REGISTRATION DOCUMENT 2018
ANNUAL FINANCIAL REPORT

Danone
ONE PLANET. ONE HEALTH

DANONE GOALS BY 2030

DANONE
A FRENCH CORPORATION (SOCIÉTÉ ANONYME) WITH SHARE CAPITAL OF €171,263,800
REGISTERED OFFICE: 17, BOULEVARD HAUSSMANN, 75009 PARIS
PARIS CORPORATE REGISTER NUMBER: 552 032 534

2018

REGISTRATION DOCUMENT

ANNUAL FINANCIAL REPORT

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

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

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 13, 2019, 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

DANONE
ONE PLANET. ONE HEALTH

"I am proud of the results achieved by our teams at Danone in 2018. Our company is becoming more agile every day. We keep adjusting our ways of working and delivering efficiency. And we adapt to the ever changing world around us. With Specialized Nutrition, Waters and our global plant-based brands from WhiteWave continuing to post strong growth despite a very volatile environment, the year has seen the encouraging progress of our EDP business in Europe, which stabilized in the 4th quarter last year. This could not have happened without the multi-faceted reinvention of *Activia*, which shows that after years of decline, embracing with no fear the new paradigms can turn around a large global brand.

I would like to thank our teams for their demonstrated ability last year to both deliver on our short-term commitments, and simultaneously walk the path to our 2020 commitments and prepare the future, an imperative for those companies, like ours, that have a true ambition to thrive through the food revolution, with the support of many partners."

Emmanuel FABER, Chairman and Chief Executive Officer

+2.9% (a)
€ 24.7 bn
SALES
+3.6% excluding the impact of the Morocco boycott

+51 bps (a)
14.45%
RECURRING OPERATING MARGIN
+58 bps excluding the impact of the Morocco boycott

+7.1% (b)
€ 2.2 bn
FREE CASH FLOW

+12.8% (c)
RECURRING EPS AT CONSTANT EXCHANGE RATE

89% (d)
OF VOLUME SOLD ARE SUITABLE FOR DAILY CONSUMPTION

A
SCORE FOR CDP CLIMATE CHANGE

~30%
OF SALES COVERED BY B CORP™ CERTIFICATION

50% (e)
OF WOMEN IN MANAGEMENT ROLES

(a) Like-for-like New Danone.
(b) On a reported basis.
(c) Excluding Yakult Transaction and IAS 29 impacts.
(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 (excluding WhiteWave). Based on official public health recommendation, these categories are generally suitable for daily consumption.
(e) Proportion of Danone female managers, directors and executives.

	ESSENTIAL DAIRY & PLANT-BASED INTERNATIONAL	ESSENTIAL DAIRY & PLANT-BASED NORAM	SPECIALIZED NUTRITION	WATERS
Sales 2018	€8.0 bn +0.1% (a)	€5.0 bn +1.5% (a)	€7.1 bn +5.9% (a)	€4.5 bn +5.3% (a)
Recurring Operating Margin 2018	9.06% +29 bps (a)	11.71% +25 bps (a)	24.77% +139 bps (a)	10.79% -82 bps (a)

KEY FINANCIAL FIGURES

In millions of euros except if stated otherwise	2017	2018	Reported Changes	Like-for-like New Danone Changes (f)
Sales	**24,812**	**24,651**	**-0.7%**	**+2.9%**
Recurring operating income (f)	**3,537**	**3,562**	**+0.7%**	**+6.7%**
Recurring operating margin (f)	***14.26%***	***14.45%***	***+20bps***	***+51bps***
Non-recurring operating income and expenses	192	(821)	(1,013)	
Operating income	3,729	2,741	-26.5%	
Operating margin	*15.03%*	*11.12%*	*-391bps*	
Recurring net income – Group share (f)	**2,186**	**2,304**	**+5.4%**	
Non-recurring net income – Group share	263	46	(217)	
Net income – Group share	2,449	2,349	-4.1%	
Recurring EPS (€) (f)	**3.48**	**3.56**	**+2.2%**	
EPS (€)	3.90	3.63	.0%	
Free cash flow (f)	**2,083**	**2,232**	**+7.1%**	
Cash flow from operating activities	2,958	3,111	+5.2%	

(f) Financial indicator not defined in IFRS, see definition in section 3.6 *Financial indicators not defined in IFRS.*

1

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

Unless otherwise stated, all amounts in this Annual Report are (i) expressed in Euro and (ii) presented in millions for convenience. Such amounts may have been rounded. Rounding differences may exist, including for percentages.

The financial information presented in section *Key figures* is extracted from section 3 *Danone's business highlights in 2018 and outlook for 2019* and from Danone's consolidated financial statements for fiscal year 2018 prepared in accordance with International Financial Reporting Standards (IFRS).

Consolidated financial statements and Notes to the consolidated financial statements for fiscal year 2018 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 hereinafter 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 2018 fiscal year;
Danone	All references herein to "Danone" or the "Group" refer to the Company and its consolidated 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;
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;
Value of GPS	All references herein to the value of GPS 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) N°. 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, 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;

- the consolidated financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2017 on pages 74 to 136 of the Registration Document filed with the AMF on March 12, 2018 under filing number D.18-0116;
- the annual financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2017 on pages 137 to 156 of the Registration Document filed with the AMF on March 12, 2018;
- the selected financial information, the Group's management report and all non-financial information pertaining to the fiscal year ended December 31, 2017 on pages 2 to 3 and 48 to 65 of the Registration Document filed with the AMF on March 12, 2018.

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 13, 2019

"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, and 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 and bottled water.

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-focused 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

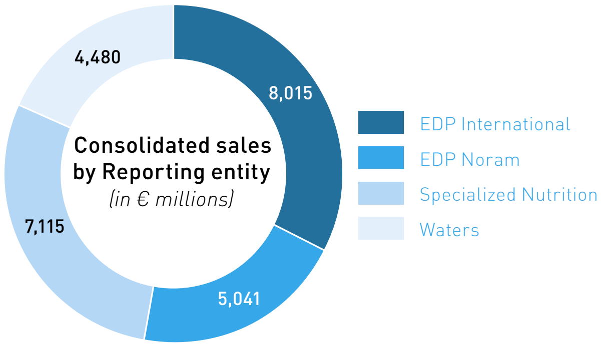
2014 was a turning point for Danone, with the launch of a transformational plan whose goal is to generate strong, profitable and sustainable growth. To reinforce the Company's economic and social impact, Danone also created its Manifesto, which expresses Danone's convictions and commitments to implement 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 is structured around the following four Reporting entities (see definitions in section 1 *Information about the issuer and information about the Registration Document*):

- EDP International (33% of the Company 's Sales in 2018);
- EDP Noram (20% of the Company 's Sales in 2018);
- Specialized Nutrition (29% of the Company 's Sales in 2018), which combines Early Life Nutrition and Advanced Medical Nutrition Businesses;
- Waters (18% of the Company 's Sales in 2018).



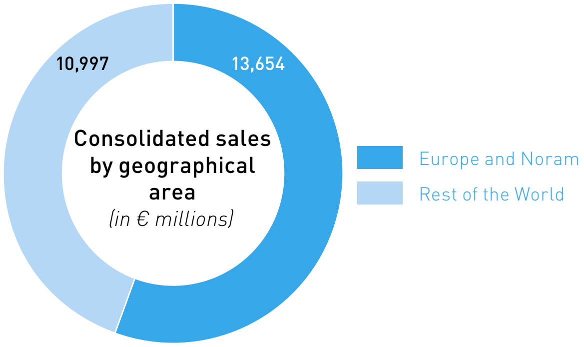
Danone enjoys, in value, the following leadership positions (in the relevant categories and markets):

- 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

Danone's organization is structured around two geographical areas:

- the Europe and Noram region, which represented 55% of the Company's Sales in 2018, 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 45% of the Company's Sales in 2018:
  - in Latin America, the main contributors are Mexico, Argentina and Brazil, with all the Company's Business Entities 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 an activity focused mainly on Essential Dairy & Plant-Based and Waters.



Top 10 countries in terms of sales

	Year ended December 31	
(in percentage)	**2017 Restated**	**2018**
United States	18%	20%
China	7%	9%
France	9%	9%
Russia	7%	6%
Indonesia	5%	5%
United Kingdom	5%	5%
Mexico	4%	4%
Spain	4%	4%
Germany	4%	3%
Brazil	4%	3%

Changes in these rankings from one year to the next also reflect currency fluctuations, especially high volatility in emerging markets.

Top 10 customers

In 2018, Danone's top 10 customers worldwide (five of which are French) accounted for approximately 20% of its consolidated sales; the top five customers represented approximately 13% of its consolidated sales.

2.3 STRATEGIC PRIORITIES

DANONE'S "ONE PLANET. ONE HEALTH" VISION

Launched in 2017, Danone's "One Planet. One Health" vision reflects the strong belief that people's and the planet's health are interconnected. This vision builds on decades of responsible business stewardship and lies at the core of Danone's strategic priorities. Danone is committed to offering people healthier and more sustainably produced food and beverage choices, as well as to taking care of employees, communities, and the environment.

This vision is inspired by the food generation, *i.e.* the growing number of people who increasingly care about where their food comes from, how it has grown, how it arrived to them, as well as about social and environmental practices of brands. Danone aims to play a key role in this food revolution, and encourages consumers to make better choices, by improving the nutritional quality of products, by proposing innovative formats and packaging, adapted to increasingly nomadic lifestyles, and by improving its distribution channels.

To deliver on its mission of "bringing health through food to as many people as possible", Danone goes beyond taking care of the nutritional needs of consumers. It offers products and services suited to each community's specificities by taking into account cultural, social, emotional and physiological aspects related to dietary practices in each part of the world. Therefore, Danone ambitions to be an agent of positive change towards a healthy world, through food.

DANONE 2030 GOALS

Building on its "One Planet. One Health" vision, Danone has defined nine 2030 Goals presented at its Annual General Meeting of Shareholders on April 26, 2018. Aligned with the United Nations 2030 Sustainable Development Goals, Danone 2030 Goals embed the business, brand and trust models of the company to drive long-term sustainable value creation. These nine goals constitute the strategic framework of the company.

Danone's Business Model

Offer superior food experiences and innovate, always

Danone commits to high quality and food safety standards. Danone stands for sustainably sourced ingredients, for naturality and transparency, and for simple recipes and clean labels, supported by its strong innovation capabilities. Danone believes these are key fundamentals to create superior food experiences for people, as this will remain the first driver of healthier and more sustainable choices. Innovations launched during the last 24 months represented about a quarter of sales in 2018, increasing by around 25% compared to 2017.

Deliver superior sustainable profitable growth

Danone builds on a unique health-focused product offering in some of the fastest growing categories, responding to today's and tomorrow's eating and drinking trends. Danone builds on a clear roadmap around three priorities: accelerate growth, maximize efficiencies and allocate resources with discipline.

In parallel, Danone has set four medium term objectives:

- accelerating like-for-like sales growth to 4%-5% by 2020, based on following dynamics:
  - Specialized Nutrition: like-for-like sales growth above 5%;
  - Waters: like-for-like sales growth above 5%;
  - Essential Dairy & Plant-Based: like-for-like sales growth of 4% to 5%.
- recurring operating margin reaching more than 16% by 2020, coming mainly from:
  - value-added innovations in all Businesses of Danone;
  - continuous organizational improvement, including notably the implementation of a centralized Cycles and Procurement organization;
  - progress on the Protein efficiency program, targeting 1 billion euros gross savings by 2020, to reinforce the Company's competitiveness. This plan consists of sustainably improving the operating model and driving better buying and smarter spending;
  - synergies linked to the WhiteWave integration.
- net Debt/EBITDA ratio below 3-times by 2020;
- ROIC target of around 12% by 2022.

Be certified as a B Corp™

Danone's ambition to become a Certified B Corp™ expresses the long-term commitment to create and share sustainable value for all, in line with its dual economic and social agenda. B Corp™ certification is a mark of trust for companies demonstrating high standards of social and environmental performance.

At the end 2018, Danone is well on track towards its ambition to become one of the first multinational companies to be fully B Corp™ certified. At the end 2018, 11 Danone entities are B Corp™ certified, representing around 30% of Danone's Sales.

Danone's Brand Model

Impact people's health locally

In line with Danone's mission to "bring health through food to as many people as possible", the Company has created a unique portfolio of healthy products to achieve this mission and strives to continuously optimize their nutritional profile. Also, Danone builds on its in-depth knowledge of local food cultures, food habits and public health challenges to innovate and actively promote healthier alternatives for better choices. Beyond products, Danone will accelerate current and new initiatives (programs and services) with partners to positively impact dietary habits.

Danone builds on six nutrition commitments: continuously improve the nutritional quality of products; design healthier alternatives relevant for consumers; further reinforce Danone's understanding of local nutrition practices and public health contexts; contribute to addressing local public health challenges on which Danone can have a favorable impact through partnerships; develop even more responsible marketing practices; provide the most appropriate product labelling to encourage healthier practices.

Grow Manifesto brands

At Danone, we believe that each time we eat and drink, we vote for the world we want. That is why we aim to build purpose driven brands – what we call Manifesto brands – that will serve as true activists towards their point of view, not only delivering an exciting experience to people, but also committing to create a positive impact on health and the planet.

Danone's 10 Manifesto brands (*Villavicencio, Les 2 Vaches, Bonafont, Happy Family, evian, Alpro, Aqua, Blédina, Nutrilon, Phosphatine*), represented around 20% of Sales in 2018.

Preserve and renew the planet's resources

Danone commits to sustainable sourcing for its ingredients and to enhancing the circular economy of packaging. Danone contributes to soil health through regenerative agricultural practices co-developed with partners and Danone will even amplify its ambitious water stewardship journey. Danone takes part in the fight against climate change by implementing carbon positive solutions and aiming to achieve carbon neutrality by 2050. All achievements, commitments and objectives linked to the planet and preservation of resources are detailed in section 5.3 *Preserve and renew the planet's resources*.

Danone's Trust Model

Entrust Danone's people to create new futures

Building on a unique social innovation heritage, Danone will give the opportunity to each employee to co-own its strategic agenda and the path to its 2030 goals, both at a global and local level.

Hence, in 2018, through the "One Person, One Voice, One Share" program, Danone's employees have been invited to engage and share their views on the Company's priorities as well as on the definition of local and global roadmaps. In addition, this program plans to grant each employee, by 2019, one DANONE share in combination with an annual, amplified dividend-based incentive scheme, in order to foster an ownership mindset among employees.

Foster inclusive growth

Danone will continue to invent pioneering ways to foster inclusive growth for vulnerable partners in its food chain, including family farmers, street vendors and waste pickers. Danone will continue to explore sustainable solutions for access to nutrition and safe drinking water for low-income communities. And Danone will maximize the impact of its social innovation funds through scale and transformation of business practices starting with Danone Communities, the Danone Ecosystem Fund and the Livelihoods funds, which are detailed in section 5.1.

Serve the food revolution with partners

A food revolution is happening, and Danone chooses to serve it with its partners. To change the way water and food are grown, produced, marketed, distributed, sold and consumed, Danone needs to co-create solutions with others, leveraging their expertise. To do so, Danone is building on decades of partnership experience to work hand in hand closely with Danone's employees, farmers, suppliers, retailers, consumers and partners as well as with civil society, governments and public health professionals.

Key initiatives include Danone's active participation in the Consumer Goods Forum, to collaborate with consumer goods retailers and manufacturers to drive positive change, and the signing of a global partnership with the Ellen MacArthur Foundation to promote a circular economy of packaging. In addition, Danone relies on its $200 million Danone Manifesto Ventures fund to invest into innovative companies disrupting the food sector.

2.4 DESCRIPTION AND STRATEGY OF THE REPORTING ENTITIES

Danone elaborates a strategy for each of its Reporting entities.

ESSENTIAL DAIRY & PLANT-BASED (EDP): EDP NORAM AND EDP INTERNATIONAL

Danone is the worldwide leader for dairy products and plant-based food and beverages, sold in more than 100 countries.

For the past 100 years – since the first Danone yogurt was made and sold in a pharmacy in Barcelona – Danone has always strived to meet the needs of consumers by proposing healthy and local products. Today, consumers increasingly want diversified better-for-you, great-tasting, natural and sustainably produced foods that can be consumed at different moments throughout the day. These new habits, support strong trends such as flexitarianism (diversified consumption of animal and plant-based proteins), as well as appeal for probiotics and high-protein products.

EDP is well positioned to meet these trends, thanks to its unique portfolio and large offering of products, consisting of widely-recognized global brands such as *Activia* and *Actimel*, as well as regional and local brands which account for more than half of its Sales.

Accelerating innovation is at the core of EDP's strategy to offer a diverse choice of nutritious, delicious and convenient options, with six key objectives:

- win millennials by rejuvenating and launching brands that resonate with them;
- leverage probiotics and use new ingredients with soft functionalities that are increasingly popular with health-conscious consumers;
- accelerate plant-based by expanding core brands while exploring new ingredients, categories and geographies;
- drive tasty treats for a moment of indulgence with new convenient formats;
- constantly innovate by fostering new growth spaces and offering on-trend packs;
- win in impulse and on-the-go channels with the right portfolio, dedicated route-to-market and native impulse team.

Up to 2018, the reporting of EDP is structured around its two core geographies: EDP Noram (the United States and Canada) and EDP International (rest of the world).

EDP Noram

EDP Noram includes five categories, where Danone enjoys strong leadership positions, each having its own brand portfolio:

- the Yogurt category comprises mainly yogurts (spoonable and drinkable) sold under the key brands *Activia, DanActive, Danimals, Dannon, Danonino, Light & Fit, Oikos, Wallaby and YoCrunch*. In this category, Danone focuses on increasing per capita consumption of yogurts 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 mainly includes (i) plant-based beverages (such as almond-based, cashew-based and/or soy-based products), (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*. Danone aims to offer numerous nutritious and tasty options to consumers who are looking to diversify their sources of protein or are lactose intolerant;
- the Coffee Creamers category includes coffee creamers (fresh or Ultra High Temperature processed – UHT) and coffee beverages sold under the key brands *International Delight, Dunkin Donuts* (under license), *Land O Lakes* (under license), *Bailey's* (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 includes organic milks (fresh and Ultra High Temperature processed – UHT), cheese and other organic dairy products sold under the *Horizon* brand. Danone aims to offer dairy products adapted to the whole family for healthy, convenient and fun eating;
- the Fresh Foods category includes packaged salads, green vegetables, 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 to maintain and strengthen its leadership position. The strategy of EDP Noram is to create value by supporting growth through strong innovation, capturing attractive growing demand opportunities, driving product distinctiveness through technical superiority, using distinctive communication and positioning, creating impactful activation to recruit notably younger consumers and winning in impulse and on-the-go channels.

EDP International

EDP International's portfolio is powered by:

- essential yogurt brands such as *Danone, Danonino* or *Prostokvashino* in Russia, as well as lifestyle brands like *Light & Free* and *Vitalinea* that inspire people to feel good about the choices they make;
- plant-based brand *Alpro*, European leader in plant-based, expanding the full spectrum of ingredients, from soy and almond to coconut, cashew and rice, and innovating in new ranges with high protein, ice creams and coffee drinks in convenient formats;
- indulgence treats with *Oikos* and *Danette* in Europe or *Danissimo* in Russia, at a time when consumers are seeking enjoyment in healthier and more convenient ways;
- functional brands sought by health-conscious consumers such as *Actimel*, as well as iconic global brands like *Activia* that continue to build on digestive health and probiotics expertise.

EDP International's strategy is suited to the local specificities of its different geographical markets. Danone accelerates innovation to meet consumers' preferences in developed European countries, and strengthens key growth markets such as Latin America, Russia and Eastern Europe, as well as key countries in Africa and Asia.

SPECIALIZED NUTRITION

Early Life Nutrition and Advanced Medical Nutrition, which make up the Specialized Nutrition Reporting entity, offer a portfolio of nutritional solutions aimed at impacting 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 focuses on the right nutrition in the first 1,000 days – from the start of pregnancy to two years of age – aimed at positively influencing short and long-term health outcomes. Danone also offers products, services and education to pregnant and breastfeeding mothers, infants and young children.

The infant milk formula segment accounts for the vast majority of the Early Life Nutrition Business and products are available worldwide. The other part of the Early Life Nutrition Business is the complementary food segment, also known as "weaning foods", only available in select 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*).

Research and Innovation is at the core of Early Life Nutrition Business strategy to best serve mothers and children. Danone collaborates with many scientists, suppliers, consumers and healthcare professionals in the sector, and performs surveys to better understand local dietary habits and nutritional needs. This approach enables to develop tailored and specialized solutions, and meet emerging trends, such as increasing demand for organic products or treatments of specific medical conditions (notably allergies).

Danone aims to grow the Early Life Nutrition Business in a reliable, sustainable way, providing products, services and education that contribute to the health of future generations.

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 dietary needs. 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 for Advanced Medical Nutrition consists of increasing its global access by establishing itself in new markets 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 treatment of patients.

WATERS

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

The Reporting entity has international brands such as *evian*, *Volvic* and numerous very strong locally anchored brands: *Aqua* in Indonesia, *Mizone* in China, *Bonafont* in Mexico, *Villavicencio* and *Villa del Sur* in Argentina, *Hayat* and *Sirma* in Turkey, *Fontvella* and *Lanjarón* in Spain, and *Zywiec Zdroj* in Poland.

The 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 pursues initiatives to promote healthier hydration through partnerships with public health authorities and scientists and by communicating directly with consumers and especially the younger generation, to inspire healthier consumption habits in line with the Company's "One Planet. One Health" vision. 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 the positive effect of water consumption on health;
- the development of healthier natural beverages, as alternatives to sodas and other sugar-sweetened beverages. This very innovative category of aquadrinks is being developed to encourage the adoption of healthier hydration practices by consumers of sweetened beverages. More of the Company's water brands are being extended to include flavored versions or blended with fruit and other natural ingredients;
- packaging innovation: to confront the rising level of consumers' awareness regarding packaging waste, as well as to fulfill the Company's commitment to a healthy and sustainable environmental footprint, Danone announced through its updated packaging policy, published in October 2018, a series of new commitments and actions to target 100% circularity for its packaging;
- long-term management and environmental protection of water resources: Danone invests to preserve the unique quality and sustainable nature of its plain waters products by strengthening the protection of its springs, and scrupulously respecting the natural water cycle. In catchment areas, Danone is also committed to involving all stakeholders in the local community through associations and partnerships that promote the development of non-polluting activities and the establishment of more environmentally friendly agricultural practices.

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 market outlets;
- distribution to e-commerce, on-the-go and convenience stores.

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 Reporting entity 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, on-the-go and convenience stores

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).

In parallel, Danone focuses on the use of new growing distribution models, on-the-go and convenience stores, with an adapted offering (including single serves) to meet increasing consumer desire for immediacy.

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, Coca Cola), many predominately local companies specializing in certain product lines or markets (Chobani, Wimm-Bill-Dann, Friesland Campina, Lala, Meiji, Arla, Fage, Organic Valley), and private labels.
	Plant-based Products and Beverages	A few large international companies (Campbell, Hain Celestial, Unilever), predominantly local companies specializing in certain product lines or markets (Blue Diamond, Califia Farms, Triballat, Wessanen, Oatly, Valsoia) and private labels.
	Coffee Creamers	A few large food and beverage multinationals (Nestlé), predominantly local companies specializing in certain product lines or markets (Hood) and private labels.
	Fresh Foods	Some food and beverage companies (Bonduelle, Campbell, Organic Girl, Taylor Farms, Olivia's Organic) and private labels.
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, a2 Milk, Yili, Feihe).
	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 internationally (Coca-Cola, Pepsi, Nestlé) and predominantly local companies (Mayora in Indonesia, Kang Shi Fu in China, Cristalline in France, Epura in Mexico).

RESEARCH AND INNOVATION

Danone's Research and Innovation

Danone's Research and Innovation is focused on four major topics: 1) nutrition and health, 2) eating habits, 3) nutritional profiles and product formulation, 4) raw materials, ingredients and packaging. It is stepping up its interactions with startups' ecosystems and innovating environments and with their incubators and is expanding the use of agile methods (Design Thinking, Fast Prototyping, Lean Startup, etc.). Within its own teams, it is transforming how it innovates with these new methods, focusing its innovation processes around the user so that new experiences can be developed jointly.

Research and Innovation is also central to developing Danone's "One Planet. One Health" vision; it is tasked with preparing for the future with a focus on the following major scientific and strategic challenges:

- microbiota and biotics;
- plant-based proteins and new sources of protein;
- naturalness and organic;
- packaging and beyond plastic;
- knowledge of sweetness;
- the consumer experience;
- the development of allergies;
- hydration;
- healthy aging.

Danone's Research and Innovation activities aim to increase innovation's contribution to Danone's results and to play a role in the food revolution.

Research and Innovation Organization

The Research and Innovation Department has approximately 1,700 people spread across:

- two international research centers (in Palaiseau, France and Utrecht, Netherlands);
- six specialized centers:
  - Danone Research Packaging Center in Evian, France;
  - Precision Nutrition D-Lab, Nutricia Research in Singapore;
  - Danone Research Fresh Dairy Technological Expertise in Madrid, Spain;
  - Danone Research Fresh Dairy Technological Expertise, in Chekhov, Russia;
  - two research centers focused on plant-based protein products in Denver in the USA and in Ghent in Belgium.
- local teams in 55 Danone subsidiaries.

Scientific and technological collaborations

To carry out its mission, Danone's Research and Innovation Department is involved in cooperation initiatives and partnerships with the academic and scientific world, especially with top universities and research centers worldwide. In 2018, with support from Danone and Yakult, the "Gut Health, Microbiota & Probiotics throughout the Lifespan" symposium was held at Harvard University and brought together nearly 400 attendees to discuss the role that diet plays in digestive health. The teams also lead scientific committees on strategic topics such as microbiota and biotics, hydration, and aging to improve the understanding of health issues through this permanent contact with the outside scientific world. These interactions give rise in particular to scientific cooperation, joint investments in research work, and pooling of resources and skills. In 2018, Research and Innovation began an overhaul of its relationships with certain suppliers to create a more agile environment and encourage entrepreneurship, notably with Givaudan, Firmenich, DSM and Symrise. The team also published its new packaging policy and welcomed new partners into the Alliance NaturALL Bottle which aims to create the bottle of the future; made from 100% bio-based PET and using raw materials not intended for food.

Research and Innovation has extended its commitment to the foodtech innovation ecosystem and more broadly has promoted open innovation with Mista, The Kitchen Hub, Startupbootcamp, EIT food and BitsxBites. Lastly, we continued to support the Health for Life Capital fund, a high-quality European investment vehicle that supports the microbiome revolution and is managed by Seventure Partners.

PRODUCTION SITES 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, 2018, Danone had 194 production sites.

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, 2018		
		Key sites by Business [a]	
	Production [b]	**Localization**	**Share of production [b] by Business**
Essential Dairy & Plant-Based	7.8 million metric tons	Mexico, United States	11%
Waters	28.8 billion liters	France, Indonesia	12%
Early Life Nutrition	0.9 million metric tons	Ireland	14%
Advanced Medical Nutrition	191.6 million liters	Netherlands	61%

(a) Two of the largest sites for the Essential Dairy & 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 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 Danone's 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 Group 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, Danone established a centralized purchasing system for the non-milk purchases of the EDP and Early Life Nutrition 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 Danone 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 Group level at the end of each year.

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, 2018

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

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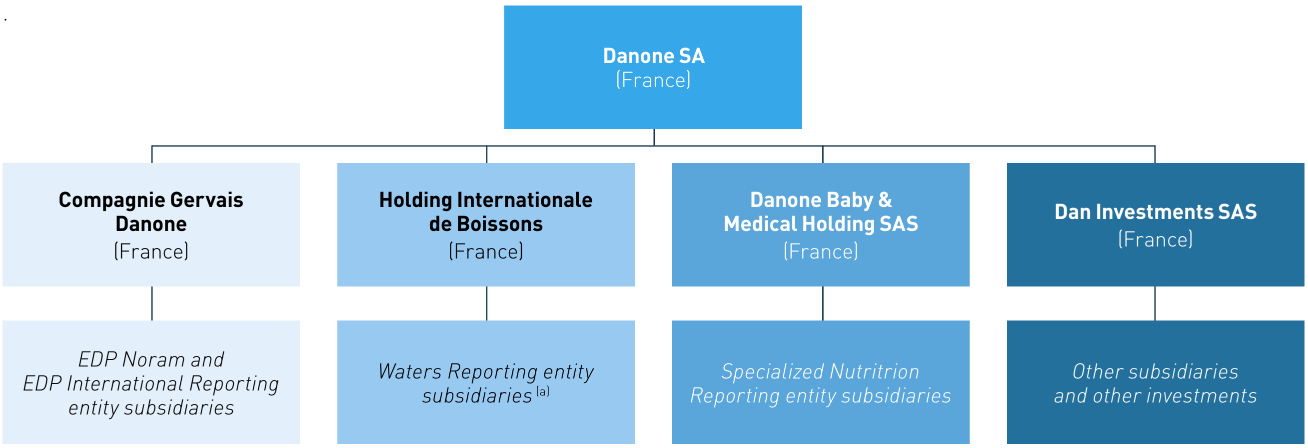

(a) The company Evian Resort, included in the Waters Reporting entity, operates the Evian Casino and is therefore submitted to the French Ministry of Interior's control and to the regulation applicable to the Casino games activity.

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 888 in 2018.

SUBSIDIARIES

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

MAIN LISTED COMPANIES

As of December 31, 2018

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

(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 *Internal control and risk management*.

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	Fast evolving consumer preferences based on tastes, eating habits, health and environmental concerns Laws and regulations Competition Risks associated with product quality and safety, and with their positioning Raw materials: price volatility and availability Natural disaster and climate change risks Concentration of distribution Weather conditions and seasonal cycles
Risks associated with Danone's strategy	Principal markets External growth Intellectual property Risks associated with Danone's image and reputation 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 Risks related to ethics and to human rights Information systems Internal control deficiency Industrial risks Insurance coverage deficiency
Financial market risks	Financial market risks Currency risks related to operating activities Currency risks 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

Fast evolving consumer preferences based on tastes, eating habits, health and environmental concern

Fast evolution of consumers' preferences and habits requires constant innovation and adaptation of Danone's product range and overall supply chain. The diversification of tastes, eating habits and an increasing health, social and environmental awareness of consumers drive their purchases. Among the key trends in food and beverages, the most notable are: (i) the nutritional quality of products, (ii) packaging and recycling, (iii) presence or absence of certain ingredients (for example sugar, protein, additives), (iv) sustainable sourcing of ingredients with known environmental or social impact, (v) origin of products and transparency on companies behind the brand (strong trend on local) and (vi) the carbon and water footprint of products.

