedge part of these stock-options by the acquisition of DANONE call options, as a substitute for the treasury shares held.

A total of 6.6 million DANONE call options representing around 1.02% of the share capital were thus acquired from a financial institution. The Company's intention is to exercise these call options at any time until the expiry of the last stock-option plans still in force (*i.e.* until October 2017), in order to comply with its commitments to deliver shares to stock-option holders.

The 6.6 million treasury shares held until then to hedge the stock-options concerned were cancelled on December 13, 2011.

The 76,279 call options held by Danone as of December 31, 2016 (representing 0.01% of the company's share capital) were exercised. As of December 31, 2017, Danone no longer holds any DANONE call options or any open positions in derivative products on Company shares.

LIQUIDITY CONTRACT

On January 15, 2014 and for a period of one year with tacit renewal, the Company entered into a liquidity contract with an investment service provider, Rothschild & Cie Banque, in accordance with the Ethical Charter drawn up by the Association Française des Marchés Financiers (AMAFI) and recognized by the French Financial Markets Authority, with a view to supporting the market for DANONE shares on Euronext Paris.

This liquidity contract was implemented in connection with the share buyback programs authorized by the Company's Shareholders' Meeting. It was cancelled by Danone with effect from March 1, 2017.

Resources related to the liquidity contract

Resources allocated	For implementation of the liquidity contract	Position as of December 31, 2017
Amount *(in €)*	–	–
Number of shares	120,000	–

TRANSACTIONS ON COMPANY SHARES IN 2017 AND SITUATION AS OF DECEMBER 31, 2017

		Transactions during the period					
(in number of shares)	**Situation as of December 31, 2016**	**Buybacks**	**Exercise of DANONE call options**	**Sales / Transfers**	**Delivery of shares following exercises of stock-options**	**Delivery of Group performance shares**	**Situation as of December 31, 2017**
External growth operations	**30,769,360**	–	–	–	–	–	**30,769,360**
Liquidity contract	**–**	62,628	–	(62,628)	–	–	–
Hedging of Group performance shares and stock-options	**2,359,838**	–	76,279	–	(293,372)	(385,113)	**1,757,632**
Share cancellations	**–**	–	–	–	–	–	**–**
Treasury shares	**33,129,198**	**62,628**	**76,279**	**(62,628)**	**(293,372)**	**(385,113)**	**32,526,992**
Shares held by Danone Spain	**5,780,005**	–	–	–	–	–	**5,780,005**
Total number of shares held by the Group	**38,909,203**	**62,628**	**76,279**	**(62,628)**	**(293,372)**	**(385,113)**	**38,306,997**

Treasury shares held by the Company as of December 31, 2017

(in €, except percentage and number of shares)	As of December 31, 2017
Number of DANONE shares	38,306,997
Percentage of share capital	*5.71%*
Value of DANONE treasury shares held by the Company	
Par value	9,576,749
Gross value	2,679,574,440

Average price of buybacks and sales of DANONE shares in 2017 and transaction fees

(in € per share)	Year ended December 31, 2017
Average price of buybacks	
Liquidity contract	59.56
Exercise of DANONE call options [a]	35.34
Average price of sales	
Liquidity contract	59.63
Transaction fees [b]	0

(a) Exercise price of DANONE call options, excluding premium paid in 2011 for their acquisition.
(b) Total amount.

Market value of DANONE shares held by Danone and its consolidated subsidiaries

(in €, except share price in € per share and number of shares)	As of December 31, 2017
Number of DANONE shares	38,306,997
Closing price	69.95
Value of DANONE shares held by the Group	
At closing price	2,679,574,440
At closing price +10%	2,947,531,884
At closing price -10%	2,411,616,996

7.3 AUTHORIZATIONS TO ISSUE SECURITIES GIVING ACCESS TO THE SHARE CAPITAL

SUMMARY OF FINANCIAL AUTHORIZATIONS IN EFFECT AS OF DECEMBER 31, 2017

Maximum amounts of share capital authorized *(nominal issuance amount)*		**Authorization type**	**Individual maximum amounts authorized** *(nominal amount or percentage)*	**Use in 2017**	**Available balance as of December 31, 2017** *(nominal amount or percentage)*
Maximum amount applicable to all dilutive and non-dilutive issuances: €57 million (approx. 34% [a] of the share capital)	Maximum amount applicable to non-dilutive issuances: €57 million (approx. 34% [a] of the share capital)	Capital increase with preferential subscription rights for shareholders	€57 million (approximately 34% [a] of the share capital) [b]	–	€57 million
	Maximum amount applicable to dilutive issuances: €16 million (or approximately 9.5% [a] of the share capital)	Capital increase without preferential rights but with a priority period for shareholders	€16 million (approximately 9.5% [a] of share capital) [b]	–	€16 million
		Overallotment (as a % of initial issuance)	15% [b]	–	–
		Public exchange offer initiated by the Company	€16 million (approximately 9.5% [a] of share capital) [b]	–	€16 million
		Contributions in kind	10% of share capital	–	10% of share capital
		Capital increase reserved for employees	€3.2 million (approximately 1.9% [a] of share capital)	€245,728.25	€2.95 million [c]
		Grants of Group performance shares (GPS)	0.2% of share capital at the close of the Shareholders' Meeting	644,420 shares granted (approximately 0.1% of share capital)	0.1% of share capital at the close of the Shareholders' Meeting
–	–	Incorporation of reserves, earnings, additional paid-in capital and other amounts	€41 million (approximately 24.5% [a] of share capital)		€41 million

(a) The percentage of share capital is calculated for indicative purposes only, based on share capital as of December 31, 2017 (unless otherwise stated).

(b) All issuances of securities representing debts pursuant to these authorizations ((i) capital increase with preferential subscription right; (ii) capital increase without preferential right but with priority right for shareholders; (iii) overallotment option; and (iv) public exchange offer initiated by the Company) may not exceed a maximum principal amount of €2 billion (or equivalent value).

(c) The capital increase reserved for employees approved by the Board of Directors of February 14, 2017 and carried out in June 2017 used the authorization granted by the Shareholders' Meeting of April 29, 2015 (and not the one granted by the Shareholders' Meeting of April 27, 2017). The nominal amount of the new capital increase reserved for employees to be approved by the Board of Directors of February 15, 2018 and implemented in June 2018 will be applied to the maximum amount of €3.2 million approved by the Shareholders' Meeting of April 27, 2017.

All of these authorizations were approved by the Shareholders' Meeting of April 27, 2017, for a period of 26 months, *i.e.* until June 26, 2019, with the exception of the grant of Group performance shares approved by the Shareholders' Meeting of April 27, 2017 and expired on December 31, 2017.

Capital increases reserved for employees

Each year, Danone carries out a capital increase reserved for Danone employees participating in a company savings plan (through a temporary fund later merged into the "*Fonds Danone*" company investment fund). The decision to carry out this capital increase is made, in principle annually and under the authorization granted by the Shareholders' Meeting, by the Board of Directors at its February meeting. It is then carried out in May or June.

	Shareholders' Meeting authorization	Board of Directors' decision	Number of new shares	Price	Nominal amount of capital increase	Total amount of capital increase	Percentage of share capital
Capital increase reserved for employees carried out in 2017	April 29, 2015	February 14, 2017	982,913	€47.44	€245,728.25	€46,629,392	0.15%
Capital increase reserved for employees still in progress [a]	April 27, 2017	February 15, 2018	Maximum 1,467,889	€54.50	Maximum €366,972.25	Maximum €80,000,000	Maximum 0.22%

(a) Will be recognized in June 2018.

FINANCIAL AUTHORIZATIONS SUBJECT TO APPROVAL BY THE SHAREHOLDERS' MEETING

The Shareholders' Meeting of April 26, 2018 will be asked to renew the following authorization:

	Authorization date	Expiration date	Authorized maximum *(nominal amount of ordinary shares issuance)*
Grant of Group performance shares (GPS)	April 26, 2018	December 31, 2018	0.2% of the share capital as determined at the close of the Shareholders' Meeting applied to the maximum amount of €16 million common to dilutive issuances to be made under the financial authorizations approved by the Shareholders' Meeting of April 27, 2017

CHANGES IN SHARE CAPITAL AND IN THE RIGHTS ATTACHED TO THE SHARES

Any changes in the share capital or the rights attached to the shares comprising the share capital are subject to applicable legal provisions, as the by-laws do not contain any specific provisions related thereto.

7.4 FINANCIAL INSTRUMENTS NOT REPRESENTING SHARE CAPITAL

AUTHORITY OF THE BOARD OF DIRECTORS

The Combined Shareholders' Meeting of April 23, 2009 decided to delete Article 27.I.9 of the Company's by-laws, which assigned to the Shareholders' Meeting the authority to decide or authorize bond issuances, in order to recognize the Board of Directors' fundamental authority in this area, in accordance with the first paragraph of Article L. 228-40 of the French commercial code.

DELEGATION OF AUTHORITY TO GENERAL MANAGEMENT

At its meeting of October 18, 2017, the Board of Directors decided to renew, for a period of one year, the authorization granted to General Management to issue, in France or abroad (including, in particular, in the United States of America by means of private placements to institutional investors), ordinary bonds, subordinated debt securities or complex securities (whether fixed-term or perpetual) or any other type of negotiable debt instrument for up to a maximum outstanding principal amount at any time of €22 billion (or the equivalent amount in any other currency or unit of account).

BONDS OUTSTANDING AS OF DECEMBER 31, 2017

As of December 31, 2017, the total outstanding principal amount on bonds issued by the Company (Danone's only bond issuer) was €17,340 million (amount recognized in the consolidated financial statements).

7.5 DIVIDENDS PAID BY THE COMPANY

DIVIDEND PAY-OUT POLICY

Rules set by French law and the Company's by-laws

In accordance with law, the following amounts are withheld from earnings from which any past losses have already been deducted: (i) at least 5% for the creation of the legal reserve, a deduction that will cease to be mandatory when the legal reserve has reached one-tenth of the share capital, but that will be reinstituted if, for any reason whatsoever, the legal reserve falls below this amount; and (ii) any sums to be allocated to reserves in accordance with the law. The balance, to which are added retained earnings, represents the distributable earnings.

Under the terms of the by-laws, the amount necessary to constitute a first dividend payment to shareholders is deducted from the distributable earnings. This amount corresponds to interest of 6% per annum on the amount of their shares that has been paid up and not reimbursed, it being specified that if in a given fiscal year earnings are not sufficient to make this payment, the shortfall may be paid by deduction from the earnings of subsequent fiscal years.

Any remaining balance is available for allocation by the annual Shareholders' Meeting, in accordance with a proposal by the Board of Directors, to shares as dividends or, in full or in part, to any reserve accounts or to retained earnings.

The reserves available to the Shareholders' Meeting can be used, if it so decides, to pay a stock dividend.

Company's pay-out policy

The dividend pay-out policy, defined by the Board of Directors, is based on an analysis that takes into account the history of dividend payments, the Company's financial position and results, and the dividend pay-out practices of Danone's business sector.

DIVIDEND PAID IN RESPECT OF 2017 FISCAL YEAR

A dividend of €1.90 per share will be proposed to the Shareholders' Meeting of April 26, 2018 on shares eligible to receive the dividend as of January 1, 2017. If this dividend is approved, the ex-dividend date is on May 4, 2018 and the payment date is on May 31, 2018.

Also, the Shareholders' Meeting of April 26, 2018 will propose to offer each shareholder the option to receive the dividend payment in new Company shares for the full amount of the dividend associated with the shares owned.

DIVIDENDS PAID IN RESPECT OF THE PREVIOUS THREE FISCAL YEARS PRIOR TO 2017

Dividend relating to the fiscal year [a]	Dividend per share *(in € per share)*	Dividend approved *(in € millions)*	Dividend paid [b] *(in € millions)*
2014	1.50	966	311[c]
2015	1.60	1,048	995
2016	1.70	1,115	275[c]

(a) Paid the following year.

(b) Treasury shares held directly by the Company do not carry the right to receive a dividend. However, the Company's shares held by its Danone Spain subsidiary carry the right to receive a dividend.

(c) The Shareholders' Meetings of April 29, 2015 and April 27, 2017 decided that each shareholder could choose to receive payment of the dividend in cash or in DANONE shares. The amount of the dividend paid in cash corresponded to the dividend paid to those shareholders who did not opt for payment in shares.

DIVIDENDS FORFEITED TO THE FRENCH STATE

By law, dividends that have not been claimed within five years revert to the French State.

7.6 SHAREHOLDERS' MEETING, VOTING RIGHTS

PARTICIPATION IN SHAREHOLDERS' MEETINGS

The Shareholders' Meeting is convened by the Board of Directors in accordance with applicable laws.

Shareholders' Meetings are held in the city where the registered office is located or any other location, pursuant to the decision made by the convening party and at the place indicated in the Shareholders' Meeting notices.

The Shareholders' Meeting, which is convened and established on a regular basis, represents all shareholders; its decisions are binding on all shareholders, including dissidents, incapacitated persons and absentees.

The Shareholders' Meeting is composed of all shareholders, regardless of the number of shares owned, except in the case of forfeiture in accordance with applicable laws and regulations, and upon presentation of proof of identity and ownership of the shares.

Shareholders may choose one of the following three methods to participate in Shareholders' Meetings:

- attend in person by requesting an entry card;
- give a proxy to the Chairman of the Shareholders' Meeting or any individual or legal entity of their choice; or
- absentee vote by mail.