Retailers are also paying increasing attention to health, social and environmental concerns of consumers, in particular on the labeling of the nutritional quality and/or environmental footprint of products and packaging, as well as food waste.

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

Danone has developed a large product portfolio focused on healthy categories. Its Research and Innovation capabilities allow the Company to offer a wide variety of products to respond to different diets, consumption needs and situations. As an illustration, through the WhiteWave acquisition, the Company diversified its product portfolio from animal to plant-based protein products, answering growing consumer trends.

In addition, Danone strives to foster ongoing dialogue with its consumers by adapting to new consumer expectations and behaviors, sharing more transparently in particular through digital communication channels on its societal and environmental commitments.

Finally, through its Manifesto Brand Model and its ambition towards the B Corp™ certification, Danone aims to develop purpose-driven brands, and commits to the highest social and environmental standards.

For more information on product content and footprint, water resources, plastic packaging and sustainable sourcing, refer to section 5 *Social, societal and environmental responsibility.*

Laws and regulations

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 its products, production processes, the way it markets and advertises its products, the environment (primarily involving water, air, the use of natural resources, noise, waste and greenhouse gas emissions), taxation, trade practices and labor. 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 and of the consumer's health and right to information. This is particularly the case in the advertising and promotion of breast milk substitutes 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 significant change in these laws or regulations, any significant decision by an authority regarding these laws or any other 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;

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

Danone has developed a public affairs and legal, regulatory affairs and compliance 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 *Internal control and risk management*. 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.

Futhermore, to comply with applicable environmental regulations, Danone has established a dedicated organization 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 2018 are described in section 5.3 *Preserve and renew the planet's resources*.

Finally, with regards to the marketing of breast-milk Substitutes, Danone supports the aims and principles of the WHO Code. Danone commits not to advertise nor promote infant formula for children aged 0-6 months, anywhere in the world, even if permitted by local laws.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

- 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 may have negative impacts on its businesses and results;
- the environment. Bringing its activities into compliance with new regulations or changes in existing regulations could be costly, or even limit Danone's ability to pursue or develop certain 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.

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 15.2 of the Notes to the consolidated financial statements.

For more information on breast-milk substitutes, please refer to section 5 *Social, societal and environmental responsibility*.

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 15.3 of the Notes to the consolidated financial statements.

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 in the context of increasing segmentation of consumer preferences, 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*.

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

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, physical 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).

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.

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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.	To avoid contamination risks, Danone applies an uncompromising food safety and quality 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 safety and quality standards. Danone has established instructions to mitigate contamination risk, in particular through the implementation of a QFS management system based on ISO 22000 enforced by multiple controls on raw materials, its production lines and throughout the distribution chain, as well as regular audits of its sites and their certification. 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. For more information on Danone's Food Safety and Quality approach and on product content and footprint please refer to 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"). 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 geo-political events 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 6.7 of the Notes to the consolidated financial statements.

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Natural disaster 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. This could have negative effects on the natural water cycles, soil, biodiversity and ecosystems and thus on raw materials and ingredients used in the Company's products and processes. In addition, climate change impact on water availability as well as on watershed and groundwater degradation could impact Danone's activities and operations, and subsidiaries' relationships with local stakeholders. 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. Financing the transition towards more sustainable agricultural practices and ingredients availability are both risks for Danone's growth.	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. Danone aims to achieve carbon neutrality by 2050 via 3 main strategic axes: (i) emissions reduction, (ii) transforming agricultural practices to help carbon sequestration in soil and (iii) off-setting of remaining emissions. Lastly, to strengthen the resiliency of its food chain, Danone is developing collaborative "co-created" solutions involving all its stakeholders and local communities. For more information on water resources and sustainable agriculture, particularly regenerative and organic agriculture, please refer to section 5 *Social, societal and environmental responsibility.*
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 increasing share of discount & online retail channels as well as the emergence of key players at the local level would result in a smaller number of customers for Danone companies and increasing pressure on retailers' margins. This could lead to retailers demanding better terms, which could in particular affect Danone's 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. In particular, Danone has developed strong plans in growing channels such as online. 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*).
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

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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 some countries.

Also, some countries where Danone operates may have not particularly developed protective regulations (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 as well as restrictions, sometimes retroactively, on the activities of multinational groups. In some countries, national and/or local authorities may also use laws and regulations, or other measures having a similar effect, notably to foreign interests to restrict the ownership rights, the access to liquidity and assets availability, and/or the freedom to exercise its activity. This would be equivalent to the confiscation, nationalization or expropriation of assets.

Lastly, Danone conducts business in certain countries, notably Iran and Russia, which may be targeted by economic and/or 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.

Danone's international growth results in a geographical distribution that diversifies and, to a lesser extent, limits the concentration risk of economic conditions. 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 organization). Depending on the situation, Danone's Safety and Public Affairs Departments may participate in the development and implementation of these measures. In certain regions, they create or consolidate Danone's 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.

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.

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

Also, as described in section 2.3 *Strategic Priorities*, 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, such as China. 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.

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, for instance, 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.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

Intellectual property

Identification of risk

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.

Risk monitoring and management

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 regarding the use of information systems and social networks.

Risks associated with Danone's image and reputation

Identification of risk

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, 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, both in volume and geographically.

Such events could adversely affect Danone's image and have repercussions on sales, activities, results and growth prospects.

Risk monitoring and management

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 *Internal control and risk management* and 5 *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.

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Danone's position in certain markets

Danone is the market leader in number of its markets. As a consequence, the Company may be accused by third parties of abusing a dominant position in these geographies 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 Company'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 to the concerned functions. Danone has also 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 & 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.

Human resources

The availability, quality and engagement of Danone's human resources play an essential role in Danone's success.

Danone's ability to attract and retain employees with the necessary skills or talents notably in its principal markets, in emerging countries, in newly acquired companies is critical for success. If the company was to fail in retaining or attracting talents, even more so 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, it could affect the Company's results.

Danone relies on its human resources strategy to attract and retain talents, which revolves around four main axes: (i) employee training and development, (ii) inclusive diversity, (iii) social dialogue, relying on the Company's strong social dialogue background and its agreements with the IUF and (iv) health and safety of employees through the WISE program (Work In a Safe Environment).

Danone offers competitive and fair compensation, and to that end has developed specific appraisal systems and procedures.

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Moreover, mobilizing Danone's management and staff to successfully implement the Company's transformation plan and restructuring projects could affect their availability and focus on the Company's business and operations, which could have a negative impact on its results. Finally, as part of its duty of care, Danone must ensure the health and safety and the security of its employees on all its sites, particularly when it comes to business travels or political instability of countries where it operates. If the company was to fail in providing the adequate level of safety and security, it could negatively impact its employees' level of engagement and Danone's reputation.	To engage its employees and develop a shareholder mindset, in 2018, Danone deployed "One Person, One Voice, One Share", an innovative governance and employee engagement model to empower employees to co-own the company's agenda. Finally, Danone ensure its employees' security through the deployment of adequate governance, dedicated tools and policies. More information on social dialogue, health and safety, talent retention and generation, and employees' security, are available in section 5 *Social, societal and environmental responsibility.*
Risks related to ethics and human rights 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. From the whole value chain perspective, challenges related to trading and pricing practices may also lead to risks related to human rights. 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.	For its main commodity which is milk, Danone has developed innovative contracts with direct milk producers to reduce milk price volatility, thereby offering better visibility and financial stability. As for human rights, 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. These principles were integrated in 2005 to Danone's responsible procurement program RESPECT. 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. Consequently, starting in 2017, Danone sought to advance the RESPECT program toward one of reasonable due diligence, with close attention paid to human rights using a continuous improvement approach. In 2018 Danone published a statement on Forced Labor alongside its peers of the Consumer Goods Forum, and relayed the statement to its supply chain. 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. The RESPECT program extends this commitment to the Company's suppliers. Finally, the Company implemented a whistleblowing system available for all employees, suppliers and other third parties to submit confidential reports of suspected corruption, fraud or other cases of non-compliance including suspected environmental and human rights violations. Information on fraud and corruption, human rights, and trading and pricing practices are available in section 5 *Social, societal and environmental responsibility.*

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Information systems

Danone is increasingly dependent on 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, and the ability to adapt to the digital transformation.

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, 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 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, for all the coming digital developments 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 and move to the cloud initiatives 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 2.8 *Internal control and risk management*) limit Danone's exposure to this risk.

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 facilities (acid and alkaline products), especially when these facilities 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 site 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.

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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* hereinafter.

2

Financial market risks

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

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Financial market risks	
As part of its normal business, the Company 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 6.4, 6.7, 11.3 to 11.8, 12.2 and 13.3 to 13.5 of the Notes to the consolidated financial statements.
Currency risks 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 regarding 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 6.7 of the Notes to the consolidated financial statements).

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Currency risks 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 11.8 of the Notes to the consolidated financial statements).
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 IFRS 9, Financial Instruments, interest rate fluctuations may have an impact on Danone's consolidated results and consolidated equity (see Note 11.8 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 6.4 and 13.4 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 worldwide markets, 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 €35.8 million in 2018.

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 €19 million in 2018.

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 €2.7 million in 2018.

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 INTERNAL CONTROL AND RISK MANAGEMENT

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:

- financial information is reliable;
- corporate governance is compliant with applicable laws, rules and internal policies;
- internal processes are compliant with regulatory standards, internal policies and best practices defined for Danone, including those related to the protection of the Company's assets.

Danone's internal 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 listed 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* hereinafter).

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

Scope of internal control

Danone's internal control system applies systematically to its fully consolidated subsidiaries and to some associates. A differentiated approach is used based on the size and risk level for each subsidiary.

In 2018, Danone's subsidiaries, located in around 60 different countries and accounting for more than 99% of total consolidated sales, were evaluated under the internal control system.

Internal control stakeholders

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 management (reporting entities, regions, businesses, subsidiaries).

Company Finance Department

The Company Finance Department is responsible for the Finance function throughout the company, both directly through centralized functions (Controlling and Business Performance Management, WBS & Company Consolidation, Treasury and Financing, Insurances, Tax, Strategy, Financial Communication, Acquisitions) and, through functional ties, with the finance directors of the various reporting entities.

The Company 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 EVP Chief Financial Officer, IS/IT, Cycles and Procurement of Danone, 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 strategic risks, as well as the coordination of the risk map and the monitoring of global risks, under the responsibility of the Strategic Planning Department;
- identification and management of operational risks, under the responsibility and monitoring of the Internal Control Department.

Strategic Planning Department

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

Internal Control Department

Part of the Corporate Finance Department, Control and Services Department (see section *Organization of the finance function* hereinafter), the Internal Control Department is composed of a 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 Danone are properly applied at their subsidiaries 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 its assessment, 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 animating the network of internal controllers on priority actions to be defined in response of this risk mapping;
- supporting and animating the international network of internal controllers through coordination, communication and training initiatives.

Internal Audit Department

In 2018, the Internal Audit Department conducted 42 internal audits in subsidiaries or cross-company functions, following the plan previously approved by the Audit Committee. These audits seek to verify the quality of the DANgo assessment performed by the subsidiaries. In light of the reinforcement of the Internal Audit teams and heightened compliance requirements, these audits periodically identify some differences in the assessment appraisal of certain subsidiaries. Communication has been strengthened with management of Reporting entities and key functions concerning these differences.

Following each audit, an action plan is prepared by the management of the subsidiary to correct weaknesses identified in the internal audit report. The implementation of action plans is monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2018, 26 follow-up audits on implementation of action plans were conducted within 12 months of the initial audit when possible.

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

Compliance Department

As part of the General Counsel of Danone, the Compliance Department reports to the General Secretary and Audit Committee. It is supported by teams as well as local Compliance Committees, which are assigned to Clusters Business Services. Each cluster's Compliance Officer reports to the Chief Compliance Officer at the Compliance Department. 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 *Other elements of Danone's organization that contribute to the identification and analysis of risks*).

Other internal control stakeholders

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, production sites, 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, Nature & Water Cycle, Safety, Quality, Information Systems, Legal, etc. – see section *Risk identification and assessment* hereinafter).

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 components:

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

They are implemented as described hereinafter.

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 Danone;
- 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, aimed at protecting Danone and its subsidiaries against risks related in particular to corruption, anti-competitive practices, non-compliance with laws on personal data protection 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* hereinafter) 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. DANgo is updated by (i) experts from the network of internal controllers; and (ii) operational teams of various businesses, 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 the social network of Danone presenting all the documents useful for internal control and contributing to the sharing of experiences and best practices in the area of internal control. They are also accessible 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 processes.

Operational risks

The first process for risk identification and management focuses on operational risks related to the recurring activity of the Company and to the deficiencies identified by the internal control review (through the assessment and testing of control indicators, see section *Internal Control Department* above).

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 bi-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 entitiy or of 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 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 at special meetings attended by the General Manager and Chief Financial Officer 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 the risk identification and analysis

The existence of procedures – regarding the competition monitoring, trainings, prevention and protection, etc. – as well as the initiative taken by specialized departments – such as the Nature & Water Cycle 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 bi-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 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 assessment process. The largest of them follow a more elaborate internal control review methodology that includes detailed documentation of information flows, control points and tests conducted by the management:

- the IT application that hosts the DANgo system allows subsidiaries to make an assessment 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 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 subsidiaries under the supervision of the Internal Control Department with a goal of continuous improvement, and internal audits are subsequently carried out to validate that these plans have been properly implemented.

In addition, the performances and results of each subsidiary in the area of internal control are regularly and systematically monitored by the subsidiaries' 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;
- 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. The session held in 2018 included the heads of internal control from each Clusters Business Services, namely more than 30 participants covering 174 subsidiaries;
  - 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 with the finance directors or operational employees of the businesses, meetings with 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, notably at the end of each internal control reporting phase:

- 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.

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' 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 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 internal control priorities.

In 2018, Danone's internal control key indicators recorded the following changes: the coverage ratio was near 100%, while the deficiency rate decreased compared to 2017.

Danone Ethics Line

Danone has a whistleblowing system described in section 5.1 *Danone's integrated vision of corporate responsibility.* The Danone Ethics Line Committee is also responsible for monitoring non-compliance cases.

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) WBS & Company Consolidation; (v) Internal Control; and (vi) Internal Audit); Controlling and Business Performance Management; 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 Businesses 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 information

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 Businesses;
- quarterly meetings to monitor execution of the strategy with the participation of the finance teams and general managers of the Businesses.

The relevance and selection of financial indicators used to monitor performance are 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, which reports to the WBS & Company Consolidation Department:

- validation by the central team, throughout the year, of the main accounting options adopted by the subsidiaries and corporate 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 that 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 corporate 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, 2018, the activities supported by Themis accounted for 68% of consolidated sales in the EDP Noram, EDP International and Waters reporting entities. The rollout of Themis is continuing in 2019, in particular for WhiteWave and Alpro.

The same information system is currently being rolled out at the subsidiaries of the Specialized Nutrition reporting entity (covering 83% of consolidated sales for the year ended December 31, 2018).

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 annual 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 corporate functional departments and the finance department of each of the Reporting entities (see section *Organization of the finance function* above). In all cases, the Category Business Units and Cluster Business Services are jointly responsible for the production and content of the financial statements of the operating units 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 adapted on the basis of 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 corporate 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 corporate 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 Category Business Units and Cluster Business Services 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 work, and 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 2018 AND OUTLOOK FOR 2019

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 its organization are described in section 2.7* Risk factors.

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 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 until end of 2018);*
- *recurring operating income;*
- *recurring operating margin;*
- *recurring tax rate;*
- *recurring net income;*
- *recurring EPS;*
- *Yakult Transaction impact;*
- *free cash flow;*
- *net financial debt.*

The Impact of Morocco boycott is defined in section 3.8 Additional information.

Danone 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 2018

HIGHLIGHTS OF 2018

Highlights were detailed in the main press releases issued by Danone during 2018.

- On February 12, 2018 Danone amended its €2 billion syndicated credit facility, in order to include global environmental and social criteria directly impacting, upwards or downwards, the margin payable to its banks over the entire duration of the facility.
- On March 19, 2018 Danone announced the successful launch of a €300 million Social Bond to finance and refinance projects that include positive social impacts. This innovative Social Bond was the first issued by a multinational aligned with the new Social Bond Principles, as set out in June 2017 by the International Capital Market Association.
- On March 27, 2018 Danone announced the completion of the sale of part of its stake in Yakult for an aggregate amount of JPY 175 billion gross proceeds, representing circa €1.3 billion. As a result of the transaction, Danone's stake in Yakult's outstanding share capital is reduced from 21.29% to 6.61%.
- On April 12, 2018, Danone announced that its US and Canadian subsidiaries achieved B Corp™ Certification, two years ahead of target. Thanks to these new achievements, approximately 30% of Danone's global business is now covered by B Corp™ certification. Danone North America became the largest Certified B Corporation® in the world.
- On April 26, 2018, the Shareholders' Meeting approved the appointments as new Directors of Michel LANDEL, Cécile CABANIS and Guido BARILLA. Michel LANDEL became at this occasion Lead Independent Director and Chairman of the Nomination and Compensation Committee.
- On April 26, 2018, Danone introduced its 2030 Goals embedding the Business, Brand and Trust Models of the Company to drive long-term sustainable value creation and deliver the company's "One Planet. One Heath" vision. As a founding act for its goals, Danone launched "One Person, One Voice, One Share", an innovative employee engagement program and governance model for all of its 100,000 employees to co-own the company agenda, actively participate in defining roadmaps to bring the 2030 goals to life, and deepen their ownership mindset.
- On October 22, 2018, Danone reaffirmed during its investor seminar in London its ambition to deliver superior sustainable profitable growth, through the activation of high quality drivers across all its Business lines. Danone notably confirmed at this occasion its mid-term objectives: like-for-like sales growth of 4% to 5%, recurring operating margin above 16%, and net debt/EBITDA < 3 times by 2020. Return On Invested Capital is expected to reach around 12% by 2022.
- On October 25, 2018, Danone announced its accelerated transition towards a circular economy of packaging, through the publication of an updated Packaging Policy.

OTHER ACTIVITIES IN 2018

Acquisitions, disposal of shares in companies

Main changes in fully consolidated companies

There were no material changes during the period.

Main changes in investments in associates

			Ownership as of December 31	
(in percentage)	**Country**	**Transaction date** [a]	**2017 Restated**	**2018**
Main companies accounted for using the equity method for the first time during 2018				
–	–	–	–	–
Main associates with changes in ownership percentage				
Yakult	Japan	March	21.3%	6.6%
Main companies no longer accounted for using the equity method as of December 31				
–	–	–	–	–

(a) Month in the 2018 fiscal year.

Reduction of carbon footprint

See also section 5.3 *Preserve and renew the planet's resources.*

Social and societal responsibility

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

Governance

See sections 6.1 *Governance Bodies* and 6.2 *Positions and responsibilities of the Directors*.

Research and Innovation

Essential Dairy and Plant-Based Products

In 2018, Danone continued to focus its research on health. Its goal is to have an impact on people's health and diet by providing mainly intestine-based solutions to improve health. Its research primarily covers:

- probiotics and microbiota;
- ingredients and bioactives with a health impact;
- plant-based products;
- a nutrition line tailored to individual needs.

For example, in partnership with INRA (French National Institute for Agricultural Research) and the Saint-Antoine hospital, Danone has investigated the protective effects of consuming a probiotic on the intestinal barrier and microbiota. Additionally, thanks to its participation in ILSI Europe, Danone worked with key scientists in the field of probiotics to develop an innovative approach going from selection to the optimal development of probiotics in its products.

The Research and Innovation team has developed new ranges: in Europe, an "*Activia* with a hint of" range was launched, and *Actimel* has been revitalized with the launch of a range for millennials, using ingredients such as ginger, guarana, baobab, and yerba mate. Certain innovations meet the strong consumer need for organic products with the launch in France of *Danone Le Bio* and in Europe of *Organic Danonino*; *Alpro* is also expanding its coffee beverages ranges with organic options. Lastly, Danone is offering products with a lower sugar content or with no added sugar such as the Triple Zero range (*Light & Free*) in Spain, the Two Good range (through *Light & Fit*) in the United States, and an *Alpro* range with More fruit, no added sugar in Europe.

Its know-how in fermentation and bioprocessing has also allowed Danone to innovate and offer consumers an exceptional taste experience: for example, Danone has launched kefir in the United Kingdom (*Light & Free*), in Spain (*Danone*), and in France (*Danone du Monde*).

Lastly, Danone has developed convenient packaging to meet its needs. Examples include the *Alpro* single-serve coffee range and mini-bottles called "shots" (*Activia* in Brazil and in the United States), as well as improved features (*Danone Liquaderia* and *Activia juices* in Mexico with an innovative freshness seal).

Waters

In 2018, Danone rounded out its healthy hydration line and improved its process in an effort to develop better eco-designed packaging alternatives.

- These developments continued in the aquadrinks range to best meet consumers' expectations, with an increasing number of drinks with no added sugar. There are teas in China, Indonesia and Europe under the *Volvic* and *Fontvella* brands. A coconut waters range and organic products under the *Volvic* and *Fontvella* brands have been launched, respectively, in China and in Europe.
- In terms of packaging, Danone is continuing to develop the 100% plant-based and 100% recyclable plastic bottle by partnering with Nestlé Waters and the California-based company Origin Materials, a specialist in bio-sourced plastics. Bottles sourced with 100% recycled plastic PET are now a reality in countries

such as Mexico (*Bonafont)* and Spain (*Lanjarón*). At the same time, Premium bottles are available for sale in Turkey under Hayat and in Indonesia under Aqua.

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

Early Life Nutrition

Danone is active in the area of nutrition in the first 1,000 days of life, from conception to the child's second birthday, and has continued its research in the following areas:

- knowledge of breast milk;
- nutritional needs and solutions;
- allergy and development of the immune system;
- gastrointestinal health;
- growth and metabolic health;
- development of products and packaging.

To that end, Danone works closely with a global network of trusted partners, in specific areas of health, nutrition and technology. Its extensive network includes key opinion leaders in specific fields, healthcare providers, suppliers, scientists, policy makers, patients, technologists and many more. This approach enables Danone to develop customized and nutritionally optimal products that meet patients and consumers needs.

Advanced Medical Nutrition

In 2018, Danone conducted work on the safety of thickened fluids for patients with swallowing disorders at the "European Society for Swallowing Disorders" conference. Danone performed a meta-analysis of the differences in nutrient levels in patients with PKU (an inborn metabolism error) compared with healthy individuals and published it in the Orphanet Journal of Rare Diseases. For patients in intensive care, Danone has designed a new form of packaging for tube feeding, so that patients can be fed in accordance with nutritional recommendations. Danone has also launched new products: *Fortimel Compact Protein* and *Nutilis Complete*, for which two user-focused taste experiments have begun (involving hot or cold sensations).

Legal and arbitration proceedings

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

To the best of Danone's knowledge, no governmental, court or arbitration proceedings are currently ongoing that are likely to have, or have had in the past 12 months, material impacts on 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, 2018, financial liabilities related to these options totaled €508 million and are classified as financial debt in the consolidated balance sheet.

Related party transactions are described in Note 16 of the Notes to the consolidated financial statements.

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

3.2 CONSOLIDATED NET INCOME REVIEW

NEW IFRS STANDARDS IN 2018

See section 3.7 *Changes in IFRS standards*.

KEY FIGURES

Year ended December 31

(in € millions except if stated otherwise)	2017 Restated	2018	Reported changes	Like-for-like New Danone changes
Sales	**24,812**	**24,651**	**(0.7)%**	**2.9%**
Recurring operating income [a]	**3,537**	**3,562**	**0.7%**	**6.7%**
Recurring operating margin [a]	**14.26%**	**14.45%**	**+20bps**	**+51bps**
Non-recurring operating income and expenses	192	(821)	(1,013)	
Operating income	3,729	2,741	(26.5)%	
Operating margin	15.03%	11.12%	-391bps	
Recurring net income – Group share [a]	**2,186**	**2,304**	**5.4%**	
Non-recurring net income – Group share	263	46	(217)	
Net income – Group share	2,449	2,349	(4.1)%	
Recurring EPS (in €) [a]	**3.48**	**3.56**	**2.2%**	
EPS (in €)	3.90	3.63	(7.0)%	
Free cash flow [a]	**2,083**	**2,232**	**7.1%**	
Cash flow from operating activities	2,958	3,111	5.2%	

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

SALES

Consolidated sales

In 2018, consolidated sales were €24.7billion, up +2.9% on a "like-for-like New Danone" basis. Sales grew by +3.6% in value, led by a continued mix and portfolio valorization, largely offsetting a (0.7)% decline in volumes. All reporting entities contributed to the growth. Excluding the impact of the Morocco boycott, sales were up +3.6% and volumes rose +0.6%.

Full-year reported sales were down (0.7)% vs 2017, including:

- the WhiteWave base effect corresponding to the consolidation of WhiteWave from April 12, 2017 (+4.0%) and other changes in the scope of consolidation ((0.8)%), primarily from the disposal of Stonyfield (August 2017);
- a negative currency impact ((6.6)%) reflecting the appreciation of the euro against the Argentinian peso, the US dollar, and emerging currencies, including the Russian Ruble, the Turkish Lira, and the Brazilian Real; and a negative impact ((0.2)%) linked to the adoption of IAS 29 hyperinflationary accounting in Argentina.

Sales by Reporting entity

Year ended December 31

(in € millions except percentage)	2017 Restated	2018	Sales growth [a]	Volume growth [a]
EDP International	8,612	8,015	0.1%	(5.5)%
EDP Noram	4,492	5,041	1.5%	2.5%
Specialized Nutrition	7,079	7,115	5.9%	1.2%
Waters	4,630	4,480	5.3%	2.1%
Total	**24,812**	**24,651**	**2.9%**	**(0.7)%**

(a) Like-for-like New Danone.

EDP International

Sales

EDP International registered sales of €8,015 million in 2018, up +0.1% on a like-for-like New Danone basis. This variation resulted from a (5.5)% decline in volume partly offset by a +5.6% increase in value. Excluding the impact of Morocco boycott, EDP International sales were up +2.1%.

Main Markets

Europe confirmed its continued progress since the beginning of 2017, driven by *Activia* sales which stabilized at the end of the year, *Danone* brand growing consistently since the second quarter and a double-digit sales growth of *Alpro*.

In the CIS region, sales continued to grow strongly through new launches, powerful communication campaigns, and a positive mix evolution driven by fresh dairy products.

Latin America registered a solid growth, driven by Mexico where sales were very strong, thanks notably to innovations and expansion of plant-based offering. In Brazil, after some quarters of double-digit decrease, sales were back to positive growth in the fourth quarter, thanks to a revamped distribution network and an improved product portfolio.

In Morocco, sales decreased by 27%, severely penalized by a consumer boycott since April 20, 2018. In the last quarter, Centrale Danone managed to start recovering its market share, on the back of some affordable milk offerings launched as an outcome of the consultation held in September with Moroccan consumers.

EDP Noram

Sales

EDP Noram recorded sales of €5,041 million in 2018, up +1.5% on a like-for-like New Danone basis, with a +2.5% growth in volume. Excluding Fresh Foods, EDP Noram recorded +2.4% sales growth in 2018.

Main Markets

Yogurt sales showed moderate growth in a highly competitive category, especially in the Greek segment, with a solid performance of the *Activia* brand, very fast growth of plant-based products, as well as a good performance in Canada.

In the Plant-based segment, growth was strong in 2018, continuing to be driven by the nut-based segment, while the soy category is declining. *Silk* and *So Delicious*, the two main Danone brands in plant-based in North America, drove the performance, through the launch of premium innovations, and expansion into adjacent categories such as ice-creams and desserts.

Coffee creamers continued to deliver strong growth, led by market share gains in ready-to-drinks, notably with the *Stok* brand, and a good performance of better-for-you creamers.

Premium Dairy posted positive growth in the fourth quarter for the first time since the acquisition of WhiteWave, driven by increasing volumes with market share gains, thanks in particular to the success of value-added offers and single-serve drinks designed for kids. In 2018, sales were slightly negative, with stable volumes.

In the Fresh Foods segment sales were negative in 2018. Danone pursued its turnaround plan implemented in 2017.

Specialized Nutrition

Sales

Specialized Nutrition posted sales of €7,115 million in 2018, up +5.9% on a like-for-like New Danone basis, with a +1.2% increase in volume and a +4.7% increase in value. The growth was in excess of 5% in 2018, both for Early Life Nutrition and Advanced Medical Nutrition.

Main Markets

Early Life Nutrition registered strong sales growth in 2018. In China, where total sales account for around 30% of Early Life Nutrition Business, growth was high-single-digit in 2018, thanks to market share gains in the most dynamic direct channels and in ultra-premium offerings, despite a second semester penalized by exceptionally high base of comparison. Outside China, sales growth was solid and broad-based, with a good contribution from the United States (where Happy Family, the leader in organic baby-food, has become the second largest player in the overall baby-food category), as well as rest of Asia, Africa, and the Middle-East. In Europe, sales were affected since the third quarter by adverse publicity in the United Kingdom following formula upgrade introduction.

Advanced Medical Nutrition delivered strong sales growth in 2018, driven by all regions, notably China, where sales registered double-digit growth, and all product segments (adult and pediatric care).

Waters

Sales

Waters registered sales of €4,480 million, up +5.3% on a like-for-like New Danone basis. This growth resulted from a +2.1% increase in volume and a +3.2% increase in value.

Main Markets

In Europe, growth was solid, supported by value-added innovations, in particular in the aquadrinks segment; successful brand activations; and favorable weather conditions. Local brands in the Nordics and in Poland posted very strong growth.

In North America, sales were up by more than 10%, with notably first acceleration benefits of the distribution agreement recently signed with Keurig Doctor Pepper in the United States, as well as successful *evian* campaign supported by famous influencers.

In Asia, performance was solid. The local *Aqua* brand in Indonesia was a key contributor to growth. The performance in China was penalized by a weak summer season, although market share remained stable in volume.

Latin America contributed to the overall growth notably through portfolio valorization, compensating a decrease in volumes.

Sales by geographical area

(in € millions except percentage)	2017 Restated	2018	Sales growth [a]	Volume growth [a]	Share of sales delivered by the region in 2017	Share of sales delivered by the region in 2018
					Year ended December 31	
Europe & Noram	13,192	13,654	(0.8)%	(0.4)%	53%	55%
Rest of the World	11,620	10,997	7.6%	(0.6)%	47%	45%
Total	**24,812**	**24,651**	**2.9%**	**(0.7)%**	**100%**	**100%**

(a) Like-for-like New Danone.

Europe & Noram

The Europe & Noram region posted sales of €13,654 million in 2018, down (0.8)% vs 2017 on a like-for-like New Danone basis, including a decline in volume of (0.4)%. Main driver of the decrease was a reduction of indirect sales from Europe to China in Early Life Nutrition.