In accordance with Article R. 225-85 of the French commercial code:

- the right to participate in the Shareholders' Meeting is demonstrated through the recording of the shares in the name of the shareholder or intermediary registered on behalf of the shareholder (pursuant to the seventh paragraph of Article L. 228-1 of the French commercial code), on the second working day preceding the Shareholders' Meeting, either in the registered share accounts held by the Company (or its agent) or in the bearer share accounts held by an authorized intermediary;
- registration of the shares in the bearer share accounts held by authorized intermediaries is recognized by a statement of participation delivered by these intermediaries, where applicable using electronic means under the conditions set forth in Article R. 225-61 of the French commercial code, as an attachment to the absentee voting form, the proxy form or the request for an entry card prepared in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary.

Any shareholder may give a proxy to any individual or legal entity of his choice in order to be represented at a Shareholders' Meeting. The proxy and, where applicable, its revocation, are written and submitted to the Company or its agent (BNP Paribas Securities Services). The proxy is revocable in the same forms as those required to designate the proxy, where applicable using electronic means. The owners of the shares properly registered in the name of an intermediary under the conditions set forth in Article L. 228-1 of the French commercial code may be represented under the terms set forth in that article through a registered intermediary.

Minors and incapacitated persons are represented by their guardians and administrators, who are not required to be shareholders themselves. A legal entity is legitimately represented by any duly authorized legal representative or by a person specially authorized for that purpose.

The Company's by-laws permit shareholders to participate in Shareholders' Meetings using electronic means, and a website has been specially created to that effect for Shareholders' Meetings, thereby enabling shareholders to vote online using this dedicated site prior to the Shareholders' Meeting. The electronic signature of proxy and absentee voting forms may result from a procedure that satisfies the conditions set forth in articles R. 225-79 (for proxies) and R.225-77 (for absentee voting) of the French commercial code.

Holders of bearer shares may also use the VOTACCESS platform for Shareholders' Meetings. This option has been offered since the April 25, 2013 Shareholders' Meeting to all holders of bearer shares whose account-keeping institution has joined the VOTACCESS system and, since the April 29, 2014 Shareholders' Meeting, starting with the first share owned. This platform enables holders of bearer shares, before the Shareholders' Meeting is held, to submit their voting instructions electronically, request an entry card or designate or revoke an agent.

Lastly, the Board of Directors may decide that the vote occurring during the Shareholders' Meeting may be expressed by videoconference or any telecommunications method that makes it possible to identify the shareholders, subject to applicable statutory and regulatory conditions.

Through a decision by the Board of Directors, shareholders can watch the Shareholders' Meeting in real time or a recorded version for one year on the Danone website.

Danone also publishes on its website the voting results and a report on the Shareholders' Meeting that refers to all of the main presentations made to shareholders.

VOTING RIGHTS

Double voting rights

The Extraordinary Shareholders' Meeting of October 18, 1935 decided to include in the Company's by-laws, the grant of double voting rights, under the conditions provided by law, in relation to the portion of the share capital that they represent, to all fully paid-up shares for which evidence is provided that they have been registered in the name of the same shareholder for at least two years, as well as – in the event of a capital increase through capitalization of reserves, earnings or additional paid-in capital – to registered shares granted free of charge to a shareholder in consideration of existing shares in respect of which he enjoys said rights. This statutory double voting right has been maintained since its creation in 1935 and coexists, in the same conditions, with the one created by the law 2014-384 of March 29, 2014, known as the "Florange law". Neither the Danone Board of Directors nor its shareholders proposed its elimination when the legal double voting right was instituted for companies whose shares are admitted for trading on a regulated market.

Double voting rights cease in the event of a transfer or conversion into bearer shares, unless otherwise provided for by law. A double voting right may moreover be terminated by an extraordinary shareholders' meeting's decision and after ratification by the special shareholders' meeting gathering all double voting right beneficiaries. A merger with another company shall not affect double voting rights, which can be exercised within the absorbing company if its by-laws have instituted this procedure.

Limitation on voting rights at Shareholders' Meetings

Principle of limitations on voting rights

The Extraordinary Shareholders' Meeting of September 30, 1992 decided to introduce into Danone's by-laws a clause limiting the voting rights, considering the weak participation rate of shareholders at Meetings. The purpose of the clause is to avoid having a shareholder exercise undue influence or even realize a "stealth" takeover of the Company. Hence, the by-laws provide that, at Shareholders' Meetings, no shareholder may cast more than 6% of the total number of voting rights attached to the Company's shares in his or her own right or through proxy (*mandataire*), in respect of single voting rights attached to shares which he or she holds directly and indirectly and of powers which have been granted to him or her. Nevertheless, if, additionally, he or she enjoys double voting rights in a personal capacity and/or in the capacity of agent, the limit set above may be exceeded by taking into account only the extra voting rights resulting therefrom. In such a case, the total voting rights that he or she represents shall not exceed 12% of the total number of voting rights attached to the Company's shares.

In accordance with Article 26.II of the Company's by-laws, this limitation applies when:

- the total number of voting rights taken into account is calculated as of the date of the Shareholders' Meeting and is brought to the attention of shareholders at the opening of the Shareholders' Meeting;
- the number of voting rights held directly and indirectly refers particularly to those attached to shares held personally by a shareholder, shares held by a corporation he or she controls within the meaning of Article L. 233-3 of the French commercial code and shares assimilated with shares held, as defined by the provisions of Articles L. 233-7 et seq. of the French commercial code;
- in respect of voting rights used by the Chairman of the Shareholders' Meeting, those attached to shares for which a proxy form has been returned to the Company without naming a proxy and which, individually, do not violate the applicable limitations, are not taken into account.

This limitation of voting rights at Shareholders' Meetings has been implemented by the Company in respect of the MFS group since 2013 (see section 7.8 *Share ownership structure of the Company as of December 31, 2017 and significant changes over the last three fiscal years* for more information on the interest held by MFS in the Company's share capital).

Exceptions to limitations on voting rights

In accordance with Article 26.II of the Company's by-laws, the aforementioned limitations shall become null and void if any individual or corporate entity, acting alone or in concert with one or more individuals or legal entities, were to come into possession of at least two-thirds of the total shares of the Company as a result of a public tender offer for all the Company's shares. The Board of Directors shall formally acknowledge that the limitations have become null and void and shall complete the corresponding modifications to the by-laws.

In addition, in accordance with the general regulations of the French Financial Markets Authority, the effects of the limitations provided for in the preceding sections shall be suspended at the first Shareholders' Meeting following the close of a takeover bid if the bidder, acting alone or in concert, were to come into possession of more than two-thirds of the total shares or total voting rights of the company concerned.