Rest of the World

The Rest of the World region posted sales of €10,997 million in 2018, up +7.6% vs 2017 on a like-for-like New Danone basis.

3

RECURRING OPERATING INCOME AND RECURRING OPERATING MARGIN

Consolidated recurring operating income and recurring operating margin

In 2018, Danone's recurring operating income stood at €3.6 billion. Recurring operating margin reached 14.45%, up +20bps on a reported basis including:

- the dilutive impact resulting from WhiteWave contribution from January 1 to April 12, 2017 (-28bps);
- other scope effects (+6bps), resulting from the disposal in August 2017 of Stonyfield;
- negative impact from currencies (-10bps, including -9bps linked to the adoption of IAS 29 hyperinflationary accounting in Argentina).

On a "like-for-like New Danone" basis, recurring operating margin increased by +51bps, and +58bps excluding the impact of the Morocco boycott. This strong improvement was achieved despite an inflationary cost environment, in particular for PET packaging and transportation costs in the United States.

It reflects:

- Danone's profitable growth model, based on valorized innovations and positive mix improvement;
- growing efficiencies, achieved mainly through more than $180 million cumulative synergies from the integration of WhiteWave, and around €300 million of cumulated savings from the Protein efficiency program, offsetting an inflationary cost environment;
- continued discipline in resource allocation.

Cost of goods sold totaled €12,729 million in 2018 (€12,630 million in 2017), or 51.6% of consolidated sales (50.9% in 2017). This negative change reflects the inflationary trend in commodities and in particular in PET.

Selling expense decreased to €5,640 million in 2018 (€5,831 million in 2017), or 22.9% of consolidated sales (23.5% in 2017), despite strong inflation in freight costs in the United States. The decrease was linked to (i) savings from Protein program; (ii) synergies related to the acquisition of WhiteWave; and (iii) an increase of digital marketing investments today representing more than 30% of total media spending.

General and administrative expense totaled €2,220 million in 2018, or 9.0% of consolidated sales, in line with 2017.

Research and Development costs totaled €335 million in 2018, in line with 2017 (see section 3.1 *Business highlights in 2018*).

Other income and expenses stood at €(164) million in 2018 (€(243) million in 2017).

Recurring operating income and recurring operating margin by Reporting entity

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Like-for-like New Danone changes
	2017 Restated	2018	2017 Restated	2018	Fiscal year ended December 31
EDP International	759	726	8.81%	9.06%	+29bps
EDP Noram	553	590	12.31%	11.71%	+25bps
Specialized Nutrition	1,686	1,762	23.82%	24.77%	+139bps
Waters	540	483	11.66%	10.79%	-82bps
Total	**3,537**	**3,562**	**14.26%**	**14.45%**	**+51bps**

EDP International's recurring operating margin was 9.06% in 2018, up +29bps on a like-for-like New Danone basis, despite the impact of Morocco boycott, thanks to value-added innovations and good delivery of Protein savings. Excluding the impact of Morocco boycott, recurring operating margin improved by +60bps.

EDP Noram's recurring operating margin was 11.71% in 2018, up +25bps on a like-for-like New Danone basis. Good progress on synergies and targeted price increases in July offset the impact of a strong increase in transportation costs.

The recurring operating margin of Specialized Nutrition was 24.77% in 2018, up +139bps on a like-for-like New Danone basis vs 2017. This expansion was triggered by positive mix both from a product and a country perspective, as well as a huge effort in delivering efficiencies, including through Protein.

The recurring operating margin of Waters was 10.79% in 2018, down -82bps on a like-for-like New Danone basis, penalized by a very strong PET inflation, partially offset by record level of productivities and portfolio valorization strategy.

Recurring operating income and recurring operating margin by geographical area

Fiscal year ended December 31

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Like-for-like New Danone changes
	2017 Restated	**2018**	**2017 Restated**	**2018**	
Europe & Noram	2,038	1,928	15.45%	14.12%	-55bps
Rest of the World	1,499	1,634	12.90%	14.86%	+182bps
Total	**3,537**	**3,562**	**14.26%**	**14.45%**	**+51bps**

The recurring operating margin of the Europe and Noram regions was 14.12% in 2018, down -55bps on a like-for-like New Danone basis vs 2017. The profitability of the area was strongly impacted by raw materials and logistic costs inflation.

The recurring operating margin of the Rest of the World was 14.86% in 2018, up +182bps on a like-for-like New Danone basis vs 2017, illustrating notably the good performance of Specialized Nutrition in Asia.

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)	**2017 Restated**	**2018**
Interest income on cash, cash equivalents and short term investments	151	162
Interest expense on financial debt	(414)	(393)
Cost of net financial debt	**(263)**	**(231)**
Other financial income	137	48
Other financial expense	(311)	(165)
Other financial income or expense	**(174)**	**(117)**
Net financial income (expense)	**(437)**	**(348)**

Cost of net debt

The cost of net debt decreased in absolute amount, from €(263) million in 2017 to €(231) million in 2018, mainly reflecting a positive currency impact on the USD-denominated portion of net debt, and the early redemption of WhiteWave's outstanding 5.375% $500 million senior notes in October 2017.

EFFECTIVE TAX RATE

The recurring income tax rate was 27.9% in 2018, a decrease of more than 2 points vs 2017 rate, driven by the positive impact of the US tax reform enacted in December 2017, and a positive geographical mix.

RECURRING NET INCOME – GROUP SHARE AND RECURRING EPS

Net income totaled €2,397 million in 2018 (€2,297 million in 2017). Net income – Group Share totaled €2,304 million in 2018 (€2,186 million in 2017).

Share of profit of associates

Recurring net income from associates was €79 million down compared to 2017, reflecting mainly the reduction in Danone's stake in Yakult from 21.3% to 6.6% closed in March 2018. The transaction resulted in a €701 million non-recurring capital gain.

Recurring net income – Group share

Recurring net income – Group share was €2,304 million in 2018, up +5.4% vs last year.

Recurring EPS was €3.56 per share, up +12.8% at constant exchange rate, excluding Yakult Transaction Impact and IAS 29 impact, in line with 2018 guidance. Recurring EPS increased by +2.2% on a reported basis, including a negative currency impact ((9.2)%), essentially due to the euro appreciation against main currencies.

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

Year ended December 31

	2017 Restated			2018		
(in € millions except percentage)	**Recurring**	**Non-recurring**	**Total**	**Recurring**	**Non-recurring**	**Total**
Recurring operating income	**3,537**		**3,537**	**3,562**		**3,562**
Other operating income and expense		192	192		(821)	(821)
Operating income	**3,537**	**192**	**3,729**	**3,562**	**(821)**	**2,741**
Cost of net debt	(263)		(263)	(231)		(231)
Other financial income and expense	(136)	(38)	(174)	(119)	2	(117)
Income before taxes	**3,138**	**153**	**3,292**	**3,213**	**(819)**	**2,393**
Income tax	(953)	111	(842)	(895)	179	(716)
Effective tax rate	30.4%		25.6%	27.9%		29.9%
Net income from fully consolidated companies	**2,185**	**264**	**2,450**	**2,318**	**(640)**	**1,678**
Net income from associates	111	(2)	109	79	683	762
Net income	**2,297**	**262**	**2,559**	**2,397**	**43**	**2,440**
• Group share	**2,186**	**263**	**2,449**	**2,304**	**46**	**2,349**
• Non-controlling interests	111	(1)	110	93	(3)	90
EPS (€)	**3.48**		**3.90**	**3.56**		**3.63**

Bridge from EPS to Recurring EPS

Year ended December 31

	2017 Restated		2018	
	Recurring	Total	Recurring	Total
Net income – Group share (in € millions)	2,186	2,449	2,304	2,349
Coupon relating to hybrid financing net of tax (in € millions)	(2)	(2)	(14)	(14)
Number of shares				
• Before dilution	626,954,761	626,954,761	642,721,076	642,721,076
• After dilution	627,121,266	627,121,266	643,450,446	643,450,446
EPS (in €)				
• Before dilution	3.48	3.90	3.56	3.63
• After dilution	3.48	3.90	3.56	3.63

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

(in € millions except percentage)	2017 Restated	WhiteWave Base effect	Impact of other changes in scope of consolidation	Impact of changes in exchange rates	Impact of IAS 29	Like-for-like New Danone growth	2018
Sales	24,812	+4.0%	(0.8)%	(6.6)%	(0.2)%	+2.9%	**24,651**
Recurring operating margin	14.26%	-28bps	+6bps	-1bp	-9bps	+51bps	**14.45%**

DIVIDEND PAID IN RESPECT OF 2018 FISCAL YEAR

At the Annual General Meeting on April 25, 2019, Danone's Board of Directors will propose to shareholders to approve the distribution of a €1.94 dividend per share in cash in respect of the 2018 fiscal year, increasing in line with the recurring EPS growth.

This dividend reflects the reinforced confidence of both the Board and management in the Company's strong financial position and the good progress of its agenda towards superior sustainable profitable growth.

Assuming this proposal is approved, the ex-dividend date will be May 7, 2019 and dividends will be payable on May 9, 2019.

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 €2.2 billion in 2018, up +7.1% from 2017, supported by the rise in recurring operating income, with capex amounting to €941 million, or 3.8% of sales.

FREE CASH FLOW

Transition from operating cash flow to free cash flow

Year ended December 31

(€ millions)	2017 Restated	2018
Cash flow from operating activities	**2,958**	**3,111**
Capital expenditure	(969)	(941)
Disposal of tangible assets & transaction fees related to business combinations [a]	95	61
Free cash flow	**2,083**	**2,232**

(a) Represents acquisition costs related to business combinations paid during the period.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31	
(in € millions)	**2017 Restated**	**2018**
Net income	**2,559**	**2,440**
Share of profit of associates net of dividends received	(54)	(729)
Depreciation, amortization and impairment of tangible and intangible assets	974	1,601
Increases in (reversals of) provisions	153	13
Change in deferred taxes	(353)	(135)
(Gains) losses on disposal of property, plant and equipment and financial investments	(284)	(12)
Expense related to Group performance shares	22	24
Cost of net financial debt	265	231
Net interest paid	(186)	(218)
Net change in interest income (expense)	80	13
Other components with no cash impact	(15)	(44)
Cash flows provided by operating activities, before changes in net working capital	**3,081**	**3,170**
(Increase) decrease in inventories	(122)	(167)
(Increase) decrease in trade receivables	(190)	807
Increase (decrease) in trade payables	145	(770)
Change in other receivables and payables	44	70
Change in working capital requirements	(123)	(59)
Cash flows provided by (used in) operating activities	**2,958**	**3,111**
Capital expenditure [a]	(969)	(941)
Proceeds from the disposal of property, plant and equipment [a]	45	22
Net cash outflows on purchases of subsidiaries and financial investments [b]	(10,949)	(52)
Net cash inflows on disposal of subsidiaries and financial investments [b]	441	1,305
(Increase) decrease in long-term loans and other long-term financial assets	(4)	(9)
Cash flows provided by (used in) investment activities	**(11,437)**	**326**
Increase in share capital and additional paid-in capital	47	47
Purchase of treasury shares (net of disposals)	13	–
Issue of undated subordinated notes	1,245	
Interest on undated subordinated notes	–	(14)
Dividends paid to Danone shareholders [c]	(279)	(431)
Buyout of non-controlling interests	(107)	(120)
Dividends paid	(86)	(79)
Contribution from non-controlling interests to capital increases	1	–
Transactions with non-controlling interests	(193)	(199)
Net cash flows on hedging derivatives [d]	(52)	(8)
Bonds issued during the period	–	300
Bonds repaid during the period	(1,487)	(2,157)
Net cash flows from other current and non-current financial debt	(564)	27
Net cash flows from short-term investments	9,559	(815)
Cash flows provided by (used in) financing activities	**8,289**	**(3,251)**
Effect of exchange rate and other changes [e]	272	14
Increase (decrease) in cash and cash equivalents	**81**	**200**
Cash and cash equivalents as of January 1	**557**	**638**
Cash and cash equivalents as of December 31	**638**	**839**
Additional information		
Income tax payments during the year	(1,116)	(556)

(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) Portion paid in cash.
(d) Derivative instruments used to manage net debt.
(e) Effect of reclassification with no impact on net debt.

3.4 BALANCE SHEET AND FINANCIAL SECURITY REVIEW

CONDENSED CONSOLIDATED BALANCE SHEET

	As of December 31	
(in € millions except percentage)	**2017 Restated**	**2018**
Non-current assets	34,627	33,843
Current assets	9,632	10,334
Total assets	**44,259**	**44,177**
Equity – Group share	**14,456**	**16,344**
Non-controlling interests	73	131
Non-current liabilities	19,271	17,738
Current liabilities	10,459	9,965
Total equity and liabilities	**44,259**	**44,177**
Net debt	15,372	12,744
Net financial debt	14,765	12,235

FINANCING STRUCTURE AND FINANCIAL SECURITY

Liquidity risk exposure and management policy

See section 2.7 *Risk factors* relating to *Financial market risks*.

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

Financing situation and liquidity risk

Main financing transactions in 2018

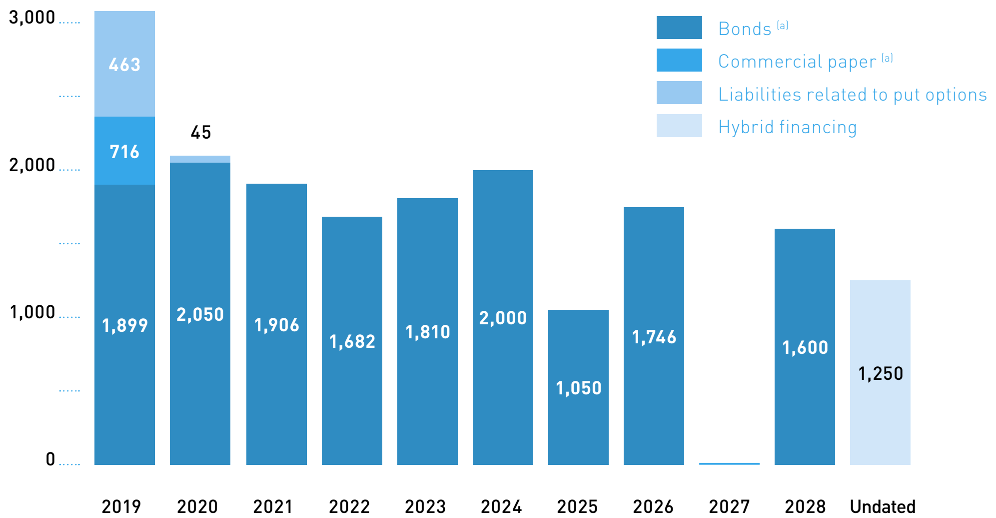
	Year ended December 31		
	2018		
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
Social bond	EUR	300	2025
Repayments			
Eurobonds	EUR	750	2018
Eurobonds	EUR	1,350	2018
Yen private placement	JPY	7,500	2018

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)

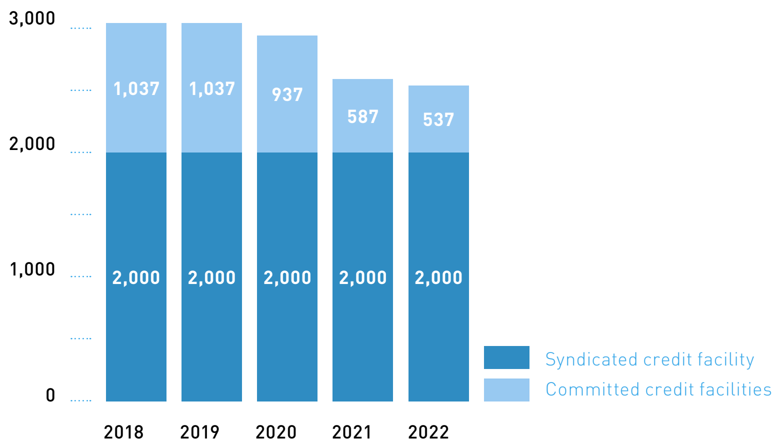


(a) Includes the value of derivatives hedging bonds and commercial paper.

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

	2017		2018	
	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	Stable [e]

(a) Rating given to the Company's commercial paper program.
(b) Rating given to the Company's debt issues 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.
(e) Outlook attributed on February 20, 2018.

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 of their investment in these subsidiaries. These financial liabilities do not bear interest.

Changes during the period

(in € millions)	**2017 Restated**	**2018**
As of January 1	699	607
New options	–	–
Options exercised [a]	(111)	(123)
Changes in the present value of outstanding options	19	24
As of December 31 [b]	**607**	**508**

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

NET DEBT AND NET FINANCIAL DEBT

Net debt

	As of December 31	
(in € millions)	**2017 Restated**	**2018**
Non-current financial debt	15,716	14,343
Current financial debt	3,792	3,546
Short-term investments	(3,462)	(4,199)
Cash and cash equivalents	(638)	(839)
Derivatives – assets – Non-current [a]	(16)	(81)
Derivatives – assets – Current [a]	(19)	(27)
Net debt	**15,372**	**12,744**

(a) Used solely to manage net debt.

Changes in net debt in 2018

Danone's net debt totaled €12,744 million as of December 31, 2018, €2,628 million lower than as of December 31, 2017.

The main reasons for this improvement were the strong free cash flow delivery (9.1% of sales) and the disposal of 14.69% of its stakes in Yakult during the first semester of 2018. This net debt includes €508 million of put options granted to non-controlling shareholders, *i.e.* €99 million lower than as of December 31, 2017.

Bridge from net debt to net financial debt

	Year ended December 31	
(in € millions)	**2017 Restated**	**2018**
Net debt	**15,372**	**12,744**
Liabilities related to put options granted to non-controlling interests – Non-current	(38)	(46)
Liabilities related to put options granted to non-controlling interests – Current	(569)	(463)
Financial debt excluded from net debt	**(607)**	**(508)**
Net financial debt	**14,765**	**12,235**

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 for fiscal 2018 year was 2.9x:

(in € millions except ratio)	2017 Restated	2018
Net debt as of December 31	**15,372**	**12,744**
Operating income	3,729	2,741
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	974	1,601
EBITDA of the year	**4,703**	**4,342**
Net debt/EBITDA of the year	**3.3x**	**2.9x**

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 9.0% in 2018:

(in € millions except percentage)	2016	2017 Restated	2018
Recurring operating income		3,537	3,562
Recurring income tax rate		30.4%	27.9%
Tax on recurring operating income		(1,074)	(992)
Recurring income from associates		111	79
Operating income		**2,574**	**2,649**
Intangible assets	15,803	24,945	24,445
Property, plant and equipment	5,036	6,005	6,175
Goodwill and other tangible and intangible assets	**20,839**	**30,950**	**30,620**
Investments in associates	2,730	2,678	2,104
Other financial investments	288	260	278
Short-term loans	18	14	13
Investments in non-consolidated companies and other financial investments	**3,036**	**2,952**	**2,394**
Assets held for sale net of liabilities	**66**	**–**	**–**
Deferred taxes net of deferred tax assets	(259)	(910)	(777)
Provisions for retirement and other long-term benefits	(959)	(919)	(868)
Other non-current provisions and liabilities	(885)	(1,003)	(989)
Provisions and other net liabilities	**(2,103)**	**(2,832)**	**(2,634)**
Working capital	**(1,549)**	**(1,168)**	**(1,162)**
Invested capital of the year	20,289	29,902	29,219
Average invested capital		**25,095**	**29,560**
ROIC		**10.3%**	**9.0%**

SHAREHOLDER'S EQUITY

Change in shareholder's equity – Group share

	Year ended December 31	
(in € millions)	**2017 Restated**	**2018**
As of January 1	**13,109**	**14,456**
Net income	2,449	2,349
Other comprehensive income	(391)	22
Dividends paid [a]	(279)	(431)
Translation adjustments	(1,721)	(151)
Other	1,290	98
As of December 31	**14,456**	**16,344**

(a) Impact on the Group share of equity, impact of the dividends paid on the consolidated equity amounting to €(510) million in 2018 (€(365) million in 2017).

OFF-BALANCE SHEET COMMITMENTS

Commitments given as of December 31, 2018 relating to operating activities

		Amount of financial flows for the period				
(in € millions)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023 and after**
Commitments to purchase goods and services [a]	(3,824)	(2,106)	(899)	(527)	(236)	(56)
Capital expenditure commitments	(166)	(164)	(2)	–	–	–
Operating lease commitments	(718)	(219)	(133)	(92)	(64)	(210)
Guarantees and pledges given	(16)	(14)	–	–	–	(2)
Other	(49)	(39)	(7)	(2)	–	(1)
Total	**(4,773)**	**(2,542)**	**(1,041)**	**(621)**	**(300)**	**(269)**

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

3.5 OUTLOOK 2019

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 2018 fiscal year.

OUTLOOK FOR 2019

Macroeconomic outlook

In 2019, Danone expects further cost inflation with a mid-to-high single digit inflation in the costs of raw and packaging materials, including:

- milk price inflation high-single digit overall, on the back of a rebalancing supply and demand dynamic;
- continued inflation in PET cost driven by sustained market demand;
- inflationary conditions in other raw materials, including sugar and fruits.

2019 guidance

In 2019, Danone will continue to progress towards its 2020 objectives by strengthening its operating model through its priorities: accelerate growth, maximize efficiencies and allocate capital with discipline. Delivery of its agenda of sales growth acceleration and improved recurring operating margin will be supported by valorized innovations, active portfolio management, and further savings from the Protein efficiency program and WhiteWave integration synergies.

For the year 2019, Danone is targeting like-for-like sales growth around 3% and recurring operating margin above 15%.

3.6 FINANCIAL INDICATORS NOT DEFINED IN IFRS

Additional indicator of like-for-like changes: "like-for-like New Danone" changes until end of 2018

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

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

- 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.

During this period, Danone has not monitored internally nor published like-for-like changes. 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 consolidation scope, with indicators related to a given fiscal year calculated on the basis of previous-year scope and, starting January 1, 2019, previous-year and current-year scope excluding Argentinian entities;
- changes in applicable accounting principles;
- changes in exchange rates with both previous-year and current-year indicators calculated using the same exchange rates (the exchange rate used is a projected annual rate determined by Danone for the current year and applied to both previous and current year).

Like-for-like New Danone changes (or "Like-for-like including WhiteWave starting in April 2017" changes until end of 2018) in sales and operating margin reflect the organic performance of Danone and WhiteWave combined. This indicator corresponds to like-for-like changes for Danone and WhiteWave combined, considering the activity of WhiteWave as a whole by integrating its companies during the fiscal years prior to and following their acquisition in April 2017:

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

Recurring operating income is defined as Danone's operating income excluding Other operating income and expenses. Other operating income and expenses is defined under Recommendation 2013-03 of the French CNC (format of consolidated financial statements for companies reporting under international reporting standards), and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to its recurring activities. These mainly include capital gains and losses on disposals of fully consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major external growth transactions, and costs related to major crisis and major litigations. Furthermore, in connection with of IFRS 3 (Revised) and IAS 27 (Revised) relating to business combinations, the Company also classifies in Other operating income and expenses (i) acquisition costs related to business combinations, (ii) revaluation profit or loss accounted for following a loss of control, (iii) changes in earn-outs relating to business combinations and subsequent to acquisition date.

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

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

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

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

Non-recurring results from associates include significant items that, because of their exceptional nature, cannot be viewed as inherent to the recurring activity of those companies and distort the reading of their performance. They include primarily (i) capital gains and losses on disposal and impairment of Investments in associates, and (ii) when material, non-recurring items as defined by Danone included in the net income from associates.

Recurring net income (or Recurring net income – Group Share) corresponds to the Group share of the consolidated recurring net income. The recurring net income measures Danone's recurring performance and excludes significant items that, because of their exceptional nature, cannot be viewed as inherent to its recurring performance. Such non-recurring income and expenses mainly include other operating income and expense, other non-recurring financial income and expense, non-recurring tax, and non-recurring income from associates. Such income and expenses excluded from Net income are defined as Non-recurring net income and expenses.

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

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

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 CHANGES IN IFRS STANDARDS

IAS 29: ADOPTION OF HYPERINFLATIONARY ACCOUNTING IN ARGENTINA FROM JULY 1, 2018 WITH EFFECT FROM JANUARY 1, 2018

A consensus has been reached that all necessary conditions (3-year cumulative rate of inflation for consumer prices and wholesale prices exceeding the 100% threshold being the last one reached during the first half 2018) are in place to now consider Argentina as "hyperinflationary" as defined by IFRS rules and therefore that IAS 29 rule related to Financial Reporting in Hyperinflationary Economies becomes applicable to the country.

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

Impact on reported data

- from July 1, 2018: Danone is applying IAS 29 in Argentina with effect from January 1, 2018;
- 2018 third and fourth quarters sales: reported data incorporates the IAS 29 hyperinflation adjustment over the sales of the quarter with no cumulative effect;
- 2018 first and second quarters: reported data is presented as previously published (*i.e.* not restated to reflect IAS 29 adjustments);
- 2018 full-year: reported data incorporates IAS 29 with effect from January 1, 2018.

Finally, it is specified that 2018 full-year guidance does not take into account the application of hyperinflation accounting in Argentina from July 1, 2018 and therefore excludes any impact from the IAS 29 application on recurring EPS growth at constant exchange rate.

IAS 29 impact on reported data

(in € millions except percentage)	**2018**
Sales	(51)
Sales growth (%)	(0.2)%
Recurring Operating Income	(30)
Recurring Net Income – Group share	(47)

Breakdown by quarter of full-year 2018 sales after application of IAS 29

The breakdown of 2018 full-year sales by quarter after application of IAS 29 in Argentina is provided in the table below for information (data not audited).

(in € millions)	First quarter 2018	Second quarter 2018	Third quarter 2018	Fourth quarter 2018	Total
EDP International	2,074	1,997	1,937	2,007	8,015
EDP Noram	1,192	1,247	1,293	1,309	5,041
Specialized Nutrition	1,807	1,828	1,727	1,754	7,115
Waters	965	1,322	1,254	939	4,480
Total	**6,038**	**6,393**	**6,211**	**6,009**	**24,651**

Impact on "like-for-like" data

For 2019, since Argentina is now considered as hyperinflationary, Danone will exclude from its "like-for-like" definition the contribution of its Argentinian entities starting from January 1, 2019 (see revised definition above).

For 2018, as "Like-for-like" current definition already excludes the effects of changes in applicable accounting principles during the year, IAS 29 in Argentina has no impact on like-for-like sales growth and like-for-like margin improvement of the Company.

For reference, Argentinian entities as a whole contributed in 2018 for 2.6% to Danone's sales and for around 30bps on sales growth.

IFRS 15: APPLICATION WITH EFFECT STARTING JANUARY 1, 2018

Danone applies IFRS 15 on Revenues from contracts with customers starting January 1, 2018 and elected to restate the comparative financial statements.

3.8 ADDITIONAL INFORMATION

IMPACT OF MOROCCO BOYCOTT

Danone is facing a consumer boycott in Morocco since April 2018. The impact of this boycott on net sales in 2018 has been estimated by the company as the difference between 2018 net sales and 2017 net sales excluding exceptional items in Morocco. In 2018, the impact on total net sales was a decrease of €178 million versus 2017 net sales, of which around two thirds come from losses in milk sales, and one third from losses in dairy products. With the same principles for recurring operating income, the impact of the consumer boycott in Morocco on the recurring operating income of Danone in 2018 was a decrease of €43 million versus 2017, including remediation measures.

3.9 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

The term "2017 Restated" corresponds to the restatement of the 2017 financial statements required by the application of IFRS 15 (see Note 1.3 of the 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	**2017 Restated**	**2018**
Sales	1.3, 6.1, 6.2	**24,812**	**24,651**
Cost of goods sold		(12,630)	(12,729)
Selling expense		(5,831)	(5,640)
General and administrative expense		(2,229)	(2,220)
Research and Development expense		(342)	(335)
Other income (expense)	6.3	(243)	(164)
Recurring operating income		**3,537**	**3,562**
Other operating income (expense)	7.1	192	(821)
Operating income		**3,729**	**2,741**
Interest income on cash equivalents and short-term investments		151	162
Interest expense		(414)	(393)
Cost of net debt	11.7	(263)	(231)
Other financial income	1.5, 12.3	137	48
Other financial expense	12.3	(311)	(165)
Income before tax		**3,292**	**2,393**
Income tax expense	9.1	(842)	(716)
Net income from fully consolidated companies		**2,450**	**1,678**
Share of profit of associates	5.8	109	762
Net income		**2,559**	**2,440**
Net income – Group share		**2,449**	**2,349**
Net income – Non-controlling interests		110	90
Net income – Group share, per share	14.4	**3.90**	**3.63**
Net income – Group share, per share after dilution	14.4	**3.90**	**3.63**

Consolidated statement of comprehensive income

	Year ended December 31	
(in € millions)	**2017 Restated**	**2018**
Net income – Group share	**2,449**	**2,349**
Translation adjustments	(1,723)	(198)
Cash flow hedge derivatives		
Gross unrealized gains and losses [a]	(422)	(47)
Tax effects	18	18
Financial assets		
Gross unrealized gains and losses	7	(9)
Amount recycled to profit or loss in the current year	–	–
Tax effects	2	4
Other comprehensive income, net of tax	**–**	**–**
Items that may be subsequently recycled to profit or loss	**(2,120)**	**(232)**
Financial assets		
Gross unrealized gains and losses [b]	–	–
Tax effects	–	–
Actuarial gains and losses on retirement commitments		
Gross gains and losses	11	71
Tax effects	(5)	(15)
Items not subsequently recyclable to profit or loss	**5**	**56**
Total comprehensive income – Group share	**335**	**2,174**
Total comprehensive income – Non-controlling interests	79	74
Total comprehensive income	**414**	**2,249**

(a) In 2017, related 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.

(b) Includes, in particular, the changes in fair value of Investments in other non-consolidated companies measured at fair value through other comprehensive income.

4

Consolidated balance sheet

			As of December 31
(in € millions)	Notes	**2017 Restated**	**2018**
Assets			
Goodwill		18,132	17,711
Brands		6,412	6,359
Other intangible assets		401	376
Intangible assets	3.1, 10.1 to 10.3	24,945	24,445
Property, plant and equipment	6.5	6,005	6,175
Investments in associates	5.1 to 5.8	2,678	2,104
Investments in other non-consolidated companies		83	105
Long-term loans and long-term financial assets		177	173
Other financial assets	12.1, 12.2	260	278
Derivatives – assets [a]	13.2, 13.3	16	81
Deferred taxes	9.2	722	761
Non-current assets		**34,627**	**33,843**
Inventories	6.4	1,668	1,789
Trade receivables	6.4	2,794	2,689
Other current assets	6.4	1,037	778
Short-term loans		14	13
Derivatives – assets [a]	13.2, 13.3	19	27
Short-term investments	11.1, 11.5	3,462	4,199
Cash and cash equivalents		638	839
Assets held for sale		–	–
Current assets		**9,632**	**10,334**
Total assets		**44,259**	**44,177**

(a) Derivative instruments used to manage net debt.

		As of December 31	
(in € millions)	Notes	**2017 Restated**	**2018**
Equity and liabilities			
Share capital		168	171
Additional paid-in capital		4,991	5,805
Retained earnings and others [a]	11.3	14,677	15,896
Cumulative translation adjustments		(3,181)	(3,332)
Accumulated other comprehensive income		(545)	(564)
Treasury shares	14.2	(1,653)	(1,632)
Equity – Group share		**14,456**	**16,344**
Non-controlling interests	4.5	73	131
Consolidated equity		**14,529**	**16,475**
Financing	11.1 to 11.4	15,529	14,277
Derivatives – liabilities [b]	13.2, 13.3	149	21
Liabilities related to put options granted to non-controlling interests	4.5	38	46
Non-current financial debt		15,716	14,343
Provisions for retirement obligations and other long-term benefits	8.3	919	868
Deferred taxes	9.2	1,633	1,537
Other non-current provisions and liabilities	15.2	1,003	989
Non-current liabilities		**19,271**	**17,738**
Financing	11.1 to 11.4	3,221	3,021
Derivatives – liabilities [b]	13.2, 13.3	1	63
Liabilities related to put options granted to non-controlling interests	4.5	569	463
Current financial debt		3,792	3,546
Trade payables	6.4	3,904	3,675
Other current liabilities	6.4	2,764	2,743
Liabilities directly associated with assets held for sale		–	–
Current liabilities		**10,459**	**9,965**
Total equity and liabilities		**44,259**	**44,177**

(a) Undated subordinated notes.
(b) Derivative instruments used to manage net debt.

Consolidated statement of cash flows

		Year ended December 31	
(in € millions)	Notes	**2017 Restated**	**2018**
Net income		**2,559**	**2,440**
Share of profit of associates net of dividends received	5.8	(54)	(729)
Depreciation, amortization and impairment of tangible and intangible assets	6.5, 10.3	974	1,601
Increases in (reversals of) provisions	15.2	153	13
Change in deferred taxes	9.2	(353)	(135)
(Gains) losses on disposal of property, plant and equipment and financial investments		(284)	(12)
Expense related to Group performance shares	8.4	22	24
Cost of net financial debt	11.7	265	231
Net interest paid		(186)	(218)
Net change in interest income (expense)		80	13
Other components with no cash impact		(15)	(44)
Cash flows provided by operating activities, before changes in net working capital		**3,081**	**3,170**
(Increase) decrease in inventories		(122)	(167)
(Increase) decrease in trade receivables		(190)	807
Increase (decrease) in trade payables		145	(770)
Change in other receivables and payables		44	70
Change in working capital requirements	6.4	(123)	(59)
Cash flows provided by (used in) operating activities		**2,958**	**3,111**
Capital expenditure [a]	6.5	(969)	(941)
Proceeds from the disposal of property, plant and equipment [a]	6.5	45	22
Net cash outflows on purchases of subsidiaries and financial investments [b]		(10,949)	(52)
Net cash inflows on disposal of subsidiaries and financial investments [b]	5.5	441	1,305
(Increase) decrease in long-term loans and other long-term financial assets		(4)	(9)
Cash flows provided by (used in) investment activities		**(11,437)**	**326**
Increase in share capital and additional paid-in capital		47	47
Purchase of treasury shares (net of disposals)	14.2	13	–
Issue of undated subordinated notes	11.3, 11.4	1,245	
Interest on undated subordinated notes	11.4	–	(14)
Dividends paid to Danone shareholders [c]	14.5	(279)	(431)
Buyout of non-controlling interests	4.5	(107)	(120)
Dividends paid		(86)	(79)
Contribution from non-controlling interests to capital increases		1	–
Transactions with non-controlling interests		(193)	(199)
Net cash flows on hedging derivatives [d]		(52)	(8)
Bonds issued during the period	11.3, 11.4	–	300
Bonds repaid during the period	11.3, 11.4	(1,487)	(2,157)
Net cash flows from other current and non-current financial debt	11.3	(564)	27
Net cash flows from short-term investments		9,559	(815)
Cash flows provided by (used in) financing activities		**8,289**	**(3,251)**
Effect of exchange rate and other changes [e]		272	14
Increase (decrease) in cash and cash equivalents		**81**	**200**
Cash and cash equivalents as of January 1		**557**	**638**
Cash and cash equivalents as of December 31		**638**	**839**
Additional information			
Income tax payments during the year		(1,116)	(556)

(a) 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) Portion paid in cash.
(d) Derivative instruments used to manage net debt.
(e) Effect of reclassification with no impact on net debt.

The cash flows 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

			Changes during the period									
(in € millions)	Notes	As of January 1, 2018	Other comprehensive income	Capital increase	Other transactions involving treasury shares	Counterpart entry to pre social-tax expense relating to performance shares [b]	Dividends paid to Danone shareholders – portion in shares	Dividends paid to Danone shareholders – portion in cash	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes [c]	As of December 31, 2018
Share capital		**168**		–			3					**171**
Additional paid-in capital		**4,991**		47			767					**5,805**
Retained earnings and others [a]	11.3	**14,677**	2,349			24	(770)	(431)	(9)	(51)	106	**15,896**
Cumulative translation adjustments		**(3,181)**	(198)							–	47	**(3,332)**
Gains and losses related to cash flow hedging derivatives, net of tax		**(160)**	(29)								–	**(190)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax	13	**50**	(5)								(39)	**6**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	9	**(435)**	56								(2)	**(381)**
Other comprehensive income		**(545)**	**22**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(41)**	**(564)**
Treasury shares	14.2	**(1,653)**			22							**(1,632)**
Equity – Group share		**14,456**	**2,174**	**47**	**22**	**24**	**–**	**(431)**	**(9)**	**(51)**	**111**	**16,344**
Non-controlling interests		**73**	74					(79)		40	23	**131**
Consolidated equity		**14,529**	**2,249**	**47**	**22**	**24**	**–**	**(510)**	**(9)**	**(10)**	**134**	**16,475**

(a) Undated subordinated notes.
(b) Mainly Group performance shares granted to certain employees and corporate officers.
(c) See Note 1.5 of the Notes to the consolidated financial statements.

			Changes during the period restated for the impacts of IFRS 15									
(in € millions)	Notes	As of January 1, 2017	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 [d]	As of December 2017 Restated
Share capital		**164**					3					**168**
Additional paid-in capital		**4,178**		46			766					**4,991**
Retained earnings and others [a]	11.3	**12,035**	2,449			22	(770)	(279)	1,245	(10)	(15)	**14,677**
Cumulative translation adjustments		**(1,460)**	(1,723)							1	1	**(3,181)**
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	13	**41**	9									**50**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	9	**(439)**	5								(2)	**(435)**
Other comprehensive income		**(126)**	**(391)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(28)**	**(545)**
Treasury shares and DANONE call options		**(1,682)**			28							**(1,653)**
Equity – Group share		**13,109**	**335**	**47**	**28**	**22**	**–**	**(279)**	**1,245**	**(8)**	**(42)**	**14,456**
Non-controlling interests		**85**	79					(86)		(6)		**73**
Consolidated equity		**13,194**	**414**	**47**	**28**	**22**	**–**	**(365)**	**1,245**	**(14)**	**(42)**	**14,529**

(a) Undated subordinated notes.
(b) DANONE call options acquired by the Company.
(c) Group performance shares granted to certain employees and corporate officers.
(d) Including the impact of the application of IFRS 15 (see Note 1.3 of the Notes to the consolidated financial statements).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contents

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, 2018 were approved by Danone's Board of Directors on February 18, 2019 and will be submitted for approval to the Shareholders' Meeting on April 25, 2019.

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	7.2, 10.3
Measurement of investments in associates	5.1, 5.4, 5.7, 5.8
Measurement of deferred tax assets	9.3
Determination of the amount of provisions for risks and charges	15.1, 15.2, 15.3
Determination of the amount of rebates, trade supports and other deductions relating to agreements with customers	6.1

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, 2018

	Notes
IFRS 15, *Revenue from Contracts with Customers*	1.3
IFRS 9, *Financial Instruments*	1.4
Amendment to IFRS 2, *Clarification of Classification and Measurement of Share-based Payment Transactions* [a]	
Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures* [a]	
IFRIC 22, *Foreign Currency Transactions and Advance Consideration* [a]	

(a) These amendments and this interpretation do not have a material impact on the consolidated financial statements for the year ended December 31, 2018.

IAS 29

IAS 29, *Financial Reporting in Hyperinflationary Economies* has been applied for the first time to Argentina as of January 1, 2018 (see Note 1.5 of the Notes to the 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, 2018

- IFRS 16, *Leases*

On January 13, 2016, the IASB issued a new standard on accounting for leases. As of January 1, 2019, it is mandatory to apply IFRS 16 in place of IAS 17 and the associated IFRIC and SIC interpretations. IFRS 16 will, for lessees, end the distinction previously made between "operating leases" and "finance leases".

IFRS 16 requires lessees to use a unique accounting model for leases, which involves the recognition in the balance sheet of a "right-of-use asset" with a corresponding liability in respect of the present value of the lease payments due over the reasonably certain term of the lease. The cash flows relating to the lease payments will be presented:

- in cash flows provided by (used in) financing activities, in the case of the portion corresponding to the repayment of the lease debt;
- in cash flows provided by (used in) operating activities, in the case of the portion corresponding to the interest on the lease liability.

Danone has not elected for early application of this standard, which will therefore by applied as from January 1, 2019. Danone has opted for the simplified retrospective transition method.

During 2018, Danone drew up an inventory of its leases and estimated the impact of implementing IFRS 16 on its profit or loss and financial situation. The amount of the lease commitments (see amount as of December 31, 2018 in Note 6.6 of the Notes to the consolidated financial statements) is a good indication of the amount of the lease liability that will be recognized pursuant to IFRS 16. Leases in respect of nearly 50% of the lease liability relate to office buildings, cars, lorries, industrial equipment and warehouses.

- IFRIC 23, *Uncertainty over Income Tax Treatments*

On June 7, 2017, the IFRS Interpretations Committee issued IFRIC 23, which is mandatorily applicable from January 1, 2019. IFRIC 23 clarifies the accounting treatments used to recognize the fiscal consequences of uncertainties relating to income taxes. Danone has not elected for early adoption of IFRIC 23, and is reviewing the potential consequences of applying it.

Note 1.3. First-time application of IFRS 15, *Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued a new standard on revenue recognition that replaces most of the previous IFRS pronouncements on this subject, in particular IAS 11 and IAS 18. IFRS 15 is applicable as of January 1, 2018. Danone has applied IFRS 15 with effect from January 1, 2018, using the retrospective transition method, with comparative periods restated to reflect the impacts of the new standard. Application of IFRS 15 did not have a material impact on Danone's revenue recognition as of the transition date. The main restatements resulting from the application of IFRS 15 correspond mostly to reclassifications between sales and selling expenses related to services performed by customers as part of their contractual obligations. The application of IFRS 15 has no effect on cash flows from operations, investments or financing activities in the consolidated statement of cash flows.

Accounting principles amended following the application of IFRS 15

The Group's sales mainly comprise sales of finished products. They are recognized in the income statement when the control of goods is 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 and engagements with the customers concerned.

Situation on December 31, 2018 concerning trade receivables and payables

As of December 31

(in € millions)	2017 Reported	IFRS 15 Impacts	2017 Restated	2018
Trade receivables	2,905	–	2,905	2,809
Impairment provisions	(111)	–	(111)	(120)
Fair value of trade receivables	**2,794**	**–**	**2,794**	**2,689**
Discounts granted to customers [a]	(1,143)	(5)	(1,148)	(1,199)
Fair value of trade receivables net of discounts granted	**1,651**	**(5)**	**1,646**	**1,490**

(a) Amount recognized as a current liability in the Group's consolidated balance sheet.

Restatement of the financial statements

Consolidated income and earnings per share for the year ended December 31, 2017

	Year ended December 31		
(in € millions, except earnings per share in €)	**2017 Reported**	**IFRS 15 Impacts**	**2017 Restated**
Sales	**24,677**	**135**	**24,812**
Cost of goods sold	(12,459)	(171)	(12,630)
Selling expense	(5,890)	59	(5,831)
General and administrative expense	(2,225)	(4)	(2,229)
Research and Development expense	(342)	–	(342)
Other income (expense)	(219)	(24)	(243)
Recurring operating income	**3,543**	**(5)**	**3,537**
Other operating income (expense)	192	–	192
Operating income	**3,734**	**(5)**	**3,729**
Interest income on cash equivalents and short-term investments	151	–	151
Interest expense	(414)	–	(414)
Cost of net debt	(263)	–	(263)
Other financial income	137	–	137
Other financial expense	(312)	1	(311)
Income before tax	**3,296**	**(4)**	**3,292**
Income tax expense	(842)	–	(842)
Net income from fully consolidated companies	**2,454**	**(4)**	**2,450**
Share of profit of associates	109	–	109
Net income	**2,563**	**(4)**	**2,559**
Net income – Group share	**2,453**	**(4)**	**2,449**
Net income – Non-controlling interests	110	–	110
Net income – Group share, per share	**3.92**	**(0.02)**	**3.90**
Net income – Group share, per share after dilution	**3.91**	**(0.01)**	**3.90**

Consolidated balance sheet as of December 31, 2017

			As of December 31
(in € millions)	**2017 Reported**	**IFRS 15 Impacts**	**2017 Restated**
Assets			
Goodwill	18,132	–	18,132
Brands	6,412	–	6,412
Other intangible assets	401	–	401
Intangible assets	24,945	–	24,945
Property, plant and equipment	6,005	–	6,005
Investments in associates	2,678	–	2,678
Investments in other non-consolidated companies	83	–	83
Long-term loans and long-term financial assets	177	–	177
Other financial assets	260	–	260
Derivatives – assets [a]	16	–	16
Deferred taxes	722	–	722
Non-current assets	**34,627**	**–**	**34,627**
Inventories	1,668	–	1,668
Trade receivables	2,794	–	2,794
Other current assets	1,046	(9)	1,037
Short-term loans	14	–	14
Derivatives – assets [a]	19	–	19
Short-term investments	3,462	–	3,462
Cash and cash equivalents	638	–	638
Assets held for sale	–	–	–
Current assets	**9,641**	**(9)**	**9,632**
Total assets	**44,268**	**(9)**	**44,259**

(a) Derivative instruments used to manage net debt.

			As of December 31
(in € millions)	**2017 Reported**	**IFRS 15 Impacts**	**2017 Restated**
Equity and liabilities			
Share capital	168	–	168
Additional paid-in capital	4,991	–	4,991
Retained earnings and others [a]	14,723	(46)	14,677
Cumulative translation adjustments	(3,182)	1	(3,181)
Accumulated other comprehensive income	(545)	–	(545)
Treasury shares and DANONE call options [b]	(1,653)	–	(1,653)
Equity – Group share	**14,501**	**(45)**	**14,456**
Non-controlling interests	73	–	73
Consolidated equity	**14,574**	**(45)**	**14,529**
Financing	15,529	–	15,529
Derivatives – liabilities [c]	149	–	149
Liabilities related to put options granted to non-controlling interests	38	–	38
Non-current financial debt	15,716	–	15,716
Provisions for retirement obligations and other long-term benefits	919	–	919
Deferred taxes	1,644	(11)	1,633
Other non-current provisions and liabilities	1,003	–	1,003
Non-current liabilities	**19,282**	**(11)**	**19,271**
Financing	3,221	–	3,221
Derivatives – liabilities [c]	1	–	1
Liabilities related to put options granted to non-controlling interests	569	–	569
Current financial debt	3,792	–	3,792
Trade payables	3,904	–	3,904
Other current liabilities	2,716	48	2,764
Liabilities directly associated with assets held for sale	–	–	–
Current liabilities	**10,411**	**48**	**10,459**
Total equity and liabilities	**44,268**	**(9)**	**44,259**

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

Note 1.4. First-time application of IFRS 9, *Financial instruments*

On July 24, 2014, the IASB issued a new standard on financial instruments that replaces most of the previous IFRS provisions on this subject, in particular IAS 39. Its application is mandatory as of January 1, 2018. Danone has applied the financial instrument classification, measurement and impairment provisions of IFRS 9 retrospectively from January 1, 2018, with no restatement of prior period comparatives. Since January 1, 2018, Danone has applied the hedge accounting provisions of IFRS 9, using a prospective approach in accordance with IFRS 9.

In particular, IFRS 9 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 as of 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 is 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 as of the transition date is not material.

Accounting principles amended following the application of IFRS 9

Investments in other non-consolidated companies

Investments in other non-consolidated companies are recognized at fair value in the consolidated balance sheet. Changes in fair value and gains or losses on disposals are recognized according to the intention of the management (i) in profit or loss in Other financial income (expense) or (ii) under consolidated equity in Accumulated other comprehensive income and are not recycled to profit or loss.

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.

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 recognized at fair value in the consolidated balance sheet. Changes in fair value are recognized under consolidated equity in Accumulated other comprehensive income. They are not subsequently recycled to profit or loss except for equity-linked bonds and money-market funds for which fair value changes 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.

Trade and other receivables

Trade receivables

Trade receivables are recognized at amortized cost in the consolidated balance sheet.

Impairment provisions

Impairment provisions mainly concern disputes on which Danone is in discussion with customers. Impairment provisions for expected losses are recognized at the level of the expected losses over the life of the receivable.

Derivatives

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 Derivatives assets or liabilities;
- foreign exchange derivatives related to operations are recognized in the heading (i) Other accounts receivable in Derivatives – assets or within (ii) Other current liabilities in Derivatives – 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 and are recycled as income (expense) when the asset is derecognized.

When derivatives are designated as future cash flow hedges:

- changes in the value of the effective portion are recognized in equity under Accumulated other comprehensive income and are recycled to profit or loss, in the same heading, when the hedged item itself is recognized in profit or loss;
- time value (swap points, FX option premium and basis spread of cross currency swaps) is recognized in equity in Accumulated other comprehensive income and taken to profit or loss at the maturity of the underlying instrument, in accordance with the principles adopted by the Group. By way of reminder, derivatives designated as future cash flow hedges are recognized in accordance with the transaction-related principle (hedging of transactions included in the forecasts).

Changes in the fair value of the ineffective portions of derivatives that meet the conditions for classification as hedging instruments and 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.

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Note 1.5. Application of IAS 29 to Argentina

In 2018, a consensus view was reached that all the conditions for deeming Argentina to be a hyperinflationary economy under IFRS had been met (the last condition concerned the cumulative inflation rate over three years: wholesale price inflation and consumer price inflation had already exceeded the 100% threshold in the first semester of 2018) and that therefore IAS 29 was now applicable to Argentina.

Danone has therefore applied IAS 29 to Argentina as from July 1, 2018, with an effective date of January 1, 2018. Prior year comparatives have not been restated in the consolidated financial statements, in accordance with IAS 21.

Accounting principles

IAS 29 requires the non-monetary assets and liabilities and income statements of countries with hyperinflationary economies to be restated to reflect the changes in the general purchasing power of their functional currency, thereby generating a profit or loss on the net monetary position which is recognized in net income within Other financial income or Other financial expense. In addition, the financial statements of the subsidiaries in these countries are translated at the closing exchange rate of the reporting period concerned, in accordance with IAS 21.

Danone has used the following indexes to remeasure its income statement items, cash flows and non-monetary assets and liabilities as of December 31, 2018: the wholesale price index published by INDEC (IPIM) or the Buenos Aires consumer price index (deemed to be reliable in the absence of other data) until December 2015 and the Consumer Price Index (CPI) since December 2015. This latter index was up 48% in 2018. The EURARS parity used for the conversion of the income statement amounts to 43.09 as of December 31, 2018 (22.68 as of December 31, 2017).

Main accounting implications

The cumulative revaluation of the non-monetary assets and liabilities as of January 1, 2018 resulted in a €88 million increase in consolidated equity and in non-monetary net assets.

As regards the 2018 fiscal year, the application of IAS 29 resulted in a €66 million increase in consolidated equity and in non-monetary assets net of non-monetary liabilities as of December 31, 2018 and had the following main impacts on the 2018 consolidated income statement:

- a €51 million decrease in consolidated sales and a €30 million decrease in recurring operating income;
- a €4 million gain on the net monetary position recognized in Other financial income (expense);
- a €45 million expense in consolidated net income.

NOTE 2. HIGHLIGHTS OF THE YEAR

	Notes
Implementation of IFRS 15 and IFRS 9 and application of IAS 29 to Argentina	1.3, 1.4, 1.5
Finalization of WhiteWave goodwill and its allocation	3.1, 3.2, 10.3
Partial disposal of Danone's stake in Yakult	5.5, 5.6, 5.8
Boycott in Morocco of Centrale Danone products and impairment of intangible assets	7.2
Issue of €300 million social bond	11.4
Subsequent events	17

NOTE 3. FINALIZATION OF THE ACCOUNTING OF THE ACQUISITION OF THE WHITEWAVE FOODS COMPANY

Note 3.1. Determination of final goodwill

During the first semester of 2018, Danone finalized the accounting treatment of the acquisition of The WhiteWave Foods Company (WhiteWave), acquired on April 12, 2017. No material adjustment was recognized as compared to the preliminary allocation disclosed in the consolidated financial statements for the 2017 fiscal year.

	As of the acquisition date [b]
(in € billions)	**April 12, 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
Provisional 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.

Note 3.2. Allocation of final goodwill

The WhiteWave goodwill was allocated to the following CGUs (Cash Generating Units) or groups of CGUs:

- Noram group of CGUs: combination of the main businesses of WhiteWave in North America with the United States and Canada CGUs of EDP Noram, for €6.6 billion;
- Europe CGU: combination of the Alpro business with the Europe CGU of EDP International, for €1.4 billion.

NOTE 4. FULLY CONSOLIDATED COMPANIES AND NON-CONTROLLING INTERESTS

Note 4.1. 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.

Note 4.2. Main changes during the period

2018 fiscal year

There were no material changes during the period.

2017 fiscal year

				Ownership as of December 31	
(in percentage)	**Reporting entity**	**Country**	**Transaction date** [a]	**2016**	**2017**
Main companies consolidated for the first time during 2017					
WhiteWave group companies	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	EDP International	CIS	October	92.9%	97.6%
Happy Family	Specialized Nutrition	United States	July	91.9%	100.0%
Main companies no longer fully consolidated as of December 31					
Stonyfield	EDP Noram	United States	July	100.0%	–

(a) Month in the 2017 fiscal year.

Note 4.3. Fully consolidated companies

The list of companies included in Danone's consolidation scope, whether they are fully consolidated directly or indirectly or recognized as investments in associates as of December 31, 2018, is available on Danone's website (www.danone.com).

Note 4.4. Accounting for acquisitions resulting in control being obtained in 2018

The business combinations carried out in 2018 were not material.

Note 4.5. 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, 2018.

Liabilities related to put options granted to non-controlling interests

Accounting 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 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)	2017 Restated	2018
As of January 1	699	607
New options	–	–
Options exercised [a]	(111)	(123)
Changes in the present value of outstanding options	19	24
As of December 31 [b]	**607**	**508**

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

NOTE 5. ASSOCIATES

Note 5.1. 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 5.2. Main associates in terms of net income and consolidated net assets

As of December 31

				2017 Restated	2018	
(in € millions except -percentage)	Notes	Country	Listing market [a]	Ownership	Ownership	Market capitalization [a] [b]
Mengniu [c]	5.4	China	Hong Kong	9.9%	9.9%	10,684
Yashili [d]	5.4	China	Hong Kong	25.0%	25.0%	741
Yakult [e]	5.5	Japan	Tokyo	21.3%	6.6%	10,494

(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 the 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 2018, these companies accounted for 65% in total of Investments in associates (other investments in associates did not, individually, account for more than 15% of the total). In addition, none of these companies generated net income that came to more than 5% of the consolidated net income or had net assets of more than 5% of the consolidated net assets.

Note 5.3. Main changes during the period

2018 fiscal year

(in percentage)	Country	Transaction date [a]	Ownership as of December 31 2017 Restated	2018
Main companies accounted for using the equity method for the first time during 2018				
–	–	–	–	–
Main associates with changes in ownership percentage				
Yakult	Japan	March	21.3%	6.6%
Main companies no longer accounted for using the equity method as of December 31				
–	–	–	–	–

(a) Month in the 2018 fiscal year.

2017 fiscal year

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

Note 5.4. 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

	2017 Restated		2018
(in € millions)	Interim financial statements as of June 30	Financial statements for the year ended December 31	Interim financial statements as of June 30
Non-current assets [a]	4,121	4,113	4,236
Current assets [a]	3,102	3,331	3,786
Equity [a]	3,396	3,471	3,645
Non-current liabilities [a]	1,591	1,084	1,118
Current liabilities [a]	2,236	2,889	3,259
Sales [a]	3,958	7,882	4,476
Net income [a]	150	266	215
Other comprehensive income [a]	(6)	(5)	(29)

(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, 2018

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

Impairment review as of December 31, 2017

The Group has not noted any indications of impairment.

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, 2018, 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, 2018

The Group noted significant volatility in the Yashili stock price in 2018, in line with the volatility observed on the local stock market index. As of December 31, 2018, the price remained below the shares' average purchase price.

As of December 31, 2018, the carrying amount of the investment in Yashili (€322 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, gradually implemented since year-end 2015 and supplemented in 2017 by a new positioning of the brands and changes in the distribution channels, *i.e.* dynamic sales growth over the period 2019 to 2023 and a significant increase in profitability. Meanwhile, the assumptions for the discount rate and long-term growth rate are 8.2% and 3.0%, respectively.

The test carried out at end-2018 did not result in the amount of the impairment provisions recognized in previous fiscal years being revised.

Lastly, the sensitivity analysis 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)	–
(100)bps	Long-term growth rate	–
+100bps	Discount rate	–

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 from 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 reflected 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, the impairment provision recognized in 2016 was retained as of December 31, 2017.

Note 5.5. 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.

In 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.

In 2018, Danone reached a new phase in its partnership with Yakult:

- strengthened scientific and commercial collaboration to promote and develop probiotics activities;
- reduction in Danone's stake in Yakult through notably a market transaction launched on February 14, 2018 by Yakult and the share buyback program launched by Yakult in which Danone participated.

In March, 2018, Danone finalized the partial disposal of its stake in Yakult for an aggregate amount of JPY 175 billion, representing circa €1.3 billion, and thus reduced its stake in Yakult's share capital from 21.29% to 6.61%. Danone remains Yakult's largest shareholder and still has two representatives on the company's board of directors in a context of enhanced collaboration activities. The investment will thus continue to be accounted for using the equity method under IFRS.

Net of the impact of currency hedging, transaction fees and recycling to profit or loss of cumulative translation adjustments, the transaction resulted in the recognition of a disposal gain of €701 million, recognized in Share of profit from associates in the consolidated income statement for the year ended December 31, 2018.

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, 2017 for 2017 and interim financial statements for the six months ended September 30, 2018 for 2018).

Main financial information

(in € millions)	2017 Restated		2018	
	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]	2,989	2,754	2,909	2,894
Current assets [a]	1,916	1,857	1,912	1,896
Equity [a]	3,156	3,016	2,954	2,995
Non-current liabilities [a]	793	709	632	589
Current liabilities [a]	956	886	1,236	1,206
Sales [a]	3,129	1,588	3,019	1,556
Net income [a]	249	144	256	183
Other comprehensive income [a]	(103)	56	121	(94)

(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 were translated into euros at the exchange rate in effect at the end of the reporting period.

Carrying amount

As of December 31

(in € millions)	2017 Restated	2018
Carrying amount	824	268

Note 5.6. Carrying amount and changes during the period

(in € millions)	Notes	2017 Restated			2018		
		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		**1,290**	**1,440**	**2,730**	**1,207**	**1,472**	**2,678**
Acquisitions, influence acquired during the year and capital increase	5.3	12	24	36	4	9	13
Disposals, losses of influence during the year and decreases in ownership	5.3, 5.5	(1)	(1)	(2)	(152)	(403)	(555)
Share of profit of associates before impact of disposals, revaluation and other	5.8	–	114	114	–	81	81
Dividends paid		–	(55)	(55)	–	(33)	(33)
Translation adjustments		(95)	(111)	(206)	17	12	29
Impairment	5.7	–	–	–	(19)	–	(19)
Adjustment of the Group's share in net assets		–	61	61	–	(91)	(91)
As of December 31		**1,207**	**1,472**	**2,678**	**1,057**	**1,046**	**2,103**

Note 5.7. Impairment review of Investments in associates other than Mengniu and Yashili

Impairment review as of December 31, 2018

Following the impairment review of other investments in associates, the Group recognized an impairment charge totaling €19 million in respect of a company in the EDP International Reporting entity.

Impairment review as of December 31, 2017

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

Note 5.8. Share of profit of associates

		Year ended December 31	
(in € millions)	Notes	**2017 Restated**	**2018**
Share of profits of associates before gains (losses) on disposal, revaluation and other		114	81
Impairment charges	5.7	–	(19)
Gains (losses) on disposal, revaluation and other	5.5	(5)	700
Total		**109**	**762**

NOTE 6. INFORMATION CONCERNING THE GROUP'S OPERATING ACTIVITIES

Note 6.1. Accounting principles

Sales

Danone's sales mainly comprise sales of finished products. They are recognized in the income statement when the control of goods is 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 and commitments 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 10 of the Notes to the consolidated financial statements).

Note 6.2. 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 semester of 2017.

Information 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 Company 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 of WhiteWave in North America;
- 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.

Information by Reporting entity

Year ended December 31

	Sales [a]		Recurring operating income		Recurring operating margin	
(in € millions, except percentage)	**2017 Restated**	**2018**	**2017 Restated**	**2018**	**2017 Restated**	**2018**
EDP International	8,612	8,015	759	726	8.8%	9.1%
EDP Noram	4,492	5,041	553	590	12.3%	11.7%
Specialized Nutrition	7,079	7,115	1,686	1,762	23.8%	24.8%
Waters	4,630	4,480	540	483	11.7%	10.8%
Group total	**24,812**	**24,651**	**3,537**	**3,562**	**14.3%**	**14.5%**

(a) Sales to third parties.

Reporting by geographical area

Sales, Recurring operating income and Recurring operating margin

Year ended December 31

	Sales [a]		Recurring operating income		Recurring operating margin	
(in € millions, except percentage)	**2017 Restated**	**2018**	**2017 Restated**	**2018**	**2017 Restated**	**2018**
Europe and Noram [b]	13,192	13,654	2,038	1,928	15.5%	14.1%
Rest of the World	11,620	10,997	1,499	1,634	12.9%	14.9%
Group total	**24,812**	**24,651**	**3,537**	**3,562**	**14.3%**	**14.5%**

(a) Sales to third parties.
(b) Including net sales of €2,127 million generated in France in 2018 (€2,107 million in 2017).