Lastly, following adoption of the 16th resolution by the Shareholders' Meeting of April 22, 2010, the limitations on voting rights shall be suspended for a Shareholders' Meeting if the number of shares present or represented at such meeting reaches or exceeds 75% of the total number of shares carrying voting rights. In such event, the Chairman of the Board of Directors (or any other person who is presiding over the meeting in his absence) shall formally acknowledge the suspension of said limitation when the Shareholders' Meeting is opened.

Reasons for the limitation of voting rights for shareholders

The Board of Directors has, on several occasions, reviewed this clause limiting voting rights at Shareholders' Meetings and, notably following discussions with its shareholders, has concluded that this voting rights limitation is in the interest of all the Company's shareholders. Thus:

- considering the effective participation rate at Shareholders' Meetings (which remains far below the average participation rate at the CAC 40's shareholders' meetings), this limitation prevents shareholders from influencing corporate decisions in a manner that would be disproportionate to the actual size of their shareholding, particularly in the event of a low quorum or when a simple majority is sufficient for the adoption of a corporate decision (with a quorum for Shareholders' Meetings of 50%, 25% of the votes could be sufficient to adopt or reject a corporate decision);
- considering Danone's disperse shareholding, in the absence of such a limitation mechanism, a shareholder could take *de facto* control of the Company "by stealth", *i.e.* without being obliged to launch a public tender offer and offer existing shareholders the possibility of selling their shares in the Company under satisfactory conditions. The clause limiting voting rights is therefore clearly aimed at requiring any shareholder wishing to take control of the Company, at any time, to launch a takeover bid for all of the Company's shares, to offer a control premium, and, when required, to respect price conditions as set by the French Financial Markets Authority. In this regard, this provision provides protection for all the shareholders and guarantees them the best valuation for their shares;

- this clause of the by-laws does not, under any circumstances, constitute an obstacle to a takeover bid on the Company, since the clause becomes automatically null and void for the first Shareholders' Meeting held subsequent to a takeover bid resulting in one or more shareholders acting in concert owning more than two-thirds of the Company's share capital or voting rights;
- the validity of clauses limiting voting rights has been recognized by the French commercial code, and their utility is illustrated by the fact that several other CAC 40 companies with a disperse shareholding have implemented a similar mechanism in their by-laws;
- the limitation clause does not affect, in any way, the economic rights of the shareholders that would be concerned by the measure insofar as such shareholders are eligible to receive the full dividend attached to the shares they own.

Like other CAC 40 companies, in 2007 the Shareholders' Meeting rejected a resolution aimed at removing this statutory clause limiting voting rights at a Meeting.

In 2010, following discussions with its shareholders, the Board considered it would be appropriate to amend the terms of the voting rights limitation mechanism in order to introduce the automatic suspension of the limitation process for any Shareholders' Meeting at which a sufficiently high quorum is achieved. Indeed, whereas this limitation appears appropriate and justified in the event of a low quorum, it appears superfluous in the event of a high quorum, since such a quorum would ensure all shareholders could express their opinion without the risk of distortion. For this reason, this limitation is suspended, in respect of any Meeting at which the number of shares whose shareholders are present or represented reaches or exceeds 75% of the total number of shares with voting rights. This suspension mechanism, based on the quorum, offers an additional guarantee to Danone's shareholders as it ensures that the voting rights limitation would be objectively activated.

In the event that a shareholder acquires a significant non-controlling interest in the Company's share capital, the quorum should automatically increase and would facilitate suspension of the clause, while ensuring that said shareholder was not able to influence proceedings at the Shareholders' Meeting in a manner disproportionate to his or her shareholding.

The quorum achieved at the Shareholders' Meeting of April 27, 2017 was 52.5%.

7.7 CROSSING OF THRESHOLDS, SHARES AND SHARE SALES

CROSSING OF THRESHOLDS

A shareholder is legally required to inform the Company and the French Financial Markets Authority whenever any of the following thresholds are crossed in either direction, within four trading days of when the threshold is crossed: 5%, 10%, 15%, 20%, 25%, 30%, one-third, 50%, two-thirds, 90% or 95% of the Company's share capital or voting rights (Article L. 233-7 of the French commercial code). In addition, any individual or legal entity that comes to acquire or ceases to hold in any manner whatsoever, within the meaning of Articles L. 233-7 et seq. of the French commercial code, a fraction equivalent to 0.5% of the voting rights or a multiple thereof must, within five trading days of crossing such threshold, notify the Company of the total number of shares or securities giving future access to the capital and the total number of voting rights that said individual or entity holds alone, or indirectly, or in concert, by registered mail with return receipt to the Company's registered office. If the threshold is crossed as a result of a purchase or sale in the open market, the notification period of five trading days begins with the date of trade and not the date of delivery.

In the event of failure to comply with this notification requirement, at the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been reported may not be exercised or delegated by the non-complying shareholder at any Shareholders' Meeting held during a period of two years as from the date on which the shareholder makes the corrective notification.

PURCHASES AND SALES OF COMPANY SHARES

There is no clause in the Company's by-laws giving preferential rights for the purchase or sale of Company shares.

7.8 SHARE OWNERSHIP STRUCTURE OF THE COMPANY AS OF DECEMBER 31, 2017 AND SIGNIFICANT CHANGES OVER THE PAST THREE FISCAL YEARS

SHARE OWNERSHIP STRUCTURE AS OF DECEMBER 31, 2017

It should be noted that double voting rights are granted to all fully paid-up shares held in registered form in the name of the same shareholder for at least two years (see section 7.6 *Shareholders' Meeting, voting rights*).

As of December 31, 2017, shareholders having disclosed shareholdings exceeding 1.5% of voting rights in the Company (based on reported crossings of statutory thresholds received by the Company)

Shareholders	Number of shares held	% of share capital	Number of gross voting rights	% of gross voting rights [a]	Number of net voting rights	% of net voting rights [b]
MFS [c]	59,943,156	8.9%	51,918,806	7.4%	51,918,806	7.8%
BlackRock	40,773,191	6.1%	40,773,191	5.8%	40,773,191	6.1%
First Eagle Investment Management	16,296,614	2.4%	16,296,614	2.3%	16,296,614	2.4%
Amundi Asset Management	14,909,453	2.2%	13,331,003	2.1%	13,331,003	2.0%
Sofina Group	14,292,198	2.1%	28,217,945	4.0%	28,217,945	4.2%
Lyxor	12,770,814	1.9%	12,770,814	1.8%	12,770,814	1.9%
Norges Bank	11,954,907	1.8%	11,954,907	1.7%	11,954,907	1.8%
CDC Group	11,262,220	1.7%	11,262,220	1.6%	11,262,220	1.7%
Employee shareholders– "*Fonds Danone*" company investment fund	8,530,765	1.3%	16,462,405	2.3%	16,462,405	2.5%
Treasury shares – the Company	32,526,992	4.8%	32,526,992	4.6%	–	–
Treasury shares –Danone Spain subsidiary	5,780,005	0.9%	5,780,005	0.8%	–	–
Other	441,670,085	65.9%	464,260,614	65.8%	464,260,948	69.6%
Total	**670,710,400**	**100.0%**	**705,555,516**	**100.0%**	**667,248,853**	**100.0%**

(a) The percentage of gross voting rights is calculated taking into account the treasury shares held by the Company and its subsidiaries, which are stripped of voting rights.