Top ten countries contributing to sales

Year ended December 31

(in percentage)	**2017 Restated**	**2018**
United States	18%	20%
China	7%	9%
France	9%	9%
Russia	7%	6%
Indonesia	5%	5%
United Kingdom	5%	5%
Mexico	4%	4%
Spain	4%	4%
Germany	4%	3%
Brazil	4%	3%

Moreover, in the case of Brexit in particular, Danone imports a large part of its products marketed in the United Kingdom and exports them to a lesser extent. If Brexit gives rise to restrictions on imports or exports from/to the United Kingdom, or an increase in regulatory constraints, this could have a negative impact on Danone's operations and results.

Danone is working on the impact of a possible Brexit on its activities in a context where its terms and timing are not yet defined.

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

(in € millions)	2017 Restated	2018
	As of December 31	
Europe and Noram [a]	22,517	23,077
Rest of the World	8,433	7,543
Group total	**30,950**	**30,620**

(a) Including €2,192 million in France as of December 31, 2018 (€2,159 million as of December 31, 2017).

Note 6.3. Other components of recurring operating income

Other income (expense)

(in € millions)	Notes	2017 Restated	2018
		Year ended December 31	
Employee benefits [a]	8.2, 8.3	(165)	(168)
Various taxes [b]		(59)	(41)
Restructuring costs [c]		(60)	(23)
Capital gains on disposals of property, plant and equipment and intangible assets		4	9
Other [d]		37	60
Total		**(243)**	**(164)**

(a) Employee profit-sharing, Group performance shares, defined benefit retirement plans and other employee benefits.
(b) Comprises notably sales taxes.
(c) Excluding restructuring of the EDP International Reporting entity in certain countries whose costs are presented in Other operating income (expense).
(d) Comprises mainly currency translation differences, asset impairment, provisions for doubtful receivables and several other components.

Note 6.4. 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 amortized cost in the consolidated balance sheet.

Impairment provisions

Impairment provisions mainly concern disputes on which Danone is in discussion with customers. Impairment provisions for expected losses are recognized at the level of expected losses over the life of the receivable.

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)	**2017 Restated**	**2018**
Goods purchased for resale	77	98
Raw materials and supplies	745	802
Semi-finished goods and work-in-progress	164	168
Finished goods	779	846
Non-refundable containers	38	36
Impairment provisions	(134)	(161)
Inventories, net	1,668	1,789
Trade and other receivables from operations	2,905	2,809
Impairment provisions	(111)	(120)
Trade receivables, net	2,794	2,689
State and local authorities	707	621
Derivatives – assets [a]	47	37
Other	284	119
Total other current assets	1,038	778
Total current assets	**5,499**	**5,256**
Trade payables	(3,904)	(3,675)
Year-end rebates payable to customers	(1,148)	(1,199)
State and local authorities	(181)	(274)
Personnel costs, including social security charges	(935)	(895)
Derivatives – liabilities [a]	(35)	(59)
Other	(465)	(316)
Total other current liabilities	(2,764)	(2,743)
Total current liabilities	**(6,668)**	**(6,418)**
Working capital	**(1,168)**	**(1,162)**
As a percentage of consolidated sales	4.7%	4.7%

(a) Fair value of derivatives used to hedge operational currency and raw materials risks, 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)	**2017 Restated**	**2018**
Portion of consolidated sales made to the Group's largest customers		
Group's largest customer	5.4%	5.7%
Group's five largest customers	12.6%	13.0%
Group's ten largest customers	19.1%	19.6%
Portion of overdue trade receivables for which no impairment provision has been recognized [a]	**5.7%**	**4.7%**

(a) More than 30 days overdue.

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

	As of December 31	
(in € millions)	**2017 Restated**	**2018**
Total trade receivables derecognized in connection with the non-recourse factoring program [a]	23	61

(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 6.5. 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

	2017 Restated				2018			
(in € millions)	Land and buildings	Machinery and equipment	Other and assets in progress	Total	Land and buildings	Machinery and equipment	Other and assets in progress	Total
Gross amount								
As of January 1	**2,758**	**6,547**	**2,006**	**11,312**	**3,352**	**7,216**	**1,990**	**12,558**
Capital expenditure [a]	108	134	776	1,018	108	139	762	1,009
Disposals	(19)	(54)	(78)	(151)	(13)	(46)	(23)	(82)
Reclassification of assets held for sale	11	33	4	48	–	–	–	–
Changes in consolidation scope	420	727	294	1,441	–	–	–	–
Translation adjustments	(172)	(455)	(136)	(763)	(35)	(226)	(33)	(295)
Impairment	(22)	(201)	(39)	(262)	(11)	(79)	(111)	(201)
Other [b] [c]	268	486	(837)	(84)	144	760	(384)	520
As of December 31	**3,352**	**7,216**	**1,990**	**12,558**	**3,544**	**7,765**	**2,201**	**13,510**
Depreciation								
As of January 1	**(1,190)**	**(4,107)**	**(979)**	**(6,276)**	**(1,276)**	**(4,323)**	**(954)**	**(6,553)**
Depreciation charges and impairment	(125)	(470)	(142)	(737)	(134)	(496)	(135)	(765)
Disposals	14	47	46	108	11	42	21	74
Reclassification of assets held for sale	(6)	(20)	(2)	(28)	–	–	–	–
Changes in consolidation scope	(27)	(214)	(28)	(269)	–	–	–	–
Translation adjustments	48	236	61	346	27	178	24	230
Impairment	15	182	37	234	7	50	98	154
Other [c]	(6)	22	52	69	(37)	(369)	(67)	(474)
As of December 31	**(1,276)**	**(4,323)**	**(954)**	**(6,553)**	**(1,403)**	**(4,918)**	**(1,013)**	**(7,335)**
Carrying amount								
As of December 31	**2,076**	**2,894**	**1,036**	**6,005**	**2,141**	**2,846**	**1,187**	6,175
Including assets in progress			*673*	*673*			*805*	*805*

(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.
(c) In 2018, corresponds mainly to the effects of the application of IAS 29 to Argentina (see Note 1.5 of the Notes to the consolidated financial statements).

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)	**2017 Restated**	**2018**
Related cash flows	(969)	(941)
As a percentage of sales	*3.9%*	*3.8%*

Note 6.6. Off-balance sheet commitments relating to operating activities

Commitments given in 2018

		Amount of financial flows for the period				
(in € millions)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023 and after**
Commitments to purchase goods and services [(a)]	(3,824)	(2,106)	(899)	(527)	(236)	(56)
Capital expenditure commitments	(166)	(164)	(2)	–	–	–
Operating lease commitments	(718)	(219)	(133)	(92)	(64)	(210)
Guarantees and pledges given	(16)	(14)	–	–	–	(2)
Other	(49)	(39)	(7)	(2)	–	(1)
Total	**(4,773)**	**(2,542)**	**(1,041)**	**(621)**	**(300)**	**(269)**

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

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.

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 6.7. Financial risks associated with operating activities

The Group's financial risk policy and its organization are described in Note 13.1 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 the 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, 2018, the main hedged currencies in terms of value included the British pound, Chinese yuan, Australian dollar, Hong Kong dollar and Mexican peso (see Note 13.2 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 Danone's 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 added value 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 Group 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, Danone established a centralized purchasing system for the non-milk purchases of the EDP and Early Life Nutrition 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 Danone 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 Group 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 constant exchange rates (projected annual rate determined by Danone for the 2018 fiscal year).

	Year ended December 31 at constant exchange rates	
	2017 Restated	**2018**
(in € millions)	**Gain (loss)**	**Gain (loss)**
Increase of 5%		
Liquid milk, milk powder and other milk-based ingredients	(127)	(123)
Plastics, including PET	(77)	(83)
Decrease of 5%		
Liquid milk, milk powder and other milk-based ingredients	127	123
Plastics, including PET	77	83

NOTE 7. EVENTS AND TRANSACTIONS OUTSIDE THE GROUP'S ORDINARY ACTIVITIES

Note 7.1. 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 2018

In 2018, the net Other operating expense of €(821) million consisted mainly of the following items:

(in € millions)	Notes	**Related income (expenses)**
Impairment of intangible assets of Centrale Danone	7.2	(662)
Other costs relating to the boycott of Centrale Danone [a]	7.2	(28)
Impairment of the intangible assets of a CGU in the EDP International Reporting entity	10.3	(25)
Costs relating to the restructuring of the EDP International Reporting entity in certain countries [b]		(71)
Costs associated with the integration of WhiteWave [c]		(69)
Compensation received [d]		60

(a) The main components are the costs of surplus fresh and packaged milk, as well as the impairment provisions in respect of production lines that have been shut down.
(b) Mainly in Latin America and Africa.
(c) Mainly related to IS/IT costs, consulting fees and end-of-contract penalties.
(d) Late payment interest received in respect of the Fonterra case (€30 million) and compensation receivable following settlement of a dispute with Système U (€30 million).

Other operating income (expense) in 2017

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

(in € millions)	**Related income (expenses)**
Capital gain on disposal of Stonyfield	628
Compensation received following the decision of the Singapore arbitration court in the Fonterra case	105
Territorial risks, mainly in certain countries in the ALMA region	(148)
Costs associated with the integration of WhiteWave [a]	(118)
Impairment of several intangible assets in Waters and Specialized Nutrition Reporting entities	(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 of €(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.

Note 7.2. Impact of the boycott in Morocco of Centrale Danone products (EDP International, Morocco)

Since April 20, 2018 Centrale Danone has been subject to a boycott, notably of its sales of milk under the Centrale brand, and has experienced a severe downturn in its activity and a significant decrease in its sales.

Consequently, Centrale Danone, which is listed on the Casablanca stock exchange, issued a profit warning on June 4, 2018 concerning its results for the first six months of the year. Centrale Danone subsequently issued a further profit warning concerning its full-year 2018 results.

Centrale Danone took immediate initiatives (reduction of milk collection and termination of interim workforce contracts) and is working on a plan to adapt its activity. In addition, as Emmanuel FABER announced at the end of June, Danone has made a commitment to work on a new model aiming at selling fresh pasteurized milk at cost, Centrale brand will thus generate no further profit.

Impact on the net book value of Centrale brand and on the goodwill of the Centrale Danone CGU

The decrease in Centrale Danone's sales impacting primarily the sales of milk under the Centrale brand constitutes an indication of impairment.

Centrale brand has been fully impaired, *i.e.* for €(79) million as of December 31, 2018. The related impairment charge is recorded in Other operating expense in the year ended December 31, 2018.

In addition, as of June 30, 2018, the Company tested the Centrale Danone CGU for impairment based on a new eight-year business plan prepared by the management as a result of this crisis. The recoverable value of the Centrale Danone CGU, assessed with reference to expected future discounted cash flows, was lower than its net book value as of June 30, 2018, as a result the Company impaired the goodwill for €583 million after taking into account the impairment of the Centrale brand. The Company carried out a further impairment test on the Centrale Danone CGU as of December 31, 2018, based on an updated business plan, which did not identify the need for any additional impairment provision. The goodwill of Centrale Danone CGU after impairment amounts to €168 million as of December 31, 2018.

In addition, the Company performed the following sensitivity analysis on the recoverable amount:

Sensitivity	Indicators	Additional impairment *(in € millions)*
(50)bps	Sales growth [a]	–
(100)bps	Recurring operating margin [a]	(8)
(50)bps	Long-term growth rate	–
+50bps	Discount rate	(1)

(a) Applied each year as per the long-term (eight-year) plan.

In total, in respect of the Centrale Morocco CGU, a €662 million impairment charge of its intangible assets was recognized in Other operating expense for the year ended December 31, 2018.

NOTE 8. NUMBER OF EMPLOYEES, PERSONNEL COSTS AND EMPLOYEE BENEFITS

Note 8.1. 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	
	2017 Restated	**2018**
Total number of employees	**104,843**	**105,783**
By geographical area		
Europe and North America	31%	31%
North America	7%	7%
Europe	24%	24%
Rest of the World	69%	69%
Asia, Pacific and Middle East	20%	21%
China	8%	8%
CIS	9%	9%
Africa	9%	8%
Latin America	23%	23%
Total	**100%**	**100%**
By Reporting entity		
EDP International	36%	36%
EDP Noram	6%	6%
Specialized Nutrition	20%	20%
Waters	35%	35%
Corporate functions	3%	3%
Total	**100%**	**100%**

Note 8.2. Personnel costs of fully consolidated companies

	Year ended December 31	
(in € millions)	**2017 Restated**	**2018**
Salaries and social security charges [a]	(3,614)	(3,668)
Retirement obligations – defined benefit plans [b]	(39)	(38)
Expenses relating to Group performance shares	(24)	(24)

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

Note 8.3. Retirement commitments, retirement indemnities and personal protection

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)	**2017 Restated**	**2018**
Defined benefit retirement plans	898	843
Other long-term benefits	21	25
Total	**919**	**868**

Defined benefit retirement plans and other post-employment benefits

Carrying amount of gross obligations

	As of December 31	
(in percentage)	**2017 Restated**	**2018**
Retirement plan for senior managers	33%	32%
Other	17%	17%
France	50%	49%
Germany	12%	12%
Indonesia	8%	8%
Belgium	7%	7%
United States	7%	7%
Ireland	5%	6%
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

	2017 Restated			2018		
(in € millions)	**Retirement plan for senior managers**	**Other plans**	**Total**	**Retirement plan for senior managers**	**Other plans**	**Total**
Vested rights with projected salaries	481	969	1,449	449	942	1,391
Fair value of plan assets	(165)	(386)	(551)	(158)	(390)	(548)
Vested rights net of fair value of plan assets	**316**	**583**	**898**	**291**	**552**	**843**
Impact of ceiling on assets			–			–
Obligations for which provisions have been recorded on the balance sheet	**316**	**583**	**898**	**291**	**552**	**843**

In addition, the total amount of contributions/benefits to be paid out in 2018 in connection with these plans is estimated at €43 million.

Actuarial assumptions

Methodology

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

The discount rates used in 2018 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)	**2017 Restated**	**2018**
Discount rate	1.8%	2.2%
Expected return on plan assets	1.8%	2.2%
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	
	2017 Restated	**2018**
(in € millions)	**Increase (decrease)**	**Increase (decrease)**
50bps increase	(44)	(40)
50bps decrease	51	44

Changes in carrying amount of provisions

	2017 Restated				2018			
(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	**1,452**	**(520)**	**–**	**932**	**1,449**	**(551)**	**–**	**898**
Service cost	39	–		39	38	–		38
Interest cost	35	–		35	35	–		35
Expected return on plan assets	–	(10)		(10)	–	(10)		(10)
Other	(19)	–		(19)	(3)	–		(3)
Expense for the year	56	(10)	–	46	71	(10)	–	61
Payments made to retirees	(51)	25		(26)	(52)	29		(22)
Contributions to plan assets	–	(39)		(39)	–	(21)		(21)
Changes in demographic assumptions	1	–		1	5	–		5
Changes in economic assumptions	(9)	–		(9)	(81)	–		(81)
Experience effects	10	(8)		2	(5)	8		3
Actuarial gains and losses	2	(8)	–	(7)	(81)	8	–	(73)
Translation adjustments	(35)	12		(22)	4	(3)		1
Other	26	(11)		15	–	–		–
As of December 31	**1,449**	**(551)**	**–**	**898**	**1,391**	**(548)**	**–**	**843**

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)	2017 Restated	2018
Fair value of plan assets	**(165)**	**(158)**
Main class of plan assets		
Bonds [a] [b]	89%	90%
Equities [b]	4%	4%
Real estate and other asset classes [b]	7%	5%

(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 8.4. 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 1,800 directors and senior executives, as well as the corporate officers, have benefited from these arrangements.

It should be noted that the stock-options expired at the end of the 2017 fiscal year.

General principles applicable to Group performance shares

The Group's long-term compensation takes the form of Group performance shares (GPS), which 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.

Group Performance Shares in effect

(in number of shares)	Year ended December 31 2017 Restated	2018
As of January 1	**2,299,567**	**2,314,990**
Shares granted during the year [a]	644,420	624,039
Shares that lapsed or were canceled during the year	(243,884)	(262,412)
Shares delivered during the year	(385,113)	(525,007)
As of December 31 [b]	**2,314,990**	**2,151,610**

(a) If the continuous employment and performance conditions are fully met, the number of shares granted during the 2018 fiscal year could reach 655,488.
(b) If the continuous employment and performance conditions are fully met, the number of Group performance shares could reach 2,212,646 as of December 31, 2018.

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 14.4 of the Notes to the consolidated financial statements.

Valuation

(in € per share, except for number of shares)	Year ended December 31 2017 Restated	2018
Number of shares granted	644,420	624,039
Fair value of shares granted [a]	57.5	58.2
Average DANONE share price	65.7	65.7

(a) Fair value as of the grant date.

Expenses related to Group performance shares including taxes

(in € millions)	Year ended December 31 2017 Restated	2018
Group performance shares	(24)	(24)
Total expense	**(24)**	**(24)**

Note 8.5. 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 2018, under the terms of the Company Savings Plan, Danone implemented a capital increase involving 868,896 new shares issued at a price of €54.50 per share, *i.e.* a total capital increase of €47 million.

NOTE 9. INCOME TAX

Note 9.1. Income tax

Income before tax and tax expense

	Year ended December 31	
(in € millions except tax rate in percentage)	**2017 Restated**	**2018**
Income before tax	**3,292**	**2,393**
Current tax (expense) income	(1,131)	(895)
Deferred tax (expense) income	289	179
Current and deferred tax (expense) income	**(842)**	**(716)**
Effective tax rate	25.6%	29.9%
Amount (paid) received during the year	(1,116)	(556)

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%. Moreover, the 2018 tax rate is also 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 2017, in a €285 million decrease in deferred tax liabilities with a corresponding tax income.

Effective tax rate

In 2018, the Group effective tax rate was 29.9%, higher than the 2017 rate since it includes non-recurring items related to the unfavorable impacts of the impairment of the Centrale Danone assets and does not include the 2017 favorable impacts related to the changes made to the tax rates in several countries.

As is the case with Danone's business activity (see breakdown of sales by country in Note 6.2 of the Notes to the consolidated financial statements), Danone'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	**2017 Restated**	**2018**
Statutory tax rate in France		34.4%	34.4%
Differences between French and foreign tax rates [a]		(9.5)%	(14.2)%
Tax on dividends and royalties [b]		1.0%	2.5%
Permanent differences		1.4%	2.2%
Tax loss carryforwards [c]	9.3	3.7%	0.4%
Tax adjustments and unallocated taxes [d]		(5.3)%	(0.1)%
Impact of capital gains and losses on disposal and asset impairment [e]	7.2	1.3%	6.3%
Other differences		(1.5)%	(1.5)%
Effective income tax rate		**25.6%**	**29.9%**

(a) Various countries, none of which generates a significant difference with the French income 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 2018, this corresponds mainly to the favorable impacts of the change in the income tax rate in the Netherlands on the measurement of the long-term deferred tax balances. In 2017, this corresponds mainly to the favorable impacts of the change in the tax rate in the United States on the measurement of the long-term deferred tax balances.
(e) In 2018, this corresponds mainly to the effects of the impairment of the Centrale Danone assets. In 2017, this corresponds mainly to the negative impact of the gain on the disposal of Stonyfield.

Note 9.2. 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	**2017 Restated**	**2018**
Breakdown by type of deferred tax			
Property, plant and equipment and intangible assets		(1,708)	(1,624)
Tax loss carryforwards	9.3	294	281
Provisions for retirement obligations and other long-term benefits		211	198
Employee profit-sharing provisions		13	15
Restructuring provisions		11	6
Other		269	347
Net deferred taxes		**(910)**	**(777)**
Deferred tax assets		722	761
Deferred tax liabilities		(1,633)	(1,537)
Net deferred taxes		**(910)**	**(777)**

Changes during the period

(in € millions)	Notes	2017 Restated	2018
As of January 1		**(259)**	**(910)**
Changes recognized in Other comprehensive income		10	2
Changes recognized in profit or loss		367	138
Changes in consolidation scope	4.2, 5.2	(1,114)	2
Other		85	(8)
As of December 31		**(910)**	**(777)**

Note 9.3. 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)	**2017 Restated**	**2018**
Tax losses – recognized portion		
Recognized tax loss carryforwards [a] [b]	1,275	1,085
Tax savings [c]	303	289
Tax losses – unrecognized portion		
Tax loss carryforwards and tax credits not yet used [a]	512	593
Potential tax savings	147	169

(a) Basis amount.
(b) In 2018, 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, 2018 can be carried forward indefinitely. The probable consumption horizon for most of these losses is less than ten years.

NOTE 10. INTANGIBLE ASSETS

Note 10.1. 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 hereinafter).

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 6.1 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 hereinbefore);
- 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 10.2. Carrying amount and changes during the period

		2017 Restated				2018			
(in € millions)	Notes	**Goodwill**	**Brands [a]**	**Other intangible assets**	**Total**	**Goodwill**	**Brands [a]**	**Other intangible assets**	**Total**
Gross value									
As of January 1		**11,620**	**3,898**	**908**	**16,426**	**18,132**	**6,432**	**1,103**	**25,666**
Changes in consolidation scope [b]	3.1, 4.2, 5.2	7,949	3,025	185	11,160	48	(35)	–	13
Capital expenditure		–	–	66	66	–	–	56	56
Disposals		–	–	(10)	(9)	–	–	(4)	(4)
Translation adjustments		(1,392)	(425)	(49)	(1,867)	119	8	(29)	97
Impairment	7.2, 10.3	(48)	(67)	(15)	(130)	(608)	(79)	(17)	(704)
Reclassification of assets held for sale		–	–	1	1	–	–	–	–
Other [c]	1.5	2	–	17	19	20	54	90	164
As of December 31		**18,132**	**6,432**	**1,103**	**25,666**	**17,711**	**6,379**	**1,198**	**25,288**
Amortization									
As of January 1		**–**	**(19)**	**(603)**	**(623)**	**–**	**(20)**	**(701)**	**(722)**
Charges		–	(2)	(91)	(93)	–	(2)	(96)	(98)
Disposals		–	–	23	23	–	–	16	16
Other [c]		–	1	(30)	(29)	–	2	(41)	(39)
As of December 31		**–**	**(20)**	**(701)**	**(722)**	**–**	**(20)**	**(822)**	**(843)**
Carrying amount									
As of December 31		**18,132**	**6,412**	**401**	**24,945**	**17,711**	**6,359**	**376**	**24,445**

(a) Includes brands with indefinite useful lives and the other brands.
(b) In 2018, effect of the finalization of the allocation of WhiteWave's acquisition price.
(c) In 2018, corresponds mainly to the effects of the application of IAS 29 to Argentina (see Note 1.5 of the Notes to the consolidated financial statements).

Note 10.3. 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 two years, and are extended, where appropriate, on the basis of the most recent forecasts, to:

- three to five years for the CGUs and groups of CGUs in the Waters, EDP Noram and EDP International Reporting entities (with the exception of the emerging countries for which the forecasts cover eight years);
- 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, 2018

Reorganization of the CGUs of the EDP Noram and EDP International Reporting entities

The EDP CGUs, as defined as of December 31, 2017, have been combined with the WhiteWave businesses. In particular, the United States and Canada CGUs have been combined with the WhiteWave businesses in these countries and the Europe CGU has been combined with the WhiteWave Alpro business and therefore covers the Reporting entity's entire business in Europe.

Adjustment of the method used to calculate the discount rate for the groups of CGUs in the Specialized Nutrition Reporting entity

The Reporting entity's intangible assets were recognized on acquisition of the early life nutrition and advanced medical nutrition activities of the Numico Group in 2007. Since the amounts of the intangible assets recognized were material (€13 billion or 76% of Danone's intangible assets as of the acquisition date) and initially there was little headroom, the Group opted, in previous fiscal years, to continue to test these intangible assets on the basis of the discount rate used in the acquisition plan, despite the effective decrease in the rate recalculated since then.

Danone has over ten years of experience of these businesses which are now fully integrated into the Group and which have for several years generated significant headrooms, and which achieve a performance in line with management targets. Consequently, Danone no longer considers this method to be justified and has therefore decided to no longer apply it as from 2018.

Headroom

For comparison purposes, the headrooms as of December 31, 2017 would have been as follows:

	As of December 31, 2017	
(In € billions)	**Discount rate used in the acquisition plan (reminder)**	**Discount rate used by the Specialized Nutrition Reporting entity**
Early Life Nutrition Asia	5.9	7.7
Early Life Nutrition Rest of the World	3.7	5.3
Advanced Medical Nutrition	3.1	4.8

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 [j]		Discount rate after tax [j] [k]	
(in € millions)	2017 Restated	2018	2017 Restated	2018	2017 Restated	2018
EDP International and EDP Noram						
EDP Noram [a]	NA	8,618	NA	1 to 2.5%	NA	6.5%
Centrale Danone	866	224	3.0%	2.0%	8.2%	8.2%
Danone CIS [b]	323	282	3.0%	3.0%	7 to 12%	7 to 13%
Europe [c]	564	2,601	0%	0 to 2.5%	6 to 12%	7 to 9%
Other CGUs [d]	504	233	0 to 3%	0 to 3%	6 to 17%	7 to 14%
Total EDP International and EDP Noram	**2,257**	**11,958**				
• of which, goodwill	1,650	8,586				
• of which, brands with indefinite useful lives [e]	606	3,371				
Waters						
Danone Waters France	428	428	1%	1%	6.4%	6.5%
Other CGUs [f]	268	262	0 to 3%	0 to 3%	6 to 11%	7 to 14%
Total Waters	**696**	**690**				
• of which, goodwill	502	502				
• of which, brands with indefinite useful lives [g]	194	188				
Specialized Nutrition						
Early Life Nutrition Asia	2,509	2,511	2.5%	2.5%	7.8%	7.4%
Early Life Nutrition Rest of the World	4,750	4,631	2.5%	2.5%	8.3%	8.4%
Advanced Medical Nutrition	4,044	4,014	2.5%	2.5%	7.8%	7.5%
Other CGUs	170	178	2.5%	2.5%	6.9%	6.7%
Total Specialized Nutrition	**11,473**	**11,334**				
• of which, goodwill	8,765	8,623				
• of which, brands with indefinite useful lives [h]	2,708	2,711				
Assets of companies in the WhiteWave group [i]	10,014	NA		NA		NA
• of which, goodwill	7,214	NA		NA		NA
• of which, brands with indefinite useful lives	2,800	NA		NA		NA
Total	**24,440**	**23,982**				
• of which, goodwill	18,132	17,711				
• of which, brands with indefinite useful lives	6,309	6,270				

(a) Combination of the United States and Canada CGUs as defined as of December 31, 2017 and of the main WhiteWave business in America.
(b) Consists mainly of Russia and Ukraine.
(c) Combination of the Europe CGU as defined as of December 31, 2017 and WhiteWave's Alpro business. This covers the Reporting entity's entire activity in Europe.
(d) More than 10 CGUs.
(e) Consists of several brands, the most material of which are *International Delight*, Alpro and *Silk*.
(f) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €200 million as of December 31, 2018 or December 31, 2017.
(g) Consists of several brands, none of which is material individually.
(h) Consists of several brands, the largest of which are *Nutricia* and *Milupa*.
(i) In 2017, since the allocation of the acquisition price had not been finalized, their value was provisional and, in the absence of any indications of impairment, they were not tested for impairment. In 2018, these assets were combined within the EDP Noram CGU and the CGUs in the EDP International Reporting entity.
(j) 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 2017.
(k) In the case of the CGUs in the Specialized Nutrition Reporting entity, the discount rate for 2017 presented here is the rate used in the acquisition plan as opposed to the rate for 2018.

Goodwill and brands of the Centrale Morocco CGU (EDP International and Morocco)

As of December 31, 2018, impairment provisions were recognized in respect of the Centrale brand and the Centrale Danone goodwill in the amounts of €79 million and €583 million respectively (see Note 7.2 of the Notes to the consolidated financial statements).

Goodwill of the groups of CGUs in the Specialized Nutrition and EDP Noram Reporting entities

As of December 31, 2018, the recoverable amount exceeded the carrying amount by the following amounts:

(In € billions)	As of December 31
Early Life Nutrition Asia	7.7
Early Life Nutrition Rest of the World	5.3
Advanced Medical Nutrition	4.8
EDP Noram	4.8

Sensitivity analysis on the value in use to the key assumptions

(In € billions, except percentage)	Year ended December 31 **Impact on recoverable amount**	 **Annual decrease to make recoverable amount equal carrying amount**
Sales – 50bps decrease [(a)]		
Early Life Nutrition Asia	(0.5)	25%
Early Life Nutrition Rest of the World	(0.4)	8%
Advanced Medical Nutrition	(0.4)	9%
EDP Noram	(0.2)	14%
Recurring operating margin – 100bps decrease [(b)]		
Early Life Nutrition Asia	(0.7)	17%
Early Life Nutrition Rest of the World	(0.4)	10%
Advanced Medical Nutrition	(0.4)	11%
EDP Noram	(0.8)	6%
Long-term growth rate – 50bps decrease		
Early Life Nutrition Asia	(1.1)	
Early Life Nutrition Rest of the World	(0.6)	
Advanced Medical Nutrition	(0.7)	
EDP Noram	(1.3)	
Discount rate – 50bps increase		
Early Life Nutrition Asia	(1.5)	
Early Life Nutrition Rest of the World	(0.8)	
Advanced Medical Nutrition	(1.0)	
EDP Noram	(1.3)	

(a) Decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2019 projections.
(b) Decrease applied, each year, to the assumed recurring operating margin, including the final year, on the basis of the 2019 projections.

Goodwill of other CGUs

As of December 31, 2018:

- the CGUs of the Waters and EDP International Reporting entities other than Centrale Danone represented in total 15% of the carrying amount of the Group's goodwill and comprised more than 20 CGUs located in diverse geographic regions and in different countries;
- following the impairment review of intangible assets with indefinite useful lives of these CGUs, the Group recognized impairment on one CGU in the EDP International Reporting entity totaling €25 million, which was recognized in Other operating income (expense) for the period.

As of December 31, 2017, following the impairment review of intangible assets with indefinite useful lives of these CGUs, the Group recognized impairment on two CGUs in the Waters Reporting entity in the amount of €47 million.

Brands with indefinite useful lives other than *Centrale*

The Group's main brands that were tested for impairment were *Nutricia*, *International Delight*, *Silk* and *Alpro*. As of December 31, 2018, they represented more than 50% 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 7% of the carrying amount of the Group's brands with indefinite useful lives as of December 31, 2018.

Impairment review of the main brands with indefinite useful lives

As of December 31, 2018, the Group reviewed the value of the *Nutricia*, *International Delight*, *Silk* and *Alpro* 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:

- 50bps decrease in sales (decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2019 projections);
- 50bps decrease in the royalty rate;
- 50bps decrease in the long-term growth rate;
- 50bps increase in the discount rate.

Other brands with indefinite useful lives

As of December 31, 2018, following the impairment review of the other brands with indefinite useful lives, the Group did not recognize any impairment provision.

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 the EDP International and Specialized Nutrition Reporting entities in the aggregate amount of €68 million.

NOTE 11. FINANCING AND FINANCIAL SECURITY, NET DEBT AND COST OF NET DEBT

Note 11.1. 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 assets held for trading within the meaning of IFRS 9, *Financial Instruments* and are recognized at their fair value in the consolidated balance sheet.

Other short-term investments are measured at their fair value as securities held for trading within the meaning of IFRS 9, *Financial Instruments*.

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 11.2. 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 Danone'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 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 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 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 11.3. Financing structure and changes during the period

Financing classified as debt

(in € millions)	As of December 31, 2017 Restated	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, 2018
Financing managed at Company level									
Bonds – non-current portion	15,184	300				318	(1,873)		13,929
Bonds – current portion	2,156	–	(2,157)			(24)	1,873		1,848
Short-term debt instruments [a]	719			(2)		(1)			716
Total	18,058	300	(2,157)	(2)	–	293	–	–	16,493
Other financing arrangements [b]									
Non-current portion	345			1		118	(116)		349
Current portion	347			27	13	(46)	116	–	457
Total	692	–	–	28	13	72	–	–	805
Total	**18,750**	**300**	**(2,157)**	**27**	**13**	**365**	**–**	**–**	**17,298**

(a) As of December 31, 2017 and 2018, 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, 2017 (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, in 2017 Danone launched a hybrid perpetual bond issue totaling €1.25 billion, taking advantage of the exceptionally attractive market conditions.

This issuance contributed 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 of June 23, 2023. The bonds, fully accounted for as equity in accordance with IFRS, received an equity credit of 50% from Moody's and Standard & Poor's.

Note 11.4. Group's financing and financial security managed at the Company level

Structure of the Group's main financing and its financial security

				As of December 31
	2017 Restated		2018	
(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]	1,450	–	1,037	–
Capital markets financing [a]				
EMTN financing [d]	21,000	17,340	22,000	15,776
U.S. dollar bonds [d]	NA	5,294	NA	5,553
Hybrid financing	NA	1,250	NA	1,250
Short-term debt instruments	3,000	719	3,000	716

(a) The Group's financial structure and financial security are managed at the Company level.
(b) Syndicated credit facility (revolving) maturing in December 2022.
(c) A portfolio of back-up facilities entered into with major credit institutions, with maturities ranging from 2018 to 2022.
(d) Bonds issued by the Company are disclosed on the Group's website.

Main financing transactions in 2018

			Year ended December 31
			2018
(in millions of currency)	Currency	Nominal	Maturity
New financing			
Social bond	EUR	300	2025
Repayments			
Eurobonds	EUR	750	2018
Eurobonds	EUR	1,350	2018
Yen private placement	JPY	7,500	2018

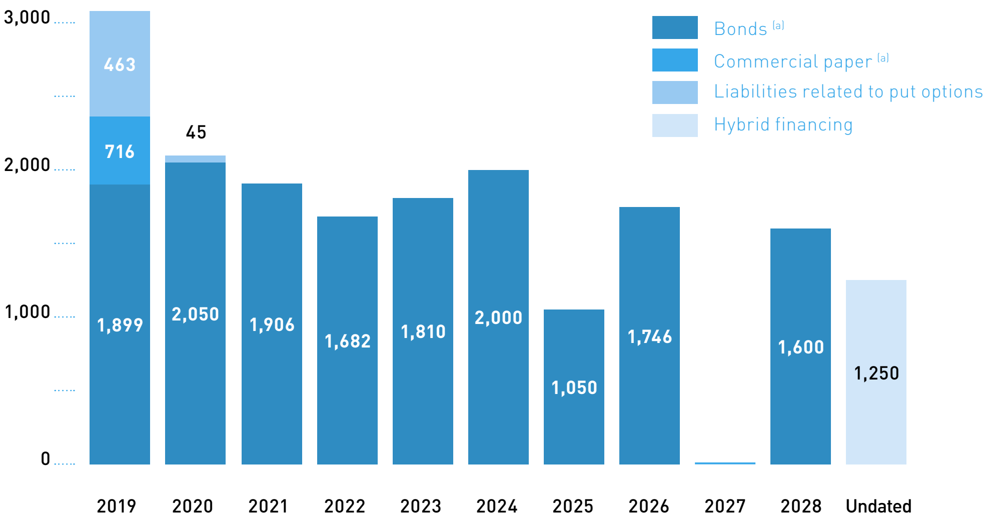
Main financing transactions in 2017

			Year ended December 31
			2017 Restated
(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

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

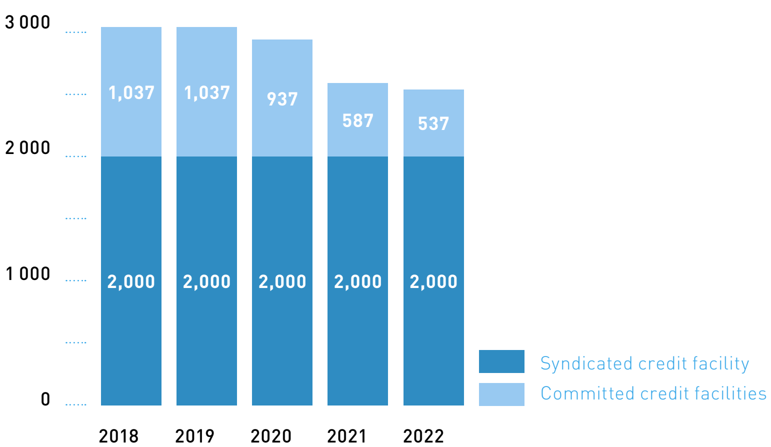
(in € millions)	Cash flows 2019	Cash flows 2020	Cash flows 2021	Cash flows 2022	Cash flows 2023 and after
Interest on debt [a]	(260)	(239)	(214)	(165)	(137)
Cash flows on derivatives [a] [b] [c]	81	69	69	206	148

(a) The floating interest rates are calculated on the basis of the rates applicable as of December 31, 2018.
(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

	2017		2018	
	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	Stable [e]

(a) Rating given to the Company's commercial paper program.
(b) Rating given to the Company's debt issues 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.
(e) Outlook attributed on February 20, 2018.

Note 11.5. Short-term investments

Carrying amount

As of December 31

(in € millions)	**2017 Restated**	**2018**
Money market funds	3,085	3,644
Bank deposits, negotiable debt instruments and other short-term investments	377	555
Total	**3,462**	**4,199**

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 11.6. Net debt

As of December 31

(in € millions)	**2017 Restated**	**2018**
Non-current financial debt	15,716	14,343
Current financial debt	3,792	3,546
Short-term investments	(3,462)	(4,199)
Cash and cash equivalents	(638)	(839)
Derivatives – assets – Non-current [a]	(16)	(81)
Derivatives – assets – Current [a]	(19)	(27)
Net debt	**15,372**	**12,744**

(a) Used solely to manage net debt.

Changes in net debt in 2018

Danone's net debt totaled €12,744 million as of December 31, 2018, €2,628 million lower than as of December 31, 2017.

The main reason for this decline was the disposal of 14.69% of the shares in Yakult during the first semester of 2018. This net debt includes €508 million of put options granted to non-controlling interests, *i.e.* €99 million lower than as of December 31, 2017.

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.

Note 11.7. 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 2018

During 2018, cost of net debt decreased in absolute terms from €(263) million in 2017 to €(231) million in 2018, thereby reflecting the Group's gradual debt reduction strategy.

Note 11.8. 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, pursuant to IFRS 9, 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 13.3 of the Notes to the consolidated financial statements.

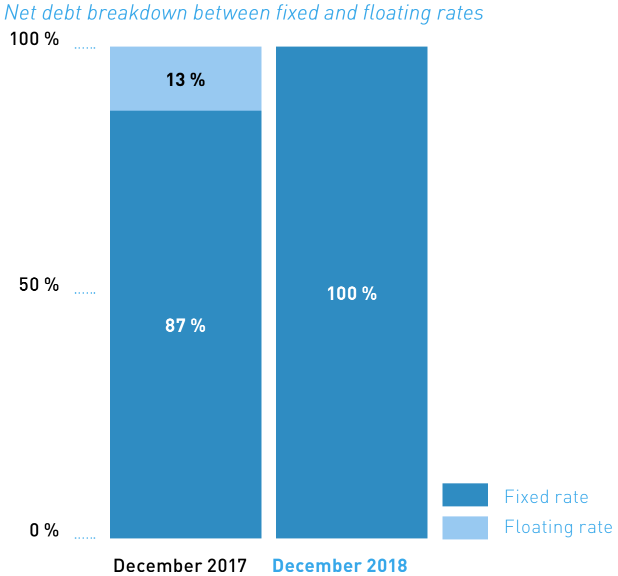
Sensitivity of net income to changes in the cost of net debt resulting from changes in the short-term interest rate

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 2018 as in 2017, 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 13.3 of the Notes to the consolidated financial statements.

NOTE 12. OTHER FINANCIAL ASSETS, OTHER FINANCIAL INCOME (EXPENSE)

Note 12.1. Accounting principles

Investments in other non-consolidated companies

Investments in other non-consolidated companies are recognized at fair value in the consolidated balance sheet. Changes in fair value and gains or losses on disposals are recognized according to the intention of the management (i) in profit or loss in Other financial income (expense) or (ii) in consolidated equity in Accumulated other comprehensive income and are not recycled to profit or loss.

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.

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 recognized at fair value in the consolidated balance sheet. Changes in fair value are recognized under consolidated equity in Accumulated other comprehensive income. They are not subsequently recycled to profit or loss except for equity bonds and money-market funds for which fair value changes 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.

Loans

Loans are measured at amortized cost using the effective interest rate method.

Note 12.2. Other financial assets

Main changes during the period

In 2018 as in 2017, the Group did not carry out any material transactions.

Carrying amount

	As of December 31	
(in € millions)	**2017 Restated**	**2018**
Investments in other non-consolidated companies	83	105
Bonds and money-market funds [a]	98	99
FPS Danone Communities	13	13
Other [b]	50	45
Other long-term financial assets	162	157
Long-term loans	15	16
Other financial assets	**260**	**278**

(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 12.3. 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 IFRS 9, *Financial Instruments*;
- 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;
- gains or losses on the net monetary position resulting from the application of IAS 29 to Argentina.

NOTE 13. ORGANIZATION OF FINANCIAL RISKS AND DERIVATIVES MANAGEMENT

Note 13.1. 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 6.7 of the Notes to the consolidated financial statements.

Note 13.2. 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 Derivatives assets or liabilities;
- foreign exchange and raw materials derivatives related to operations are recognized in the heading (i) Other accounts receivable in Derivatives – assets or within (ii) Other current liabilities in Derivatives – 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 and are recycled as income (expense) when the asset is derecognized.

When derivatives are designated as future cash flow hedges:

- changes in the value of the effective portion are recognized in equity under Accumulated other comprehensive income and are recycled to profit or loss, in the same heading, when the hedged item itself is recognized in profit or loss;
- time value (swap points, FX option premium and basis spread of cross-currency swaps) is recognized in equity in Other comprehensive income and taken to profit or loss on expiry of the underlying instrument, in accordance with the principles adopted by the Group. As a reminder, derivatives designated as future cash flow hedges are recognized in accordance with the transaction-related principle (hedging of transactions included in the forecasts).

Changes in the fair value of the ineffective portions of derivatives that meet the conditions for classification as hedging instruments and 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 their nature.

Note 13.3. 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, 2018, the Group's residual exposure after hedging of exchange risks on its highly probable commercial operating transactions is significantly reduced for 2019, the main currencies partially hedged being the Russian ruble, the Brazilian real and the Uruguayan Peso. In addition, given the transactional risk inherent in the United Kingdom leaving the European Union ("Brexit"), the Group has, as of December 31, 2018, exceptionally hedged its entire exposure to sterling (GBP) for 2019, thereby anticipating the hedging of the exposure of the second semester of 2018 as compared to its normal exchange rate policy.

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 IFRS 9.

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 in 2017.

Management of raw material price volatility risk

The Group has implemented a purchasing policy ("Market Risk Management") that consists of defining rules for setting the prices of raw materials on the financial markets when they exist. The Group's central purchasing team are responsible for the monitoring of exposures and the implementation of this policy. Forward purchase contracts, whether based on a specific index on the financial markets or on a proxy, are monitored at the end of each fiscal year.

Portfolio of derivatives

Notional and fair value amounts

As of December 31

	2017 Restated			2018		
(in € millions)	**Notional**	**Fair value**	**Of which, recognized in equity**	**Notional**	**Fair value**	**Of which, recognized in equity**
Used to hedge operational currency risk	**(1,815)**	**10**	**31**	**(2,281)**	**(2)**	**(2)**
CFH – currency options [a]	(229)	(3)	–	(331)	–	–
CFH – forward currency contracts [a]	(1,588)	13	30	(1,949)	(2)	(2)
No hedge accounting applied	2	–	–	(1)	–	–
Used to manage raw materials	**NA**	**–**	**–**	**NA**	**(22)**	**(22)**
Used to manage net debt	**4,262**	**(126)**	**(16)**	**6,023**	**7**	**(37)**
Fair value hedge	2,274	8	–	2,591	38	–
Cash flow hedge	2,052	(141)	(18)	2,934	(49)	(39)
Net investment hedge	89	3	3	77	2	2
No hedge accounting applied	(154)	4	–	420	16	–
Total	**2,447**	**(116)**	**15**	**3,742**	**(17)**	**(61)**

(a) Under IFRS 9, the intrinsic value and time value portions are recognized in Other comprehensive income. Accordingly, as of December 31, 2018, the intrinsic value portion of the foreign exchange derivatives related to operations totaled €26.9 million, including €25.5 million in respect of forward currency contracts and €1.4 million in respect of currency options.

Additional information

Operational currency risk management

Net notional amount of derivative instruments hedging main currencies

As of December 31

	2017 Restated			2018		
(in € millions)	**Forward currency contracts, net [a]**	**Currency options, net [b]**	**Total**	**Forward currency contracts, net [a]**	**Currency options, net [b]**	**Total**
(Sales)/Purchases of currencies						
GBP [c]	(485)	(189)	(674)	(644)	(228)	(872)
MXN [c]	(153)	–	(153)	(187)	–	(187)
USD [c]	62	(17)	44	85	(3)	81
AUD [c]	(324)	–	(324)	(201)	(34)	(235)
RUB [c]	(63)	–	(63)	(110)	–	(110)
BRL [c]	(93)	–	(93)	(93)	–	(93)
CNY [c]	(190)	–	(190)	(327)	–	(327)
HKD [c]	11		11	(153)	(41)	(194)
Other [c]	(352)	(23)	(375)	(321)	(24)	(345)
Total	**(1,586)**	**(229)**	**(1,815)**	**(1,949)**	**(331)**	**(2,281)**

(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 impacts recognized in net income relate to:

- swap point variations and currency option premium at the maturity of the underlying;
- 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

	2017 Restated		2018	
(in € millions)	**Equity**	**Gain (loss)**	**Equity [c]**	**Gain (loss)**
10% increase in EUR [a]				
GBP [b]	57	(2)	72	–
MXN [b]	1	–	2	–
USD [b]	24	–	19	–
AUD [b]	28	–	20	–
RUB [b]	3	–	9	–
CNY [b]	17	–	31	–
HKD [b]	–	–	24	–
BRL [b]	1	–	2	–
10% decrease in EUR [a]				
GBP [b]	(57)	(2)	(77)	–
MXN [b]	(1)	–	(3)	–
USD [b]	(27)	–	(22)	–
AUD [b]	(34)	–	(23)	–
RUB [b]	(4)	–	(11)	–
CNY [b]	(21)	–	(37)	–
HKD [b]	–	–	(29)	–
BRL [b]	(1)	–	(2)	–

(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.
(c) Under IFRS 9, the intrinsic value and the time value are recognized in Other comprehensive income.

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 2019.

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 qualified as cash flow hedges: in 2018, as in 2017, the amounts are not material;
- the effective portion deferred in equity the previous year of instruments qualified as cash flow hedges and recycled to income during the year: in 2018 as in 2017, 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 2018 as in 2017, 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 recognized in profit or loss

Gains and losses recognized through profit or loss are related to:

- the ineffective portion, during the year, of the changes in fair value of instruments qualified as cash flow hedges;
- the effective portion deferred in equity the previous year of instruments qualified as cash flow hedges and recycled to income during the year.

In 2018 as in 2017, the corresponding amounts are not material.

Management of raw material price volatility risk

As of December 31, 2018, all of the raw material hedging instruments were qualified as cash flow hedges. The portfolio of raw materials consists of diesel, plastic, milk and sugar derivatives, in accordance with the Group's management policy.

Note 13.4. 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 11.4 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]	**2017**	**2018**
Counterparty rating (Standard & Poor's)		
AAA, AA and A	92%	89%
BBB, BB and B	8%	11%
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, 2018 and December 31, 2017, the impact associated with the adjustment required by IFRS 13 was not material.

Note 13.5. Equity securities risk

		As of December 31	
(in € millions)	Notes	**2017**	**2018**
Risk on Company shares			
Treasury shares	14.3	1,653	1,632
Risk on other shares			
Investments in associates	5	2,678	2,104
Investments in other non-consolidated companies	12.2	83	105

Note 13.6. Reconciliation of the consolidated balance sheet by class and accounting category

(in € millions)	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	Carrying amount	Fair value	Fair value level [b]
As of December 31, 2018						
Financial assets						
Investments in other non-consolidated companies	12	93	–	105	105	1-3
Long-term loans and other long-term financial assets	112	–	61	173	173	1-3
Derivatives – assets	54	34	–	88	88	2
Trade receivables [a]	–	–	2,689	2,689	2,689	–
Other current assets [a]	–	37	741	778	778	–
Short-term loans		–	13	13	13	–
Money market funds	3,644	–	–	3,644	3,644	1
Other short-term investments	–	–	555	555	555	2
Cash and cash equivalents	839	–	–	839	839	1
Carrying amount of financial assets by category	**4,661**	**164**	**4,059**	**8,884**	**8,884**	
Financial liabilities						
Financing	5,036	–	12,262	17,298	17,472	2
Derivatives – liabilities	2	83	–	85	85	2
Trade payables [a]	–	–	3,675	3,675	3,675	–
Other current liabilities [a]	–	59	2,684	2,743	2,743	–
Carrying amount of financial liabilities by category	**5,038**	**142**	**18,621**	**23,801**	**23,975**	

(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 14. DANONE SHARES, DIVIDEND AND EARNINGS PER SHARE

Note 14.1. 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.

Note 14.2. Transactions and changes involving DANONE shares

2018 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, 2017 Restated	Buyback	Sales/ Transfers	Delivery of Group performance shares	As of December 31, 2018
Acquisition transactions	**30,769,360**	–	–	–	**30,769,360**
Liquidity agreements	**–**	–	–	–	**–**
Employee shareholding plans	**1,757,632**	–		(525,007)	**1,232,625**
Cancellation of shares	**–**	–	–	–	**–**
Shares held by the Company	**32,526,992**	**–**	**–**	**(525,007)**	**32,001,985**
Shares held by Danone Spain	**5,780,005**	–	–	–	**5,780,005**
Total shares held by the Group	**38,306,997**	**–**	**–**	**(525,007)**	**37,781,990**

Note 14.3. Outstanding DANONE shares

		Year ended December 31					
		2017 Restated			2018		
(in number of shares)	Notes	Share capital	Treasury shares	Outstanding	Share capital	Treasury shares	Outstanding
As of January 1		655,892,000	(38,909,203)	616,982,797	670,710,400	(38,306,997)	632,403,403
Dividend in shares	14.5	13,835,487	–	13,835,487	13,475,904	–	13,475,904
Other capital increases	8.5	982,913	–	982,913	868,896	–	868,896
Changes in treasury shares	14.2	–	602,206	602,206	–	525,007	525,007
As of December 31		**670,710,400**	**(38,306,997)**	**632,403,403**	**685,055,200**	**(37,781,990)**	**647,273,210**

Note 14.4. 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	**2017 Restated**	**2018**
Net income – Group share		2,449	2,349
Coupon relating to hybrid financing, net of tax		(2)	(14)
Adjusted net income – Group share		2,447	2,335
Number of outstanding shares			
As of January 1		616,982,797	632,403,403
Effects of changes during the year	14.3	15,420,606	14,869,807
As of December 31		632,403,403	647,273,210
Average number of outstanding shares			
• Before dilution		626,954,761	642,721,076
Dilutive impact			
Group performance shares		166,505	729,370
• After dilution		627,121,266	643,450,446
Net income – Group share, per share			
• Before dilution		3.90	3.63
• After dilution		3.90	3.63

Note 14.5. 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 2017 dividend with the option of payment in shares

The Shareholders' Meeting of April 26, 2018 held in Paris approved the proposed dividend relating to the 2017 fiscal year of €1.90 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 4, 2018 (inclusive) to May 18, 2018 (inclusive). At the end of this period, 64.64% of the rights were exercised in favor of the 2017 dividend payment in shares.

	Year ended December 31, 2018		
(in € millions, except number of shares)	**Number of outstanding shares**	**Consolidated equity**	**Consolidated cash flows**
Portion paid in shares			
Portion paid in newly-issued shares	13,475,904	–	–
Fractional shares	–	(13)	(13)
Portion paid in cash [(a)]	–	(418)	(418)
Total	**13,475,904**	**(431)**	**(431)**

(a) Excluding share of the dividend paid to Danone Spain, *i.e.* €11 million.

It should be noted that the issue price of the new shares used for the dividend payment was €57.17. 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, 2018 and are identical in all respects to the previously issued shares.

NOTE 15. OTHER NON-CURRENT PROVISIONS AND LIABILITIES AND LEGAL AND ARBITRATION PROCEEDINGS

Note 15.1. 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 (reversal of provision not used).

Note 15.2. Carrying amount and changes during the period

		Changes during the period						
(in € millions)	**As of December 31, 2017**	**Changes in consolida-tion scope**	**Increase**	**Reversal of provisions used**	**Reversal of provisions not used**	**Translation adjustments**	**Other**	**As of December 31, 2018**
Tax and territorial risks	572	–	114	(11)	(72)	(3)	11	612
Employee-related and commercial disputes and other provisions	366	–	95	(39)	(56)	(7)	(6)	352
Restructuring provisions	64	–	10	(31)	(19)	–	–	25
Total [(a)]	**1 003**	**–**	**219**	**(81)**	**(147)**	**(11)**	**5**	**989**

(a) The current portion totaled €47 million as of December 31, 2018 (€38 million as of December 31, 2017).

Changes to Other non-current provisions and liabilities during 2018 were as follows:

- increases resulted primarily from lawsuits against the Company and its subsidiaries in the normal course of business;
- reversals of provisions used occurred when corresponding payments were made. Reversals of provisions not used related mainly to reassessments and situations where some risks ceased to exist. They related to several provisions, none of which is material individually;
- other changes corresponded primarily to reclassifications.

As of December 31, 2018, provisions for tax risks, and commercial, employee-related, and other disputes included several provisions for legal, financial, tax and territorial risks, 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 15.3. 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 customs and competition authorities in certain countries. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

To the best of Danone's knowledge, no 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 16. RELATED PARTY TRANSACTIONS

Note 16.1. 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 16.2. 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 2017, the amounts pertaining to 2018 are not material.

Note 16.3. Compensation and benefits granted to members of the Executive Committee and Board of Directors

Compensation paid

	Year ended December 31	
(in € millions)	**2017 Restated**	**2018**
Compensation paid to corporate officers and members of the Executive Committee [a]	14.9	12.2
Attendance fees paid to Directors [b]	0.7	0.7
Total	**15.6**	**12.9**
Severance pay	–	–
Carrying amount of shares subject to performance conditions granted during the year [c]	7.1	6.5

(a) Annual and multi-year fixed and variable compensation (gross amount excluding employer contributions), of which the variable portion totaled €6.1 million in 2018 (€7.3 million in 2017).

(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

The amount of provisions for defined benefit retirement represented Danone's commitment as of December 31, 2018, in accordance with IFRS, *i. e.* a total of €35.7 million for corporate officers and Executive Committee members.

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). Employer's contributions for this plan in respect of 2018 amounted to €16,687 for Mr. Emmanuel FABER. 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 2018, as in 2017, no loan or guarantee was granted or established by the Company or its subsidiaries on behalf of Executive Committee members.

Note 16.4. Related party agreements

See section 6.6 *Related party agreements and commitments*.

NOTE 17. SUBSEQUENT EVENTS

To the Company's knowledge, no material events occurred after the approval date of the 2018 consolidated financial statements (approved by the Board of Directors on February 18, 2019).

NOTE 18. FEES TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

	PricewaterhouseCoopers				Ernst & Young Audit			
(in € millions, except percentage)	2017 fees		2018 fees		2017 fees		2018 fees	
Statutory audits: certification of the individual and consolidated financial statements	5.0	79%	4.4	79%	5.4	84%	5.2	86%
Services other than the certification of the financial statements	1.3	21%	1.2	21%	1.0	16%	0.8	14%
Total [(a)]	**6.3**	**100%**	**5.6**	**100%**	**6.4**	**100%**	**6.1**	**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 2018, 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 (€2.5 million in 2017), of which €1.1 million for PricewaterhouseCoopers Audit (€1.1 million in 2017) and €1.4 million for Ernst & Young Audit (€1.4 million in 2017).

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, 2018 totaled €1.2 million (€1.2 million in 2017), of which €0.5 million for PricewaterhouseCoopers Audit (€0.4 million in 2017) and €0.7 million for Ernst & Young Audit (€0.8 million in 2017) and included in particular fees for tax services concerning services of technical documentation or technical analysis of tax positions.

The fees of the Statutory auditors' networks for services other than the certification of the financial statements to certain foreign subsidiaries of Danone totaled €0.8 million (€1.1 million in 2017), of which €0.7 million for PricewaterhouseCoopers Audit (€0.9 million in 2017) and €0.1 million for Ernst & Young Audit (€0.2 million in 2017) 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.

4

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 2018.

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 2018 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 2018 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 6.1 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 (i) the Group's broad customer base across different countries and with varying contractual relationships (based on sales volumes, promotional agreements or trade practices), (ii) the materiality of trade discounts and rebates, and (iii) 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), in particular in the context of the first application of IFRS 15, on revenue recognition from contracts with customers. 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 controls 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 2018, goodwill amounted to 17,711 million euros, brands amounted to 6,359 million euros and investments in associates amounted to 2,104 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 5 and 10 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) (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 and brands, in particular those of Central Danone which were subject to an impairment of 662 million euros in 2018 as mentioned in Note 7.2 to the consolidated financial statements, and investments in associates, in particular the investment in Yashili, 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 determine the cash flow projections underlying the impairment tests. For a sample of CGUs and brands, identified on the basis of quan¬-titative and qualitative factors, and in particular for the Centrale Danone CGU, 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 15 to the consolidated financial statements, the provisions for territorial tax risks amount to 612 million euros as at 31 December 2018. As at 31 December 2018, the amount of 289 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 9 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. 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 recent changes made to some tax legislation.	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.

Specific verification

As required by laws and regulations 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.

We attest that the consolidated non-financial statement required by Article L.225-102-1 of the French Commercial Code is included in the information pertaining to the Group presented in the management report, being specified that, in accordance with the provisions of Article L.823-10 of the code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information contained therein and should be reported on by an independent insurance services provide.

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 2018, ERNST & YOUNG et Autres and PricewaterhouseCoopers Audit were in the third year and the twenty-seven 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 pro¬vide 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 cir-cumstances, 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 uncer¬tainty 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 un-derlying 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.

Paris La Défense and Neuilly-sur-Seine, March 1, 2019

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	**2017**	**2018**
Sales		609	666
Other income		59	45
Total operating income	3	**668**	**711**
Personnel costs	4	(317)	(287)
Other operating expense	5	(524)	(486)
Total operating expense		**(841)**	**(773)**
Net operating expense		**(173)**	**(62)**
Income from equity interests		223	901
Interest on loans and receivables and similar income		229	254
Interest on borrowings and similar expense		(279)	(293)
Other financial income (expense)		88	(1)
Net financial income	6	**261**	**861**
Net income before non-recurring items and tax		**88**	**799**
Net non-recurring income (expense)	7	**(12)**	**(4)**
Income tax	8	100	104
Net income		**176**	**899**

Balance sheet

Assets

As of December 31

(in € millions)	Notes	2017 Net amount	2018 Gross amount	2018 Depreciation, amortization and provisions	2018 Net amount
Intangible assets		48	135	(80)	55
Property, plant and equipment		17	36	(21)	15
Equity interests		28,121	28,644	(82)	28,562
Other long-term financial assets		5,973	4,982	–	4,982
Financial assets	9	34,094	33,626	(82)	33,544
Non-current assets		**34,159**	**33,797**	**(183)**	**33,614**
Short-term loans and receivables	10	371	243	(1)	242
Marketable securities	11	81	59	–	59
Cash and cash equivalents		–	–	–	–
Current assets		**452**	**302**	**(1)**	**301**
Deferrals and prepaid expense		813	360	–	360
Total assets		**35,424**	**34,459**	**(184)**	**34,275**

Equity and liabilities

As of December 31

(in € millions)	Notes	2017	2018
Share capital		168	171
Share premium		4,787	5,602
Revaluation adjustment		4	4
Other reserves		3,781	3,790
Retained earnings		4,263	3,217
Net income for the year		176	899
Regulated provisions		2	1
Equity	12	**13,181**	**13,684**
Other equity	14	1,250	1,250
Provisions for risks and charges	13	66	52
Bonds	14	17,395	15,741
Other financial debt	14	719	717
Other liabilities	15	2,061	2,521
Deferrals and accrued expenses		752	310
Total equity and liabilities		**35,424**	**34,275**

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY DANONE SA

The financial statements of the parent company Danone ("the Company") for the year ended December 31, 2018 were approved by Danone's Board of Directors on February 18, 2019 and will be submitted for approval to the Shareholders' Meeting on April 25, 2019. 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.

Contents

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 new regulation ANC 2018-01 issued on April 20, 2018, which amends the regulation ANC 2014-03 related to the general chart of accounts does not materially impact the Company's financial statements.