(b) The number of net voting rights (or voting rights "exercisable in a Shareholders' Meeting") is calculated excluding shares stripped of voting rights.

(c) The voting rights of MFS group were capped at 6% at the Shareholders' Meeting of April 27, 2017 in accordance with Article 26.II of the by-laws of the Company (see section 7.6 *Shareholders' Meeting, voting rights* above for details on limitations on voting rights at Shareholders' Meetings).

As of December 31, 2017, the portion of the Company's share capital held by shareholders in registered form on the Company share register (*nominatif pur*) and in registered form on the books of a financial intermediary (*nominatif administré*) and pledged was not material.

To the Company's knowledge, on the basis of threshold crossing disclosures made to the French Financial Markets Authority, no shareholder other than MFS and BlackRock held a stake of more than 5% in the Company's share capital or voting rights as of December 31, 2017.

Shares held by members of the Board of Directors and Executive Committee

See section 6.5 *DANONE shares held by the Board of Directors and Executive Committee members.*

SIGNIFICANT CHANGES IN THE COMPANY'S SHARE OWNERSHIP DURING THE PAST THREE FISCAL YEARS

Year ended December 31

			2017			2016			2015
Shareholders	**Number of shares**	**% of total shares**	**% of net voting rights [a]**	**Number of shares**	**% of total shares**	**% of net voting rights [a]**	**Number of shares**	**% of total shares**	**% of net voting rights [a]**
MFS	59,943,156	8.9%	7.78%	70,545,063	10.8%	9.1%	83,804,278	12.8%	10.8%
BlackRock	40,773,191	6.1%	6.1%	34,552,051	5.3%	5.4%	34,552,051	5.3%	4.9%
First Eagle Investment Management	16,296,614	2.4%	2.4%	14,155,850	2.2%	2.2%	14,797,091	2.3%	2.3%
Amundi Asset Management	14,909,453	2.2%	2.0%	14,250,441	2.2%	3.4%	11,447,283	1.7%	1.8%
Sofina Group	14,292,198	2.1%	4.2%	14,110,330	2.2%	3.4%	14,110,330	2.2%	3.3%
Lyxor	12,770,814	1.9%	1.9%	–	–	–	–	–	–
Norges Bank	11,954,907	1.8%	1.8%	11,330,020	1.3%	1.8%	9,357,050	1.4%	1.5%
CDC Group	11,262,220	1.7%	1.7%	10,924,281	1.7%	1.7%	10,823,151	1.7%	1.7%
Employee shareholders – "*Fonds Danone*" company investment fund	8,530,765	1.3%	2.5%	8,343,996	1.3%	2.5%	8,190,638	1.3%	2.5%
Treasury shares – the Company	32,526,992	4.8%	–	33,129,198	5.1%	–	33,946,170	5.2%	–
Treasury shares –Danone Spain subsidiary	5,780,005	0.9%	–	5,780,005	0.9%	–	5,780,005	0.9%	–
Other	441,670,085	65.9%	69.6%	427,029,251	65.1%	67.7%	416,865,269	63.6%	69.6%
Total	**670,710,400**	**100%**	**100%**	**655,892,000**	**100%**	**100%**	**654,951,200**	**100%**	**100%**

(a) This percentage excludes treasury shares held by the Company and its subsidiaries, which have been stripped of voting rights.

Ownership interest held by MFS

In the fiscal years 2015 to 2017, the ownership interest held by Massachusetts Financial Services ("MFS") group in the Company's share capital has fallen to 8.9% of the share capital as of December 31, 2017.

MFS indicated to the Company that the number of (gross and net) voting rights that it holds in the Company is less than the number of shares it owns, as certain of its clients retain voting rights to the shares whose management is assigned to MFS. Thus, as of December 31, 2017, MFS informed the Company that it held 59,943,156 DANONE shares (approximately 8.9% of the share capital), including 51,918,806 shares (approximately 7.7% of the share capital) for which MFS exercises voting rights and 8,024,350 shares (approximately 1.2% of the share capital) for which MFS clients have retained voting rights.

Ownership interest held by BlackRock

In the fiscal years 2015 to 2017, BlackRock increased its ownership interest in the Company's share capital to 6.1% of the Company's shares as of December 31, 2017.

Between January and February 2017, BlackRock made several disclosures regarding the crossing of the 5% threshold for shares capital or voting rights, in both directions (see disclosures No. 217C0121, No. 217C0153, No. 217C0225, No. 217C0452 and No. 217C0478).

Other significant changes during the past three fiscal years

With the exception of the aforementioned disclosures by BlackRock, no other disclosures regarding the crossing of statutory thresholds pertaining to the Company's share capital or voting rights were published by the French Financial Markets Authority in fiscal year 2017.

To the best of the Company's knowledge, no other significant changes in the Company's shareholding structure have taken place during the past three fiscal years.

Employee shareholding

Each year, Danone carries out a capital increase reserved for Danone employees participating in a company savings plan.

As of December 31, 2017, to the Company's knowledge, the number of the Company's shares held directly or indirectly by employees of the Company and of companies related to it, and, in particular, those that are subject to collective management or conditions prohibiting their disposal, either within the framework of a French company savings plan (*Plan d'Épargne Entreprise*) or through French company investment funds (*Fonds Communs de Placement Entreprise – FCPE*) (the "*Fonds Danone*" company investment fund and the company investment funds of other Danone subsidiaries), was 9,549,226, *i.e.* 1.4% of the Company's share capital, including the 8,530,765 shares (1.3% of the share capital) held by the "*Fonds Danone*" *FCPE*.

Only the supervisory board of the "*Fonds Danone*" *FCPE* is authorized to vote on behalf of the shares held by the *FCPE*. As an exception to this principle, in accordance with the decisions taken by the supervisory board, holders of shares in the *FCPE* may be consulted directly by referendum in the event that the supervisory board has a split vote. The supervisory board is currently composed of: (i) four employee members representing current and former employees, who are appointed by the representatives of the various trade unions representing the Company's employees in accordance with the French labor code, and of (ii) four members representing the Company and appointed by Danone's management.

Identifiable bearer shareholders

Under the terms of its by-laws and in accordance with the legislation and regulations, the Company may, at any time, ask the entity responsible for clearing shares (Euroclear France) for the name or company name, nationality, and address of the holders of shares or other securities conferring immediate or future voting rights at its Shareholders' Meetings, along with the number of securities held by each of them and, if applicable, any restrictions placed upon such securities. Euroclear France obtains the information requested from account-holding custodians affiliated to it, which are obliged to provide such information.

Distribution of shareholders based on the Company's survey in December 2017 of identifiable bearer shareholders

		Percentage of share capital
Institutional investors		**77%**
Including,	*United States*	*46%*
	France	*20%*
	Rest of Europe	*16%*
	United Kingdom	*6%*
	Switzerland	*6%*
	Rest of World	*6%*
Individual shareholders and "*Fonds Danone*" *FCPE*		**10%**
Treasury shares		**6%**
Other		**7%**
Total		**100%**

7.9 MARKET FOR THE COMPANY'S SHARES

LISTING MARKETS AND INDEXES

Listing markets

The Company's shares are listed on Euronext Paris (Compartment A – Deferred Settlement Service; ISIN Code: FR 0000120644; ticker "BN") and also have a secondary listing on the Swiss Stock Exchange (SWX Suisse Exchange).

Danone also maintains a sponsored Level 1 program of American Depositary Receipts (ADR), which are traded over-the-counter through the OTCQX platform under the symbol DANOY (each ADR representing one-fifth of a DANONE share). OTCQX is an information platform representing over 300 international groups and enabling them to access U.S. investors while guaranteeing price transparency.

Indexes

DANONE shares are included in the following indexes:

- CAC 40, the principal index of Euronext Paris;
- Eurostoxx 50, which lists the 50 largest market capitalizations in the euro zone.

The Company is also included in the leading social responsibility indexes (see section 5.1 *Danone's integrated vision of social, societal and environmental responsibility*).

STOCK PRICE AND TRADING VOLUME

Year ended December 31, 2017

	Number of shares traded		Trading volume		Stock price	
	Total *(in number of shares)*	**Daily average** *(in number of shares)*	**Total trading volume** *(in € billions)*	**Average monthly price** *(in € per share)*	**High** *(in € per share)*	**Low** *(in € per share)*
January	34,068,128	1,548,551	2.04	59.90	61.75	57.99
February	38,482,844	1,924,142	2.33	60.55	63.06	58.06
March	35,863,280	1,559,273	2.26	63.10	64.46	61.14
April	33,439,319	1,857,740	2.13	63.76	64.49	61.87
May	41,119,494	1,869,068	2.70	66.14	67.75	63.73
June	39,640,324	1,801,833	2.67	67.24	69.52	65.81
July	32,584,569	1,551,646	2.12	65.26	66.85	62.86
August	37,469,518	1,629,109	2.47	66.15	68.40	62.52
September	35,034,999	1,668,333	2.34	66.79	68.58	65.33
October	32,407,762	1,473,080	2.25	69.25	72.67	66.62
November	30,442,756	1,383,762	2.13	69.85	71.73	68.50
December	28,120,531	1,480,028	1.98	70.66	72.13	69.28

Source: Euronext Paris. Includes over-the-counter trading.

7.10 FACTORS THAT MIGHT HAVE AN IMPACT IN THE EVENT OF A PUBLIC TENDER OFFER

In accordance with article L. 225-37-5 of the French commercial code, factors that might have an impact in the event of a tender offer.

(i) Structure of the Company's share capital

See section 7.8 *Share ownership structure of the Company as of December 31, 2017 and significant changes over the last three fiscal years.*

(ii) Voting rights restrictions set forth in the by-laws

The Company's by-laws provide for a system of limitation of voting rights, described in section 7.6 *Shareholders' Meeting, voting rights.* The Shareholders' Meeting of April 22, 2010 decided to include a mechanism for suspending this limitation if the number of shares present or represented at a Shareholders' Meeting reaches or exceeds 75% of the total number of shares carrying voting rights.

In addition, the Company's by-laws provide for a reporting obligation for anyone who would hold or cease to hold a fraction equal to 0.5% of voting rights or a multiple thereof, beginning when one of the thresholds is crossed. This mechanism is described in section 7.7 *Crossing of thresholds, shares and share sales*.

In the event of failure to comply with this notification requirement, upon the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been disclosed may not be exercised or delegated by the non-complying shareholder at any Shareholders' Meeting held during a period of two years from the date on which the shareholder makes the corrective notification.

As of the publication date of this Registration Document, the Company is not aware of any clause of agreements providing for preferential terms of purchase or sale concerning at least 0.5% of the capital or voting rights of the Company.

(iii) Direct or indirect holdings in the Company's share capital of which the Company is aware

See section 7.8 *Share ownership structure of the Company as of December 31, 2017 and significant changes over the last three fiscal years*.

(iv) Holders of securities providing special control rights on the Company and description of such rights

None.

(v) Control mechanisms provided for any employee shareholding program, when such control rights are not exercised by employees

Only the supervisory board of the "*Fonds Danone*" company investment fund has the authority to decide how to respond to a possible tender offer with respect to the DANONE shares held by the fund. As an exception to this principle, holders of shares in the company investment fund may be consulted directly by referendum if the supervisory board has a split vote.

(vi) Agreements between shareholders of which the Company is aware and that could impose restrictions on the transfer of shares and the exercise of voting rights

To the Company's knowledge, no agreement exists between shareholders that could impose restrictions on the transfer of the Company's shares and the exercise of voting rights.

(vii) Rules applicable to the appointment and replacement of members of the Board of Directors or to amendments of the by-laws

With the exception of the rules approved by the shareholders at the Shareholders' Meeting of April 29, 2014 concerning the appointment of the Directors representing employees (see section 6.1 *Governance bodies*), there are no specific rules applicable to the appointment and replacement of members of the Board of Directors or to amendments of the by-laws.

(viii) Powers of the Board of Directors in the event of a public tender offer

Pursuant to the resolution approved by shareholders at the April 27, 2017 Shareholders' Meeting, the Board of Directors is prohibited from implementing the Company share buyback program during a public tender offer involving the Company's shares. The Shareholders' Meeting of April 26, 2018 will be asked to renew this prohibition.

Moreover, in accordance with the decision of the Shareholders' Meeting of April 27, 2017, the Board of Directors cannot decide to issue shares and securities with or without preferential subscription rights (other than capital increases reserved for employees and managers and grants of Group performance shares) during periods when the Company's shares are the subject of a public tender offer.