The main accounting methods used are detailed hereafter.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are valued at cost of acquisition (including acquisition-related costs) and are amortized or depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	15 to 20 years
Fixtures and fittings	8 to 10 years
Other property, plant and equipment	4 to 10 years
Softwares	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 forecasted discounted cash flows;
- revalued equity.

Assumptions, estimates or appraisals used to determine the recoverable amount 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 Net non-recurring income (expense). Gains or losses on disposals of equity interests are recognized as Net non-recurring income (expense).

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.

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 hereinafter) and long-term loans and receivables granted by the Company.

DANONE shares recognized as Marketable securities

Hedging of out-of-the money Group performance shares

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 shares

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 receivables and liabilities. 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 or 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 ANC Regulation no. 2015-05 on financial instruments to all material hedging transactions.

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

- An indirect subsidiary made a partial repayment totaling USD 1 billion of its long-term loan from Danone SA;
- The Shareholders' Meeting held in Paris on April 26, 2018 approved the proposed dividend for 2017 of €1.90 per share, and decided that each shareholder could choose to receive the dividend payment in cash or in DANONE shares. Ultimately, 61.5% 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 €429 million;
- The Company received dividends totaling €606 million following the partial disposal of its indirect shareholding in Yakult;
- Danone recapitalized certain subsidiaries for a total amount of €441 million.

NOTE 3. OPERATING INCOME

Sales comprise mainly the billing of direct and indirect subsidiaries for services rendered by the Company to those subsidiaries. They totaled €666 million in 2018 (€609 million in 2017).

Other income totaled €45 million in 2018 (€59 million in 2017) and comprised mainly the reversal of a provision for risks and charges relating to hedging of the Group performance share plans granted by the Company, as well as the reimbursement of insurance premiums.

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 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	
(in € millions)	**2017**	**2018**
Compensation paid to corporate officers and members of the Executive Committee [(a)]	11	9
Attendance fees paid to non-executive members of the Board of Directors [(b)]	1	1
Total	**12**	**10**

(a) Recognized in Personnel costs.
(b) Recognized in Other operating expense.

See also Note 17 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 €486 million in 2018 (€524 million in 2017).

NOTE 6. NET FINANCIAL INCOME (EXPENSE)

Net financial income totaled €861 million in 2018 (€261 million in 2017).

Income from equity interests

Income from equity interests consisted of dividends received from the Company's equity interests. In 2018, these dividends amounted to €901 million (€223 million in 2017). In 2018, the Company received dividends totaling €606 million following the partial disposal of its indirect shareholding in Yakult.

Interest on loans and receivables and similar income

In 2018, Interest on loans and receivables and similar income comprised interest received on the loans and receivables granted to Danone North America PBC (formerly Danone Wave) of €181 million, Zjwiec Zdroj and Danone Poland totaling €7 million, PLF Est Europe of €2 million, interest received from cross-currency swaps of €45 million and interest on interest rate swaps of €19 million.

Interest on borrowings and similar expense

	As of December 31	
(in € millions)	**2017**	**2018**
Bonds [a]	263	288
Current account with Danone Finance International [a]	7	9
Short-term borrowings from indirect subsidiaries [a]	13	0
Commercial paper [a]	(4)	(4)
Total	**279**	**293**

(a) Interest paid and accrued in respect of the year.

Other financial income (expense)

As regards Other financial income (expense), the Company generated net expense of €1 million in 2018 (compared with net income of €88 million in 2017). The decrease as compared with 2017 was due mainly to the currency gain generated by the unwinding of hedging instruments of €74 million related to the acquisition of The WhiteWave Foods Company in 2017.

NOTE 7. NET NON-RECURRING INCOME (EXPENSE)

In 2018, Danone generated a net non-recurring expense of €4 million, which consisted mainly of allocations to and reversals of provisions and an expense in connection with the Green Friday event. In 2017, the Company generated a net non-recurring expense of €12 million, which consisted mainly of costs related to Danone's corporate organization and its direct and indirect subsidiaries.

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 2018

	As of December 31, 2018
BLEDINA	FERMINVEST
COMPAGNIE GERVAIS DANONE	HELDINVEST 9
DAN INVESTMENTS	HELDINVEST 11
DANOBUREAU	HELDINVEST 12
DANONE [a]	HOLDING INTERNATIONALE DE BOISSONS
DANONE BABY AND MEDICAL HOLDING	LES PRÉS RIENT BIO
DANONE CORPORATE FINANCE SERVICES	NUTRICIA NUTRITION CLINIQUE SAS
DANONE DAIRY ASIA	PRODUITS LAITIERS FRAIS ESPAGNE
DANONE FINANCE INTERNATIONAL	PRODUITS LAITIERS FRAIS EST EUROPE
DANONE MANIFESTO VENTURE EUROPE	PRODUITS LAITIERS FRAIS SUD EUROPE
DANONE NUTRICIA AFRICA & OVERSEAS	SOCIÉTÉ ANONYME DES EAUX MINÉRALES D'ÉVIAN
DANONE PRODUITS FRAIS FRANCE	SOCIÉTÉ DES EAUX DE VOLVIC
DANONE RESEARCH	

(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 tax 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 2018 relates mainly to these savings.

At year-end 2018, the tax group recorded a taxable income. As of December 31, 2018, tax loss carry-forwards accumulated within the tax group in France amounted to €935 million, compared with €995 million as of December 31, 2017.

Other information

In accordance with Article 39.4 of the French Tax Code, in 2018 the Company recognized €0.4 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 2018.

As of December 31, 2018, items likely to result in a reduction of future tax liabilities consisted mainly of accrued charges. They totaled €58 million and would reduce future tax charges by €20 million.

NOTE 9. FINANCIAL ASSETS

Carrying amount and changes during the period

(in € millions)	As of December 31, 2017	Changes during the period: Increase [a]	Decrease [b]	Reclassification, translation	As of December 31, 2018
Gross amount					
Equity interests	28,203	441			28,644
Long-term loans and receivables	4,387		(1,175)	184	3,396
DANONE treasury shares [c]	1,578				1,578
Other	7				7
Other financial assets	5,973	–	(1,175)	184	4,981
Total	**34,176**	**441**	**(1,175)**	**184**	**33,625**
Provisions [d]	(82)				(82)
Net total	**34,094**	**441**	**(1,175)**	**184**	**33,543**

(a) See Note 2 of the Notes to the financial statements of the parent company Danone.
(b) Partial repayment totaling USD 1 billion of an indirect subsidiary's long-term loan from Danone (see Note 2 of the Notes to the financial statements of the parent company Danone).
(c) 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).
(d) Consists mainly of provisions for impairment of Equity interests.

Equity interests

Equity interests held in portfolio as of December 31, 2018

(in € millions, except percentage)	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	138	100%	8,875,000	179	179	–	–	(3)	–
COMPAGNIE GERVAIS DANONE	10,125	530	100%	401,790,775	9,755	9,755	–	–	234	–
DANONE BABY AND MEDICAL HOLDING	13,619	220	100%	13,618,704,074	13,615	13,615	–	–	52	52
DAN INVESTMENTS	82	(8)	100%	4,100,000	82	76	–	–	4	–
HOLDING INTERNATIONALE DE BOISSONS	324	876	100%	161,768,722	1,116	1,116	–	–	59	–
Foreign investments										
DANONE SINGAPORE HOLDINGS PTE LTD	159	(79)	61%	173,987,816	118	118	–	–	108	66
FPS DANONE COMMUNITIES	–	11	64%	14,392	8	8	–	–	–	–
DANONE ASIA PTE LTD	1,394	(448)	88%	2,288,111,264	1,263	1,263	–	–	669	759
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	868	23%	21,988	400	400	–	294	28	6
DANONE FINANCE INTERNATIONAL	965	4,971	33%	4,034,154	2,012	2,004	2,000	–	47	19
Total					**28,644**	**28,562**				

(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.

NOTE 10. SHORT-TERM LOANS AND RECEIVABLES

As of December 31, 2018, this balance sheet item comprised mainly €242 million of receivables due to the Company within less than one year, including tax receivables totaling €73 million (€116 million as of December 31, 2017), accounts receivable totaling €68 million (€125 million as of December 31, 2017) and other receivables totaling €101 million.

NOTE 11. MARKETABLE SECURITIES

Carrying amount and changes during the period

(in € millions)	As of December 31, 2017	Changes during the period Increase	Decrease (exercised)	Reallocation	Reclassification	As of December 31, 2018
DANONE shares hedging Group performance shares [a]	68		(22)			46
Short-term investment	–					–
FPS Danone Communities [b]	13					13
Total	**81**	**–**	**(22)**	**–**	**–**	**59**

(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) FPS 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.

NOTE 12. EQUITY

Carrying amount and change during the period

	As of December 31, 2017		Changes during the period			As of December 31, 2018
(in € millions)	Before allocation	After allocation [b]	Net income	Capital decrease	Capital increase [c]	Before allocation
Share capital	168	168	–	–	4	171
In number of shares [a]	*670,710,400*	*670,710,400*	–	–	*14,344,800*	*685,055,200*
Share premium	4,787	4,787	–	–	815	5,602
Legal reserve	16	25	–	–	–	25
Other reserves	3,769	3,769	–	–	–	3,769
Retained earnings	4,263	3,217	–	–	–	3,217
Net income for the year	176	–	899	–	–	899
Regulated provisions	2	2	(1)	–	–	1
Total	**13,182**	**11,968**	**898**	**–**	**819**	**13,684**

(a) Ordinary shares with a par value of €0.25.
(b) Following shareholder approval at the Shareholders' Meeting of April 26, 2018, €1,274 million of the amount available for allocation of net income from the year ended December 31, 2017 was allocated to the dividend, and the remainder to retained earnings.
(c) Issue carried out on May 31, 2018 for the payment of the dividend in shares for €3.4 million, and on June 12, 2018 under the terms of the Company savings plan (*Plan d'Épargne Entreprise*) for €0.2 million. These two issues generated a share premium of €815 million.

NOTE 13. PROVISIONS FOR RISKS AND CHARGES

Carrying amount and changes during the period

(in € millions)	As of December 31, 2017	Changes during the period Allocation	Reversal, used provision	Reversal, unused provision	As of December 31, 2018
Provisions in respect of Group performance share plans	44	16	(21)	–	39
Other provisions	22	6	(12)	(3)	13
Total	**66**	**22**	**(33)**	**(3)**	**52**

NOTE 14. BONDS, OTHER EQUITY AND OTHER FINANCIAL DEBT

Bonds and Other equity

Carrying amount of bonds

	As of December 31	
(in € millions)	**2017**	**2018**
Nominal value	17,331	15,671
Accrued interest	64	70
Total	**17,395**	**15,741**

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 of control in the Company causes its rating by the financial rating agencies to fall below investment grade.

2018 transactions

	Year ended December 31		
	2018		
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
Social bond	EUR	300	2025
Repayments			
Euro bonds	EUR	750	2018
Euro bonds	EUR	1,350	2018
Yen private placement	JPY	7,500	2018

Bonds: fixed rate/floating rate breakdown (after hedging where applicable) and changes during the period

		Changes during the period				
(in € millions)	As of December 31, 2017	New borrowings	Repayment	Change in accrued interest	Revaluation	As of December 31, 2018
Fixed rate portion						
Bonds	15,281	300	(807)	–	197	14,971
Accrued interest	64	–	–	6	–	70
Floating rate portion						
Bonds	2,050	–	(1,350)	–	–	700
Accrued interest	–	–	–	–	–	–
Total	**17,395**	**300**	**(2,157)**	**6**	**197**	**15,741**

Breakdown by currency with interest accrued as of the reporting date

As of December 31, 2018

(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	10,070	10,070	10,070	10,070
U.S. dollar	6,350	5,719	5,485	5,485
Bonds denominated in other currencies				
Yen	24,500	186	186	186
Total		**15,975**	**15,741**	**15,741**

Portfolio of cross-currency swaps hedging certain foreign-currency denominated bonds

As of December 31, 2018

(in € millions except Nominal value in foreign currency, in currency millions)	Nominal value in foreign currency	Historical value in euros
Euro – U.S. dollar	3,350	2,931
Euro – Yen	24,500	186
Total		**3,117**

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

(in € millions)	As of December 31, 2017	Changes during the period: New borrowings	Repayment	Change in accrued interest	Revaluation	As of December 31, 2018
Fixed rate portion						
Loan from Danone Finance International	–	–	–	–	–	–
Floating rate portion						
Commercial paper [a]	719	–	(2)	–	–	717
Short-term loan from subsidiaries	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**719**	**–**	**(2)**	**–**	**–**	**717**

(a) Net changes.

Maturity of Bonds and Other financial debt

(in € millions)	As of December 31 2017	2018
Due date less than 1 year	2,939	2,635
Due date between 1 and 5 years	9,132	9,427
Due date more than 5 years	6,017	4,396
Total	**18,088**	**16,458**

NOTE 15. OTHER LIABILITIES

Composition of Other liabilities

(in € millions)	As of December 31 2017	2018
Amounts owed by the Company to certain subsidiaries and affiliates	1,602	2,133
Trade payables	17	27
Unrealized foreign exchange gains	–	–
Accrued expenses	442	360
Total	**2,061**	**2,521**

Composition of Accrued charges

(in € millions)	2017	2018
		As of December 31
Services provided	196	167
Personnel costs	2	1
Social charges	128	135
Tax liabilities	5	5
Financial debt	111	53
Total	**442**	**360**

NOTE 16. NET DEBT

Composition of net debt

(in € millions)	2017	2018
		As of December 31
Bonds	17,395	15,741
Other financial debt	719	717
Amounts owed by the Company to certain subsidiaries and affiliates [a]	1,602	2,133
Total debt	**19,716**	**18,591**
Amounts owed to the Company by certain subsidiaries and affiliates [b]		
Marketable securities	81	59
Cash		–
Total cash and cash equivalents	**81**	**59**
Total net debt	**19,635**	**18,532**

(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.

NOTE 17. POST-EMPLOYMENT BENEFIT COMMITMENTS AND COMMITMENTS TO MANAGEMENT BODIES AND TO THE BOARD OF DIRECTORS

Post-employment benefit commitments

(in € millions)	2017	2018
		As of December 31
Supplementary benefits in addition to defined benefit retirement plans [a]		
Gross commitments	581	548
Commitments net of retirement plan assets	382	356

(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 senior managers of Danone.

Retirement plan granted to some senior managers of Danone

Commitments measured using the actuarial method

	As of December 31	
	Retirement plan for senior managers	
(in € millions)	**2017**	**2018**
Gross commitments	481	449
Commitments net of plan assets	316	291

The €25 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)	**2017**	**2018**
Discount rate	1.8%	2.2%
Expected return on plan assets	1.8%	2.2%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Commitments to management bodies and to the Board of Directors

Post-employment benefit commitments for corporate officers and Executive Committee members

	As of December 31	
(in € millions)	**2017**	**2018**
Supplementary benefits in addition to defined benefit retirement plans [a]		
Gross commitments	23	36

(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, as regards the two corporate officers of the Company, the Board of Directors decided on February 18, 2019 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)	**2017**	**2018**
Put options held by non-controlling interests over some of the Company's direct and indirect equity interests [a]	607	508
Post-employment benefits [b]	382	356
Rents	65	56
Services provided	157	86
Derivative instruments [c]	2,079	3,117
Security interests [d]	2,000	2,000
Guarantees	14	16
Total	**5,304**	**6,139**

(a) Commitments given directly or indirectly by the Company (see details hereinafter 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 €3,117 million.
(d) The Company acted as joint and several guarantor for Danone Finance International.

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 billion in available committed credit facilities as of December 31, 2018.

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 booked 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 percentage)		**2017**		**2018**
Executives and managers	715	82%	730	82%
Supervisors and technicians	117	13%	116	13%
Clerical staff	37	4%	42	5%
Total	**869**	**100%**	**888**	**100%**

NOTE 20. RELATED PARTY TRANSACTIONS

The main related parties are the associated companies and the members of the Executive Committee and of the Board of Directors.

Transactions with associated companies are generally carried out at arm's length. They mainly involve management fees paid to Danone, services and financing.

Details of the compensation paid to the members of the Executive Committee and of the Board of Directors are provided in Note 4 of this section. Details of Danone's commitments to the corporate officers and Executive Committee members with respect to the retirement plan are provided in Note 17 of this section.

The related party agreements are described in section 6.6 *Related party agreements and commitments*.

NOTE 21. SUMMARY OF SHARES HELD IN PORTFOLIO

Securities of subsidiaries and associates

As of December 31

(in € millions)	2017	2018
Gross amounts	28,203	28,644
Provisions for impairment	(82)	(82)
Carrying amount	**28,121**	**28,562**

DANONE treasury shares

As of December 31

	2017		2018	
(in € millions, except number of shares)	**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]	1,757,632	68	1,232,625	46
Total	**32,526,992**	**1,646**	**32,001,985**	**1,624**

(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

	2014	2015	2016	2017	2018
Capital at year-end					
Share capital *(in €)*	160,948,000	163,737,800	163,973,000	167,677,600	171,263,800
Number of shares issued	643,792,000	654,951,200	655,892,000	670,710,400	685,055,200
Operations and results for the year *(in € millions)*					
Sales	474	492	648	609	666
Net income before tax, depreciation, amortization and provisions	482	2,070	1,318	105	820
Income tax [a]	76	111	59	100	104
Income after tax, depreciation, amortization and provisions	541	2,217	1,347	176	899
Dividends paid [b]	915	995	1,115	1,274	1,329
Earnings per share *(in € per share)*					
Income after tax but before depreciation, amortization and provisions	0.85	3.33	2.10	0.32	1.35
Net income after tax, depreciation, amortization and provisions	0.84	3.38	2.05	0.26	1.31
Dividend per share	1.50	1.60	1.70	1.90	1.94
Personnel					
Average number of employees for the year	725	798	844	869	888
Payroll expense *(in € millions)*	159	180	160	207	193
Amounts paid in respect of employee benefits [c] (social security, social benefit schemes, etc.) *(in € millions)*	71	77	90	115	94

(a) Income (expense).

(b) Amount relating to the 2018 fiscal year estimated as of December 31, 2018 based on the number of treasury shares held on that date by the Company. The 2017 dividend corresponds to the amount actually paid during the 2018 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 relating 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 18, 2019, the date on which the Board of Directors approved the financial statements of the parent company Danone for the year ended December 31, 2018.

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 2018.

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 2018 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 2018 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.

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.

Valuation of equity interests

RISK IDENTIFIED	OUR RESPONSE

As at 31 December 2018, equity holdings are recorded for a net amount of 28,562 million euros, for a total balance sheet of 34,275 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 this line item 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.

Specific verification

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French regulatory and legal texts.

Information provided in the management report and in the other documents with respect to the financial position and the financial statements provided to the shareholders

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 with respect to the financial position and the financial statements provided to the shareholders.

We attest that the information relating to payment terms referred to in article D. 441-4 of the French Commercial Code (*Code de commerce*) is fairly presented and consistent with 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 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 2018, PricewaterhouseCoopers Audit and ERNST & YOUNG Audit were in the 27th year and 3rd 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 to the Audit Committee a report 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, 1 March 2019

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, 2018

(in € millions unless stated otherwise)	Invoices received, unpaid and overdue as of the reporting date					
	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	10					**346**
Total amount of invoices concerned (including taxes)	0.9	0.6	0.5	0.4	8.4	**9.9**
Percentage of total purchases for the year (excluding taxes)	0.2%	0.1%	0.1%	0.1%	2.0%	**2.4%**
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						9
Total amount of excluded invoices						0.3
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, 2018

(in € millions unless stated otherwise)	Invoices issued, unpaid and overdue as of the reporting date					
	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	757					**1,291**
Total amount of invoices concerned (including taxes)	25.3	8.9	0.6	(0.0)	43.8	**53.3**
Percentage of total purchases for the year (excluding taxes)						
Percentage of sales for the year (excluding taxes)	3.8%	1.3%	0.1%	0.0%	6.6%	**8.0%**
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:

- *Information regarding extra-financial performance:*
  - *decree n° 2017-1265 of August 9, 2017 taken for the purpose of the order n°2017-1180 of July 19, 2017 as regards disclosure of non-financial information by companies;*
  - *Act L. 225-37-4 6 of the French Commercial Code regarding "results of gender diversity in the top 10% of positions with greater responsibility";*
  - *1 of Act no. 2017-399 referred to as the law on the duty of vigilance of parent companies and ordering companies;*
  - *173 of Act no. 2015-992 of August 17, 2015 on the energy transition for green growth.*
- *Description of Danone's sustainability approach through the steps of decree n°2017-1265:*
  - *Danone's business model is described in chapter 2 of this document.*
- *For each of the risks and as far as possible, the following elements are highlighted:*
  - *Definitions of the identified sustainability risks;*
  - *Policies implemented to define the Company's ambitions and commitments;*
  - *Governance and team dedicated to strategic management and operational follow-up;*
  - *Action plans implemented to deploy the commitments;*
  - *Quantitative and qualitative outcomes;*
  - *Opportunities considered as levers of actions generating positive impact.*
- *Extra-financial performance for 2018 relies on:*
  - *Environmental indicators;*
  - *Social indicators;*
  - *Safety indicators;*
  - *Nutrition indicators;*
  - *Responsible procurement and human rights indicators;*
  - *Results of the Danone Way program.*
- *More extensive information is available in:*
  - *section 2.7* Risk factors *dedicated to the main risks Danone is exposed to as of the date of the release of this Registration Document;*
  - *the 2018 Integrated Annual Report (www.iar2018.danone.com) in which quantitative results and practices are described based on the 2030 Company Goals, the Global Reporting Initiative indicators, the Global Compact guiding principles and the United Nations Sustainable Development Goals (SDG).*

5.1 DANONE'S INTEGRATED VISION OF CORPORATE RESPONSIBILITY

Contents

5

DANONE'S LONG HISTORY OF CORPORATE RESPONSIBILITY

"Corporate responsibility does not end at the factory gate or the office door," said Antoine Riboud in 1972, adding "We only have one Earth." His vision became Danone's dual economic and social project–the heart of the Company's growth and organizational model.

Step by step, this vision has become an integral part of the Company and its activities:

1972

Antoine RIBOUD's speech in Marseille: birth of the dual economic and social project

1989

- Set up of the common vision between Danone and the IUF
- Danone-IUF agreements on the economic and social information of Danone companies and gender equality in the workplace

1991 - 1997

Danone-IUF agreements on:

- Skills training
- Trade union rights
- The event of changes in business activities affecting employment or working conditions

1996

Environmental Charter

2001

- Birth of the Danone Way program
- Danone-IUF agreement on Fundamental Social Principles

2004

Groundwater Resources Protection Policy

2005

Danone-IUF agreement on setting up of social indicators in the Company's subsidiaries

2006

"Bringing health through food to as many people as possible" formally adopted as Danone's mission

2007

- Danone-IUF agreement on diversity
- Creation of the Danone Communities fund

2009

- Creation of the Danone Ecosystem Fund
- Nutrition Health Charter

2010

Deployment of Dan'Cares program

2011

- Creation of the Livelihoods Carbon fund
- Danone-IUF agreement on health, safety, working conditions and stress

2012

Forest Footprint Policy

2013

Nature 2020 Commitments

2014

Creation of the Livelihoods fund for family farming

2015

- Publication of the Manifesto
- Partnership with B Lab® for B Corp™ certification for multinationals
- Climate Policy
- Commitment to the Consumer Goods Forum against deforestation
- Palm oil policy

2016

- Danone-IUF agreement on sustainable employment and access to rights
- Packaging Policy
- Nutrition Commitments
- Position paper on the first 1,000 days of life

2017

- Launch of the "One Planet. One Health" Company vision
- Global Parental Policy
- Official recognition of Danone's climate ambition by the Science-Based Targets initiative
- Engagement in the RE100 initiative

2018

- ESG criteria incorporated into credit margin of syndicated credit facility
- Social bond issue
- Launch of Danone's 2030 Goals
- New packaging policy
- Launch of Business for Inclusive Growth initiative with the OECD

SUSTAINABLE VALUE CREATION: DANONE'S INTEGRATED APPROACH

Danone's mission reflects its commitment to "bringing health through food to as many people as possible", through its brands and a portfolio of foods and beverages that can be enjoyed every day. It offers products and services suited to each community's specificities by taking into account cultural, social, emotional and physiological aspects related to dietary practices, in each part of the world.

Moreover, Danone believes that the health of people and that of the planet are interdependent and wants to nourish and protect both. Flowing from our "One Planet. One Health" vision, the Company has defined a set of nine long-term goals – aligned with the Sustainable Development Goals of the United Nations – to embrace the food revolution while creating sustainable value for its shareholders and ecosystem. Danone's more than 100,000 employees are the driving force to achieve this (see *2018 Integrated Annual Report*).

Building on a unique social innovation heritage, Danone is giving the opportunity to each employee to co-own its strategic agenda and the path to its 2030 Goals, both at global and local level. Hence, in 2018, through the "One Person, One Voice, One Share" program, Danone's employees have been invited to engage and share their views on the Company's priorities as well as the definition of local and global roadmaps (see 2.3 *Strategic priorities*).

Inspired by its vision and ambitions, Danone deploys action plans that advance its dual economic and social project, as an integral part of a unique corporate strategy.

DANONE WAY AND B CORP™, TWO KEY INITIATIVES TO ACHIEVE DANONE'S AMBITIONS

Continuous improvement with Danone Way

Under the Danone Way program, the Company's entities conduct an annual self-assessment to measure how they are performing and how mature their sustainability initiatives are.

The Danone Way guidelines are grouped into four key pillars:

GOVERNANCE	HEALTH AND NUTRITION	PEOPLE	ENVIRONMENT
• Sustainability strategy • Business ethics • Socially responsible suppliers	• Product quality and standards • Nutrition, innovation and promotion of healthy alternatives • Nutrition governance	• Social dialogue • Workplace health and safety • Employee development • Inclusive diversity • Human rights	• Climate • Water • Circular economy and packaging • Reduction of food waste • Regenerative agriculture • Environmental management

From Danone Way to B Corp™ certification

In 2015, Danone recognized that B Lab® shared its values and began working with the non-profit to move its Danone Way program towards B Corp™ certification, later adding efforts to give multinationals better access to the B Corp™ certification process. Under this partnership, Danone joined the Multinationals and Public Markets Advisory Council (MPMAC) to share lessons learned from its experience with Danone Way.

Focus

B Lab®,is a non-profit organization that serves a global movement of people using business as a force for good™. B Lab® grants B Corp™ certification to for-profit companies that demonstrate high standards of social and environmental performance. To obtain B Corp™ certification, a company must complete a B Impact Assessment, and earn a minimum score of 80 out of 200 points after verification by B lab®. It must also recertify every three years and maintain the goal of continuous improvement.

Advancing Danone's B Corp™ ambition

Certified two years ahead of target, Danone North America became the largest B Corp™ in the world. Danone Canada, *Alpro*, Grameen Danone and Danone Manifesto Ventures were also certified in 2018.

As of December 31, 2018, 11 entities including 9 subsidiaries are B Corp™ certified and about 30% of Danone's consolidated sales are covered by B Corp™ certification.

STAKEHOLDER RELATIONS AND EXTERNAL EVALUATIONS

Co-creating with stakeholders

Danone partners with stakeholders at global, regional and local level, working to create shared solutions and reach the Company's 2030 Goals.

In 2018, for example, Danone joined the OECD in launching a three-year initiative that will use public-private cooperation to strengthen inclusive growth. The platform will develop a global coalition of businesses and governments committed to generating and replicating more-inclusive business models and transforming the role of business in society.

For examples, please see Danone's *2018 Integrated Annual Report.*

Innovating with banks for responsible finance

In 2018, Danone amended its €2 billion syndicated credit facility, in order to include global environmental and social criteria, directly impacting, upwards or downwards, the margin payable to its banks over the entire duration of the facility. Danone's syndicated facility includes an innovative mechanism of payable margin adjustment, reviewed at least once a year, on the basis of ESG criteria provided by third parties:

- scores granted to Danone by two ESG agencies, and
- percentage of consolidated sales of Danone covered by B Corp™ certifications.

Also in 2018, Danone issued a €300 million social bond, continuing to invest in sustainable value for all. Proceeds from the issue are allocated to projects promoting positive social impact on Danone stakeholders, including suppliers and agricultural partners, communities, people with special nutritional needs, healthy foods entrepreneurship and employees.

External evaluations

	2017	2018
DJSI	65/100 [a]	68/100
Vigeo Eiris	65/100	68/100
MSCI	AAA	AAA
CDP Climate Change	A-	A List
CDP Water	A List	B
CDP Forests	B	A-

(a) Due to significant methodology changes, all 2017 scores have been recalculated by DJSI on a like-for-like basis.

Danone is listed in the FTSE4Good index, which measures companies' non-financial performance. On the Access to Nutrition Index (ATNI), it ranks third among top-performing food companies and first for breast milk substitutes.

IDENTIFYING MATERIAL ISSUES AND RISKS

Materiality analysis

Danone sets its sustainability priorities based on a materiality matrix, which can be found in the *2018 Integrated Annual Report*.

Risks identified in connection with Danone's declaration of non-financial performance

In 2018, Danone identified its sustainability risks, thanks to a joint effort by Danone's Sustainability Integration Department and Strategy and Risks Department.

The top 13 sustainability risks are listed below and are examined in detail in this chapter.

Danone has adopted the following risk definition methodology:

- **identify risks through research** on risks affecting Danone's activities and its value chain over the short, medium and long term;
- **work with Danone experts to assess top risks** based on the Company's activities, probability of occurrence, and potential impacts on stakeholders (employees, shareholders, business partners and communities) and the Company's results;
- **consolidate and identify Danone's top 13 sustainability risks;**
- **have the final list approved by three governance bodies:** the Sustainability Integration Committee, the Social Responsibility Committee and the Audit Committee see 6.1 *Governance bodies*.

DANONE'S TOP NON-FINANCIAL RISKS

Compliance

- Responsible practices: ethics and integrity

Transversal

- Changing consumption trends

Health and Nutrition

- Responsible communication
- Breast milk substitutes

Environment

- Circular economy
- Water stewardship
- Regenerative and organic agriculture

Climate change risk affects all of Danone's environmental challenges.

People

- Attracting and developing talent
- Social dialogue
- Employee security – occupational health and safety issues are linked to the security risk of Danone employees.

Responsible sourcing and human rights

- Trading and pricing practices
- Responsible sourcing
- Human rights

VIGILANCE PLAN

In addition to this risk-based approach, the Company attaches a great deal of importance to human rights and fundamental freedoms, the environment, and personal health and safety.

In compliance with the March, 2017, France Duty of Vigilance Law, the table below summarizes Danone's Vigilance Plan, which governs the Company's activities and those of its suppliers.

Danone developed the plan based on a dialogue with stakeholders, and detailed information on its deployment can be found in this chapter.