(ix) Agreements signed by the Company that are amended or terminated in the event of a change of control of the Company

- Danone granted put options to certain non-controlling shareholders of its subsidiaries relating to their shares, which may be exercised during a public tender offer. The amount of such options is set out in Note 3.6 of the Notes to the consolidated financial statements.
- In 2005, the Company and the Arcor group signed an agreement governing relations between Danone and Arcor within the joint venture named Bagley Latino America, a Latin American leader in biscuits, in which the Company holds a 49% equity interest. In the event of a change of control of the Company, the Arcor group will have the right to have the Company repurchase all of its interest held in Bagley Latino America at its fair value.
- In 2016, Danone entered into a new shareholders' agreement with Al Faisaliah Holding that governs their relations within their jointly owned company Alsafi Danone Company Limited, a Saudi-based company selling fresh dairy products and fruit juice in the Middle East in which Danone holds an indirect 17% stake. In the event of a change of control in the Company without the consent of Al Faisaliah Holding, Al Faisaliah Holding could terminate the shareholders' agreement and exercise a call option on the shares held by Danone in Alsafi Danone Company Limited.
- Under the terms of contracts regarding the use of mineral springs, in particular Volvic and Évian in France, Danone has very longstanding and privileged relations with local municipalities in which these springs are located. It is difficult for the Company to assess with certainty the impact on these contracts of any change in its control.
- The stock-option plans, as well as Group performance units (GPU) and Group performance shares (GPS) plans, that were put in place by the Company for the benefit of certain employees and its corporate officers, include specific provisions in the event of a change of control of the Company resulting from a public tender offer on the Company's securities, described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*.
- Danone's syndicated facility agreement includes a change of control provision, which offers the lending banks an early redemption right in the event of a change of control of the Company, if it is accompanied by a downgrade of its rating by the rating agencies to sub-investment grade. This syndicated facility agreement represents a principal amount of €2 billion.
- The Company's EMTN bond issuance program, its U.S. bond issuances in June 2012 and November 2016 and certain bilateral bank credit facility also include a similar mechanism in the event of a change of control of the Company (see Note 10.3 of the Notes to the consolidated financial statements).

(x) Agreements providing for indemnities to be paid to employees and corporate officers of the Company in the event that they resign, or their employment is terminated without cause or if their employment ends due to a public tender offer

See section 6.3 *Compensation and benefits of governance bodies*.

7.11 CHANGE OF CONTROL

To the Company's knowledge, no agreement exists which, if implemented, could, at a future date, lead to a change of control of the Company.

APPENDIX

CROSS-REFERENCE TABLES

CROSS-REFERENCE TABLE FOR THE ANNUAL FINANCIAL REPORT

In order to facilitate the reading of this Registration Document, the cross-reference table hereafter enables to identify the information, required in accordance with Article L. 451-1-2 of the French monetary and financial code and Article 222-3 of the general regulations of the French Financial Markets Authority, which constitute the annual financial report.

Annual Financial Report		Sections of the Registration Document
1.	**Company financial statements**	4.2
2.	**Consolidated financial statements**	4.1
3.	**Management report (within the meaning of the French monetary and financial code)** See the cross-reference table for the Management Report, parent company Danone and Danone Group hereinafter	
4.	**Statements of the persons responsible for the Annual Financial Report**	1.3
5.	**Statutory Auditors' report on the Company's financial statements and the consolidated financial statements**	4.1, 4.2
6.	**Report on the corporate governance (Article L. 225-37 of the French commercial code)**	6.1, 6.3

CROSS-REFERENCE TABLE FOR THE PROVISIONS OF ANNEX I OF THE 809/2004 REGULATION OF THE EUROPEAN COMMISSION

This cross-reference table identifies the main information required by Annex I of the 809/2004 Regulation of the European Commission dated April 29, 2004. This table refers to the sections of this Registration Document on which the information related to each item is indicated.

Document of registration relating to shares		Sections of the Registration Document
1.	**Persons responsible**	
1.1	Identity	1.3
1.2	Statement	1.3
2.	**Statutory auditors**	
2.1	Identity	1.1
2.2	Potential change	1.1
3.	**Selected financial information**	
3.1	Historical financial information	Section "Key figures"
3.2	Financial information for interim periods	N/A
4.	**Risk factors**	2.7
5.	**Information about the issuer**	
5.1	History and development of the Company	
5.1.1	*Legal and commercial name*	*1.1*
5.1.2	*Registration place and number*	*1.1*
5.1.3	*Incorporation date and term*	*1.1*
5.1.4	*Registered office, legal form, applicable legislation, country of incorporation, address and telephone number of the registered office*	*1.1*
5.1.5	*Important events in the business development*	*2.1 à 2.5, 3.1, 3.5*
5.2	Investments	
5.2.1	*Principal investments made*	*3.1, 3.3*
5.2.2	*Principal investments in progress*	*3.1, 3.3*
5.2.3	*Principal future investments*	*3.1, 3.3, 3.5*
6.	**Business overview**	
6.1	Principal activities	
6.1.1	*Nature of operations and principal activities*	*2.2 à 2.5, 3.1, 3.5*
6.1.2	*Development of new products and/or services*	*2.3, 2.4*
6.2	Principal markets	2.2, 2.4
6.3	Exceptional events	N/A
6.4	Dependence of the issuer	N/A
6.5	Competitive position of the issuer	1.2 (Definition of "Danone's market shares and positions"), 2.2, 2.5
7.	**Organizational structure**	
7.1	Brief description of the Group	2.6
7.2	List of the significant subsidiaries	2.6
8.	**Property, plants and equipment**	
8.1	Material tangible fixed assets	2.5, 4.1
8.2	Environmental issues	2.5, 5.1, 5.4

A

Document of registration relating to shares		Sections of the Registration Document
9.	**Operating and financial review**	
9.1	Financial position	3.1 à 3.4, 4.1
9.2	Operating results	
9.2.1	*Significant factors materially influencing the operating income*	*2.2, 2.7, 3.2, 4.1*
9.2.2	*Evolution of net sales or net revenues*	*2.2, 3.2, 4.1*
9.2.3	*External factors materially influencing the operations*	*2.5, 2.7*
10.	**Capital resources**	
10.1	Issuer's capital resources	3.4, 4.1, 7.1
10.2	Cash flows	3.3, 4.1
10.3	Information on the borrowing requirements and funding structure of the issuer	3.4, 4.1
10.4	Restrictions on the use of capital resources	3.4, 4.1
10.5	Anticipated sources of funds	3.4, 4.1
11.	**Research and development, patents and licenses**	2.5, 3.1
12.	**Trend information**	
12.1	Most significant recent trends since the end of the last fiscal year	3.5
12.2	Events that are reasonably likely to have a material effect on the issuer's prospects	3.5
13.	**Profit forecasts or estimates**	N/A
14.	**Administrative and senior management**	
14.1	Information on the members	6.1, 6.2
14.2	Conflicts of interests	6.1
15.	**Compensation and benefits**	
15.1	Compensation paid and benefits in kind	6.3, 6.4
15.2	Provisions for retirement obligations	6.3
16.	**Functioning of the board and management**	
16.1	Expiration date of the terms of office	6.1, 6.2
16.2	Services agreements relating to the members of the Board and of the management	N/A
16.3	Information about the Audit Committee, the Nomination and Compensation Committee, the Social Responsibility Committee and the Strategy Committee	6.1
16.4	Corporate governance	6.2, 6.3
17.	**Employees**	
17.1	Number of employees	4.1
17.2	Shareholdings and stock-options held by the members of the Board of Directors and by the members of the Executive Committee	6.3, 6.4, 6.5
17.3	Arrangements involving the employees in the capital of the issuer	5.3, 7.8
18.	**Major shareholders**	
18.1	Shareholding of the issuer	7.8
18.2	Voting rights	7.6
18.3	Control of the issuer	7.8
18.4	Change of control	7.11
19.	**Related party transactions**	4.1, 6.7

Document of registration relating to shares		Sections of the Registration Document
20.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**	
20.1	Historical financial information	1.2, 4.1, 4.2
20.2	Pro forma financial information	N/A
20.3	Financial statements	1.2, 4.1, 4.2
20.4	Auditing of historical annual financial information	
20.4.1	*Statement of audit of the historical financial information*	*4.1, 4.2*
20.4.2	*Other information audited by the auditors*	*5.6, 6.6*
20.4.3	*Financial data not extracted from audited financial statements of the issuer*	*3.6*
20.5	Date of latest financial information	31 décembre 2017
20.6	Interim and other financial information	
20.6.1	*Half yearly and quarterly financial information*	*N/A*
20.6.2	*Interim Financial Information*	*N/A*
20.7	Dividend policy	7.5
20.7.1	*Amount of the dividend per share*	*7.5*
20.8	Legal and arbitration proceedings	3.1
20.9	Significant change in the issuer's financial or commercial position	3.5
21.	**Additional information**	
21.1	Share Capital	
21.1.1	*Amount of issued and authorized capital*	*7.1, 7.3*
21.1.2	*Shares not representing capital*	*N/A*
21.1.3	*Shares held by the issuer or its subsidiaries*	*7.2, 7.8*
21.1.4	*Convertible securities, exchangeable securities or securities with warrants*	*N/A*
21.1.5	*Acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital*	*N/A*
21.1.6	*Options on the capital of Group members*	*4.1, 7.10*
21.1.7	*History of share capital*	*7.1*
21.2	Incorporation documents and by-laws	
21.2.1	*Objects and purposes*	*1.1*
21.2.2	*Administrative, management and supervisory bodies*	*6.1*
21.2.3	*Rights, preferences and restrictions attaching to shares*	*7.5, 7.6*
21.2.4	*Change of shareholders' rights*	*7.3, 7.6*
21.2.5	*Convening of shareholders' meetings and conditions of admissions*	*7.6*
21.2.6	*Provisions that may delay, defer or prevent a change of control*	*7.10*
21.2.7	*Declarations of crossing statutory thresholds*	*7.7*
21.2.8	*Stringent conditions than required by the law for any change in the capital*	*7.3*
22.	**Material contracts**	3.1
23.	**Third party information and statement by experts and declarations of any interest**	
23.1	Identity	N/A
23.2	Statement	N/A
24.	**Documents available to the public**	3.7
25.	**Information on holdings**	2.6, 4.1

CROSS-REFERENCE TABLE FOR THE MANAGEMENT REPORT, PARENT COMPANY DANONE AND DANONE GROUP

The cross-reference table hereinafter enables to identify the main information of the Management Report, parent company Danone and Danone Group required by the French commercial code.

Information required	Reference text	Sections of the Registration Document
Situation and activity		
Analysis of changes in business, results and the financial situation during the last fiscal year	L. 225-100-1, I 1° of the French commercial code	3.1 to 3.4, 4.1 and 4.2
Key financial and non-financial performance indicators	L. 225-100-1, I 2° of the French commercial code	Section "Key figures"
Main risks and uncertainties	L. 225-100-1, I 3° of the French commercial code	2.7
Financial risks resulting from the effects of the climate change and measures undertaken by the Company	L. 225-100-1, I 4° of the French commercial code	2.7 and 5.4
Internal control and risk management procedures	L. 225-100-1, I 5° of the French commercial code	2.8
Company's objectives, hedging policy and exposure to price, credit, liquidity and cash flows risks	L. 225-100-1, I 6° of the French commercial code	2.7, 4.1 and 4.2
Research and development activities	L. 232-1, II and L. 233-36 of the French commercial code	3.1
Material events occurred since the end of the fiscal year	L. 232-1, II and L. 233-36 of the French commercial code	3.5
Company and Group foreseeable trends and outlook	L. 232-1, II and L. 233-36 of the French commercial code	3.5
Acquisition of significant equity interests or control in companies headquartered in France	L. 233-6 paragraph 1 of the French commercial code	N/A
Activities of the Company's subsidiaries	L. 233-6 paragraph 2 of the French commercial code	2.2, 2.4, 3.1 to 3.4
Table of the Company's financial results over the last five years	R. 225-102 of the French commercial code	4.2
Information relating to suppliers and clients' terms of payment	L. 441-6-1 and D. 441-4 of the French commercial code	4.3
Coporate governance		
Board of Directors' Report on corporate governance	L. 225-37 and L. 225-37-4 (1°, 2°, 4° and 8°) of the French commercial code	6.1, 6.2 and 6.3
Compensation policy for the corporate officers	L. 225-37-2 of the French commercial code	6.3 and 6.4
Compensation and benefits of any kind paid to each corporate officer during the previous fiscal year	L. 225-37-3 of the French commercial code	6.3 and 6.4
Attribution and retention of options by corporate officers	L. 225-185 of the French commercial code	6.3 and 6.4
Attribution and retention of free share grants by corporate officers	L. 225-197-1, II of the French commercial code	6.3 and 6.4
Summary of the Company's shares trading by corporate officers and related persons	L. 223-26 of the general regulations of the French Financial Markets Authority and L. 621-18-2 of the French monetary and financial code	6.5

Information required	Reference text	Sections of the Registration Document
Share ownership and capital		
Information that may have an impact in the event of a takeover bid	L. 225-37-5 of the French commercial code	7.10
Employees shareholding as of the end of the fiscal year	L. 225-102 of the French commercial code	7.8
Acquisition and disposal by the Company of treasury shares	L. 225-211 of the French commercial code	7.2
Delegations of authority relating to a share capital increase currently in force	L. 225-37-4 3° of the French commercial code	7.3
Environmental, social and societal information		
Social, societal and environmental information	L. 225-102-1 and R. 225-105 of the French commercial code	5.1 to 5.4
Vigilance plan	L. 225-102-4 of the French commercial code	5.1

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FINANCIAL COMMUNICATION CALENDAR 2018

February 16, 2018
2017 Full-Year Results

April 18, 2018
2018 First-Quarter Sales

April 26, 2018
2018 Shareholders' Meeting

July 27, 2018
2018 First-Half Results

October 17, 2018
2018 Third-Quarter Sales

DANONE 17

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