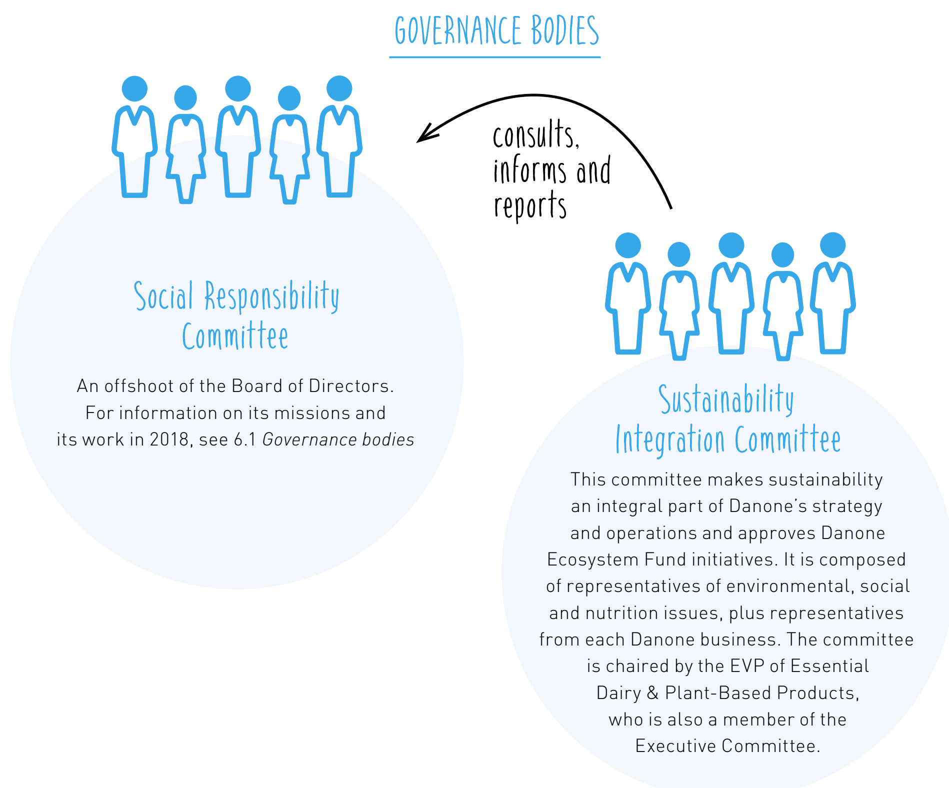
	Human rights and fundamental freedoms	Environment
	Risk mapping	
Company activities	• Materiality analysis conducted in 2017 • Analysis of top non-financial risks conducted in 2018 • Public statement of principles in Danone Statement on Forced Labor • Risk mapping includes situation of migrants and other temporary workers in subsidiaries, identifying three priority regions for rollout of the Global External Workforce Policy starting in 2018	• Materiality analysis conducted in 2017 • Analysis of top non-financial risks conducted in 2018 • GREEN Program uses external audits to identify and track top environmental risks at production sites • Mapping of water risks using two tools: WRI's Aqueduct Water Risk Atlas and WWF's Water Risk Filter.
Activities of suppliers and sub-contractors	• Analysis of top non-financial risks conducted in 2018 • Risk-mapping updated in 2018 to include changes in Danone's ingredient portfolio after the WhiteWave acquisition • Analysis of risks related to direct supplier sites listed on Sedex platform, using geographic and sector-based data • Historic milk procurement issues factored in	• Analysis of top non-financial risks conducted in 2018 • Analysis of deforestation risks under Forest Footprint Policy • Assessment of water risks linked to fresh milk supply chain through Aqueduct Water Risk Atlas since 2018 • Risk mapping conducted in 2017 on the 20 purchasing categories with highest exposure • Priority given to sustainable agriculture for milk sourcing: climate, water, biodiversity, animal welfare and soil use
	Regular risk map-based evaluation procedures	
Company activities	• Danone Way self-assessment - Social/Human Rights component incorporated into guidelines in 2018	• GREEN audits of production sites • Water risk assessment criteria derived from WWF's Water Risk Filter tool incorporated into GREEN assessment checklist in 2018
Activities of suppliers and sub-contractors	• Traceability initiative targeting five high-priority agricultural categories: palm oil, fruit, cocoa, cane sugar and soy • Cool Farm Tool and animal welfare tool for direct suppliers of raw milk	• Direct suppliers asked to join Sedex platform, with self-assessment questionnaire on their sustainability performance
	Actions adaptées d'atténuation des risques ou de prévention des atteintes graves	
Company activities	• Code of Business Conduct • Sustainability Principles for business partners, also applicable to Danone employees • Agreements between Danone and IUF • Global External Workforce Policy (in-house policy)	• Code of Business Conduct • Sustainability Principles for business partners, also applicable to Danone employees • Active application of Danone's environmental protection strategy • Environmental Management System assessed through certifications and internal assessments to ensure continuous improvement of environmental performance, regulatory compliance, and employee awareness of environmental management • Action plans drafted following GREEN audits, with intensive remediation plans for the highest environmental risks • At sites with the highest water risks, use of GEMI Local Water Tool to make a detailed assessment for each site and develop a customized mitigation plan
Activities of suppliers and sub-contractors	• Code of Conduct for Business Partners • Sustainability Principles for business partners • Clause in supplier contract incorporating Sustainability Principles • Action plan following SMETA audits • CPM contracts • Dialogue with suppliers • Collaborative projects with select suppliers, Danone-sponsored funds and select subsidiaries • Participation in multiple dedicated platforms such as POIG, SASPO, RSPO, the Sustainable Agriculture Initiative, AIM-Progress and the Consumer Goods Forum • Certifications: UTZ, FSC, RSPO, RTRS, Proterra	• Code of Conduct for Business Partners • Sustainability Principles for business partners • Clause in supplier contract incorporating Sustainability Principles • Action plan following SMETA audits and assessments with Cool Farm Tool and Animal Welfare Tool • Dialogue with suppliers • Collaborative projects with select suppliers, Danone-sponsored funds and select subsidiaries • Certifications: CSPO RSPO, RTRS, FSC and Non-GMO Project Verified

	Health and safety of people	*For more information, see:*
	Risk mapping	
	• Materiality and risks analysis conducted in 2017 • Identification of risks specific to Danone operations; WISE² safety standards apply to the Company's businesses and operations	• *2.7 Risk factors* • *Identifying material issues and risks* • *Environmental protection strategy* • *Water stewardship* • *Workplace health and safety* • *Promoting sustainable, inclusive growth with suppliers*
	• Risk-mapping updated in 2018 to include changes in Danone's ingredient portfolio after the WhiteWave acquisition • Historic milk procurement issues factored in	• *2.7 Risk factors* • *Preserve and renew the planet's resources* • *Promoting sustainable, inclusive growth with suppliers*
	Regular risk map-based evaluation procedures	
	• Site-level risk assessment • Unified Risk Assessment Document applicable in the European Union • Site-level WISE² audits • Tracking of workplace accidents	• *Danone's integrated vision of corporate responsibility* • *Environmental protection strategy* • *Workplace health and safety*
	• Two-year audit plan for sites at highest risk of human rights violation and for Danone's direct suppliers • RESPECT program expanded into a more comprehensive due diligence initiative	• *Promoting sustainable, inclusive growth with suppliers*
	Actions adaptées d'atténuation des risques ou de prévention des atteintes graves	
	• Code of Business Conduct • Sustainability Principles for business partners, also applicable to Danone employees • WISE² program • Action plan following WISE² audits	• *Responsible practices: ethics and integrity* • *Environmental protection strategy* • *Workplace health and safety* • *Employee relations* • *Promoting sustainable, inclusive growth with suppliers*
	• Code of Conduct for Business Partners • Sustainability Principles for business partners • Clause in supplier contract incorporating Sustainability Principles • WISE² program coverage of outside workers on Danone sites • Action plans following SMETA audits • Dialogue with suppliers • Projects in partnership with Danone- sponsored funds • Certifications: UTZ, FSC, RSPO, RTRS, Proterra	• *Responsible practices: ethics and integrity* • *Workplace health and safety* • *Promoting sustainable, inclusive growth with suppliers*

	Whistleblowing system	
Company activities	• Danone Ethics Line: in 2018, a worldwide total of 12 reports were received in the human rights category. These reports raised routine human resource issues and did not qualify as a human rights violations in any case	• Danone Ethics Line
Activities of suppliers and sub-contractors	• Danone Ethics Line also applies to suppliers	
	Monitoring of measures and assessment of their efficiency	
Company activities	• Danone Way results tracked under Social/Human Rights component incorporated into guidelines in 2018	• Tracking of environmental performance indicators • More frequent GREEN audits based on environmental and water risks • Business-level tracking of GREEN audit action plans and water risks
Activities of suppliers and sub-contractors	• Tracking of RESPECT program performance indicators: indicator for suppliers' Sedex membership and indicator for compliance with Danone audit standards (deployment and remediation of any compliance failures)	• Development of other measurement and assessment tools • Cow welfare assessments of fresh milk producers using a tool developed with CIWF

SUSTAINABILITY GOVERNANCE

At Danone, sustainability governance is based largely on the structure and entities depicted below:



The Sustainability Integration Department is part of the General Secretary function. It works with the environmental, social, health and nutrition teams and with sustainability representatives in each Business to coordinate the Company's sustainability commitments and monitor its performance in meeting them. This department also oversees the Danone Way program and coordinates a worldwide network of local sustainability representatives.

In addition, Danone has set up dedicated governance for each of the top 13 risks discussed in this chapter.

	Whistleblowing system	
	• Danone Ethics Line • Specific procedures for escalating serious accidents or risks	• *Responsible practices: ethics and integrity* • *Workplace health and safety*
		• *Responsible practices: ethics and integrity* • *Promoting sustainable, inclusive growth with suppliers*
	Monitoring of measures and assessment of their efficiency	
	• Measurement and tracking of accidents • WISE² audits to measure the effectiveness of the WISE² program • Management of safety performance and accidents	• *Danone's integrated vision of corporate responsibility* • *Environmental protection strategy* • *Workplace health and safety*
	• Accident tracking for outside workers on Danone sites • Tracking of RESPECT program performance indicators	• *Workplace health and safety* • *Promoting sustainable, inclusive growth with suppliers*

DANONE'S SOCIAL INNOVATION FUNDS

As part of its commitment to corporate responsibility, Danone works with all of its stakeholders to promote inclusive growth, particularly through the social innovation funds described below.

Danone Communities

In 2007, Danone created the Danone Communities SICAV (*Société d'Investissement à Capital Variable)* and the Danone Communities FPS (*Fonds Professionnel Spécialisé*, or specialized professional investment fund).

The SICAV invests (i) at least 90% of its assets in money market instruments, bonds and other vehicles that emphasize socially responsible investment (SRI), and (ii) no more than 10% in the FPS.

As of December 31, 2018, the Danone Communities SICAV fund had a total of €75.7 million in assets under management. Of that total, 18% was held by Danone and 30% was held by its employees through Danone Communities Solidaire, an employee investment fund (*fonds commun de placement d'entreprise*, or FCPE). As of December 31, 2018, Danone also held 63.6% of the capital in the FPS.

Danone Communities and its partners invest in businesses that have a significant social impact in line with Danone's mission, primarily in emerging countries, to bringing health through food to as many people as possible. In particular, Danone Communities backs social entrepreneurs who are working to reduce malnutrition and improve access to drinking water–two levers to reduce poverty. In accordance with its Governance Charter, Danone Communities consults with the Social Responsibility Committee before each investment by the FPS.

The Danone Communities FPS backs 10 social businesses in 14 countries. To date, Danone is also a shareholder in three of these social businesses: Grameen Danone Foods Limited in Bangladesh; La Laiterie du Berger in Senegal; and Nutrigo in China.

As of December 31, 2018, total investments in these businesses came to €11.9 million for the Danone Communities FPS fund (versus €11.3 in 2017) and €7.0 million for Danone (versus €6.6 million in 2017).

Danone Ecosystem Fund (*Fonds Danone pour l'Écosystème*)

The Company created the Danone Ecosystem Fund in 2009, with initial funding of €100 million. An endowment fund headed by a Board of Directors, it is tasked with strengthening and expanding community service activities within the Danone ecosystem. 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 proposing investment projects for the endowment to the Board of Directors and overseeing their deployment.

Once projects are selected, they are deployed by non-profits and/or by the fund directly. Since its creation, the Fund has supported projects in five key areas: sustainable sourcing, micro-distribution, recycling, personal care, and sustainable management of land and catchment areas.

The Fund has no employees: Danone staff members are assigned to manage its day-to-day operations and administrative activities. The salaries and travel expenses of these employees, which totaled €1.5 million in 2018 (versus €1.2 million in 2017), are charged to the Fund in full by Danone.

As of December 31, 2018, the Danone Ecosystem Fund has 45 active projects worldwide, representing a total commitment of €77 million (versus €68 million in 2017).

As of September 21, 2018 100% of Danone France and its brands donated to the Danone Ecosystem Fund a full day's proceeds in favor of projects contributing to the transition to a regenerative agriculture (see 5.3 *Regenerative and organic agriculture*).

Livelihoods Carbon fund

Founded in 2011 with ten investors, the Livelihoods Carbon fund is an investment fund, SICAV-SIF (*Société d'Investissement à Capital Variable-Fonds d'Investissement Spécialisé*) dedicated to restoring ecosystems and carbon assets. The Livelihoods Carbon fund seeks to invest in three types of projects in Africa, Asia and Latin America: (i) 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 carbon credits generated by the fund are certified, then allocated to investors in proportion to their investments.

As such, the Livelihoods Carbon Fund fights climate change while improving living conditions for local communities. It was created as part of Danone's effort to shrink its carbon footprint, in part by developing offsets that generate carbon credits.

Building on the results achieved by the Livelihoods Carbon Fund, in early 2018, 8 investors created a second fund compartment to step up their efforts to fight climate change and protect vulnerable people. The fund set up in 2011 became LCF #1, and the new fund, a financial entity separate from the first, was called LCF #2.

As of December 31, 2018, investors have pledged to invest a total of €37.9 million in LCF #1, with Danone accounting for €13.8 million of that amount. LCF #1 currently supports nine projects.

As of December 31, 2018, investors have pledged to invest a total of €54.9 million in LCF #2, with Danone contributing €25 million of that amount. As of the same date, LCF #2 has validated three projects.

Livelihoods fund for family farming

The Livelihoods fund for family farming is an extension of the Livelihoods fund, launched by Danone and Mars Inc. in 2015 and joined by Veolia and Firmenich in 2016.

Structured as a simplified limited company under French law (*société par actions simplifiée de droit français à capital variable*), it helps businesses transform their supply chains, giving them reliable, long-term access to quality supplies in the volumes they need. At the same time, it enables small farmers to adopt more sustainable practices and boost revenue, thanks to good connections with markets. These projects also help to preserve ecosystems through farming practices combining productivity and respect for the environment.

As of December 31, 2018, investors have pledged to invest a combined total of €36 million in the Livelihoods fund for family farming, with Danone accounting for €15 million of that amount. To date the fund's Investment Committee has approved seven projects focusing on cocoa, coconut, vanilla, rice and watershed protection.

Examples of initiatives carried out with Danone's innovation funds can be found in the *2018 Integrated Annual Report*.

RESPONSIBLE PRACTICES: ETHICS AND INTEGRITY

Definition

Danone works actively against corruption, payments in kind, conflicts of interest, theft, embezzlement, inappropriate use of company resources and money laundering.

Policies

Danone has established policies and procedures for responsible practices that apply to all employees and business partners, including:

Code of Business Conduct	• Based on principles derived from:
	  • the Universal Declaration of Human Rights;
	  • the fundamental conventions of the International Labour Organization;
	  • the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;
	  • the UN Global Compact on human rights, labor rights, the environment and anti-corruption.
	• It has been translated into 34 languages.

Integrity Policy	• Defines the rules and responsibilities governing the conduct of every Danone employee. • Describes the expectations that must be met by various employees, in particular Executive Committee members, general managers, and Directors of Human Resources, Public Affairs, Medicine and Healthcare.
Code of Conduct for Business Partners	• Ensures that Danone's business partners comply with applicable laws on bribery and corruption, money laundering, unfair competition and international trade sanctions.
Competition policy	• Defines rules to ensure compliance with behaviors that allow fair competition between the various players in the sector and compliance with competition law and regulations.
International Trade Sanctions Policy	• Designed to ensure that Danone complies with international trade sanctions, which focus largely on restricting imports, exports, sales, and financial transactions.
Personal Data Privacy Policy	• Establishes general principles governing Danone's use of personal data.
HCS (Health Care Systems) Compliance Directive	• Establishes guidelines derived from Danone's policies on healthcare systems compliance and the marketing of breast milk substitutes, as well as its communications guidelines on foods for special medical purposes. • Applies to all Danone employees worldwide, as well as third-party contractors who interact with health care systems.
Tax policy	• Underscores Danone's commitment to responsible tax management and its pledge to avoid tax schemes that are artificial, fraudulent or disconnected from actual operations. • The Company has drafted a tax code of conduct designed to help fight tax evasion. • Danone has published its tax policy on its website since 2016 and updates it annually.

Policy on advocacy activities	• Danone's policy on advocacy clearly describes the behaviors expected of employees who work with Danone's stakeholders.
	  • Danone does not pay any sums of money to individuals or organizations involved in politics to support their activities. As a result, no candidates or political parties receive funds or assets from the Company.
	  • The Company interacts with governmental and non-governmental players as part of its dialogue with stakeholders and in the regular course of business. For example, Danone is listed in 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*, or HATVP).
	• Like all other Company activities, Danone's advocacy efforts must comply with the principles of business conduct and the integrity policy described above.

Governance

The Company has adopted a governance structure and appropriate policies and measures to meet the highest standards of compliance.

Danone's worldwide compliance program is approved and supported by its Chairman and Chief Executive Officer as well as by its Executive Committee, under the supervision of the Corporate Compliance and Ethics Board (CCB), which is chaired by the Chief Compliance Officer.

At local level, Danone has created a network of compliance and business ethics officers.

In parallel, in 2018 Danone created a Personal Ethics Commission whose responsibilities include anticipating issues and reviewing human resource alerts from the Danone Ethics Line twice per year (see hereinafter).

Action plans

Mechanism

Danone has established mechanisms to assess corruption-related compliance risks. As a result, the Company conducts internal audits on its worldwide internal controls for key risks, including interactions with government officials, gifts and hospitality, sponsorships, donations and tenders.

In keeping with ethics and integrity concerns, Danone has defined strict record-keeping requirements.

To perform these audits, Danone has established two key mechanisms:

- guidelines and an internal orientation and approval process to monitor gifts, hospitality, sponsorship, subsidies and donations;
- the Danone Ethics Line: a confidential whistleblowing system for employees, suppliers and other third parties. Though it was initially used to report suspected fraud, corruption, or other cases of non-compliance, it has now expanded to include reports of discrimination, issues affecting health and personal safety, human rights violations and environmental violations. The Danone Ethics Line can be accessed on the Internet by anyone, in any country. In addition, Danone enforces a clear policy of not retaliating against whistleblowers if they report a genuine concern (see 2.8 *Internal control and risk management*).

Employee training and information

Danone has rolled out a communication campaign to inform employees that its Code of Business Conduct and responsible practices policies are available on its internal portal, and all employees are made aware of their obligation to follow the Code of Business Conduct when they are recruited.

Danone's goal is to use in-person training and e-learning to educate all employees about its responsible practices policies, with priority given to positions deemed at highest risk. Training is also provided at a local level, extending coverage to every Danone employee.

Outcomes

In 2018 Danone received 297 alerts on various issues, including human resources, corruption and fraud. None of these cases had a significant impact on the Company's consolidated accounts.

CRISIS MANAGEMENT

In the event of a crisis, Danone's priorities are to protect people, including its consumers and employees; the environment; and the Company's assets, operations and reputation.

Danone has an internal crisis management policy that specifies the structures that should be put in place in response to crisis situations.

Danone's action for crisis management also includes preparation and training:

- a crisis manager for each subsidiary;
- classroom or online training of over 100 managers each year;
- annual audits to verify compliance with crisis management policies.

5.2 OFFERING SAFE, HEALTHY PRODUCTS

Contents

CHANGING CONSUMPTION TRENDS

Consumer purchasing preferences are influenced not only by nutritional value and food safety, but also by an increasing awareness of public health, environmental and social aspects linked to production and consumption of some foods and beverages. As more and more consumers focus on the nutritional value and on the social and environmental footprint of the products they buy, they are using their purchasing power to favor responsible sectors and products.

Measures taken in support of consumer health

Definition

Danone is committed to optimizing the nutritional profile of its offer, drawing on in-depth knowledge of eating habits, local cultural traditions and public health concerns.

Policies and Outcomes

In 2016, Danone published the six Nutrition Commitments it has pledged to meet by 2020.

Commitment No. 1: continuously improve the nutritional quality of our products.

2020 TARGETS	OUTCOMES
Danone will bring 100% of its products into compliance with its own absolute nutritional target values.	In 2018, 89% of volumes sold are in healthy categories, within the Health and Nutrition scope, versus 88% in 2017 (see *Health and Nutrition scope*, Methodology Note). The other categories are mainly low-sugar drinks and occasional "indulgence" products. In 2018, 78% of product volumes sold comply with Danone's 2020 Nutritional Targets, versus 73% in 2017 (see *Health and Nutrition scope*, Methodology Note). In 2018, 85% of entities have an active reformulation plan in line with the Nutritional Targets 2020, reviewed by the Committee of Directors. This plan must include at least all products that are not yet fully compliant towards the 2020 Nutritional Targets, and may include additional actions, such as further reduction of nutrients (*e.g.* sugar and salt) not mentionned in the Nutritional Targets (see *Danone Way scope*, Methodology Note). In 2018, 10% of product volumes sold had been nutritionally improved, versus 21% in 2017 (see *Health and Nutrition scope*, Methodology Note). Independently of the new definition for the indicator, the percentage of improved products is declining as nutrition renovation projects are completed and the percentage of target-compliant products increases.

Commitment No. 2: design healthier alternatives relevant for consumers.

2020 TARGETS	OUTCOMES
Top Danone brands will contribute to providing healthier alternatives in consumers' diet.	In 2018, plain dairy product offers were launched by several brands, including Oikos in Canada, YoPRO in Spain and Le Bio in France.

Commitment No. 3: further reinforce Danone's expertise on the understanding of local nutrition practices and public health contexts.

2020 TARGETS	OUTCOMES
In its top businesses, Danone will have implemented and published outcomes of research programs supported by local experts to understand eating and drinking habits and food cultures.	Through the Nutriplanet program, Danone gains detailed knowledge of every aspect of local food cultures. In 2018, 57 countries were covered by Nutriplanet studies, the same as in 2017 (see *Health and Nutrition scope,* Methodology Note).

Commitment no. 4: contribute to address local public health challenges on which Danone can have a most favorable impact through partnerships.

2020 TARGETS	OUTCOMES
Danone will have contributed to a local health cause with relevant actions and programs in the top 15 countries where it operates.	In 2018, 92% of Danone's entities have engaged in favor of a public health cause (see *Danone Way scope*, Methodology Note). In 2018, Danone has 30 active education and information programs, versus 28 in 2017. These programs promote healthy diets and lifestyles within a variety of groups, such as children, young parents, pregnant women and seniors. Since their launch, these programs reached a potential audience of over 35 million people in 2018, versus 28 million in 2017.

Commitment no. 5: develop even more responsible marketing practices, especially to children

2020 TARGETS	OUTCOMES
Each country in which Danone operates will have disclosed and embedded a local comprehensive policy on responsible marketing practices. This will include Danone's commitment regarding breast milk substitutes.	See 5.2 *Responsible Communication* (EU Pledge).

Commitment No. 6: provide the most appropriate product labelling to encourage healthier practices.

2020 TARGETS	OUTCOMES
100% of Danone products will display comprehensive nutritional information to guide consumers, in particular regarding portion guidance.	Danone supports Nutri-Score labels as part of Commitment No. 6. This simple, visual system is both comprehensive and easy to interpret. It summarizes the nutritional value of products with indicators (A through E) and colors (green to red), and identifies both nutrients that should be limited (such as sugar, salt and fat) and encouraged (such as fiber and protein). Following the French government's decision to adopt the Nutri-Score as its national front-of-pack labelling scheme, Danone is progressively rolling this out on its fresh dairy products portfolio in France. In 2019, the roll-out will also encompass Danone's fresh dairy products in Austria, Belgium, Germany, Switzerland and Slovenia.

Governance

The Product Compliance Board (PCB) is Danone's governance body notably for nutrition and health topics. The Company's nutrition commitments and performance are overseen by the Nutrition Steering Committee, whose Chair reports to a member of the Executive Committee. This committee ensures that the Company's commitments are under control and that appropriate mitigation plans have been deployed.

Action plans

Danone organizes education and information programs for consumers and/or healthcare professionals, working in partnership with local stakeholders to develop content that addresses public health issues. Each Business develops programs on topics specific to it.

Danone defines an education program as a set of beneficial social actions that motivate targeted communities to adopt healthier eating and drinking habits. These programs must: (i) be developed with independent third parties (such as NGO, experts and public health authorities); (ii) encourage changes in individual behavior; and (iii) set measurable goals and satisfaction levels.

Education programs backed by Danone start from this definition and incorporate criteria that measure their effectiveness, such as number of regular participants, behavioral changes and impact on public health issues.

Focus – Accessible, affordable food and nutrition

Under the Nutriplanet program, Danone invests in understanding local public health concerns and eating habits, then uses that information to craft local strategies that encourage healthy, appropriate choices.

Because accessibility and price determine how people eat and how often they consume specific foods, Danone has adopted the Growth Across Pyramid method, using it to provide healthy, affordable, quality products to vulnerable groups based on targeted distribution models that make them more accessible.

In addition, Danone acknowledges the key role that breastfeeding and diet play in infant development and prevention of malnutrition through the commitment to Health and Nutrition during the first 1,000 days of life made by the Early Life Nutrition Business.

Danone continuously improves its portfolio by enriching select products with key nutrients and making them more affordable. For instance, Fan Milk, in Ghana, has launched FanMaxx, an affordable drinkable yogurt with a long shelf life (4 months) that is particularly suited to the African markets where the cold chain is not always failsafe.

Lastly, Danone builds its strategy on innovative investment partnerships, with support from several of its funds. These include (i) the Danone Communities Fund, which fights malnutrition and promotes access to safe drinking water, and (ii) the Livelihoods fund for family farming, which helps small farmers become more resilient and develop subsistence farming strategies that improve their diets.

Opportunities

Danone is aiming to build purpose driven brands called "Manifesto brands" that will serve as true activists towards their point of view, not only delivering an exciting experience to people, but also committing to create a positive impact on health and the planet. Nearly two in three people choose, switch to or avoid a brand based on the stand it takes on societal issues. Today, Danone has a dozen "Manifesto brands" each purpose-driven to be a force for positive societal change on topics that really matter to people. They already account for 20% of Danone consolidated sales.

The Company also looks ahead, anticipating emerging tastes and expectations and using engaged local and international brands to guide consumers as they choose foods and beverages day to day. For example, the WhiteWave acquisition rounded out Danone's portfolio with innovative plant-based products that are attuned to consumer expectations, enabling the Company to offer new categories of products with probiotics, nutrients and proteins.

Measures taken to promote consumer safety

Definition

Danone offers safe, high-quality products. Its priority is to prevent all health risks associated with using, handling, preparing, consuming and storing products along its entire value chain.

Policies

Quality	In 2018, Danone published its commitments on food quality and safety, based on four core principles: • be trusted: design, manufacture and deliver products and services that comply with applicable regulations and meet the highest standards for food quality and safety; • be preferred: overcome new challenges and play a key role in the food revolution; • be efficient: achieve sustainable operational excellence by developing effective processes and fostering internal and external partnerships that leverage collective intelligence and expertise; • be proud: Danone employees are ambassadors for the Company's products and services.
Food safety	• the General Manager of each subsidiary is responsible for ensuring that its products comply with the host country's laws and regulations and with Danone's specific food safety guidelines and commitments; • these standards incorporate Danone's directives and procedures on food safety, integrated management and risk assessment, as well as instructions and controls specific to each Danone product or technology. The subsidiaries must apply the stricter of either local regulations or Danone's own food safety policy.
Micronutrients	In 2017, Danone published a policy setting out the guidelines the Company must follow in developing micronutrient-fortified products: (i) use of micronutrients must be justified in every case; (ii) all micronutrient-fortified products must be highly nutritious; (iii) fortification levels must be precisely adjusted; (iv) rigorous processes must be used to select the nature and type of micronutrient; and (v) the added micronutrients must be mentioned clearly on the label.
Genetically modified organisms	Danone's position on genetically modified organisms is based on local agricultural models: subsidiaries have adopted targeted policies on the use of GMO-derived ingredients and on the presence of GMOs in cattle feed.
Animal testing	Danone applies the most stringent standards for the protection and care of animals used for scientific purposes. When no other option is available, the Company applies a strict set of regulations to animal testing. All tests comply with required directives on animal well-being and protocols recommended by entities such as the World Health Organization, the World Organization for Animal Health, and the International Life Sciences Institute. Danone actively seeks alternative methods based on the "Triple R" approach: replace, reduce and refine animal research.

Governance

Danone has created a Food Safety Department with a dedicated team that reports directly to the General Secretary to guarantee its independence from operations.

The Department establishes the food safety standards and methods the Company must apply to all products and processes it uses. These instructions cover Danone's entire value chain and are tailored to each Business, product and technology.

The Product Compliance Board (PCB) monitors actual and potential risks identified by each Business, ensuring that each risk is under control and that the Company has deployed appropriate mitigation plans.

Danone's Food Safety Center has also created a council of scientific experts from every area of expertise. The goal is to strengthen and validate the Company's efforts to anticipate the risks and concerns it has identified.

The Company is also an active member of the Global Food Safety Initiative (GFSI), a pillar of the Consumer Goods Forum (CGF) whose members include Danone's own Chairman and Chief Executive Officer.

The Company's Chief Food Safety Officer is a member of the GFSI board of directors and serves as Vice-Chair of its European group.

The quality assurance Department reports directly to the Executive Vice President of the Essential Dairy & Plant-Based Products Business, who sits on the Executive Committee.

Action plans

Quality: The iCare program

Danone has created and continues to foster a culture of quality through its iCare program, built on in four priorities:

- engage all employees on quality topics;
- promote visible engagement by management;
- ensure that quality messaging is consistent and easy to understand;
- encourage employees to get involved and share ideas.

Assessments are conducted regularly to measure the maturity of the Company's quality culture, and results for 2018 show that it has improved significantly.

Safety: Identifying emerging and evolving issues

Danone launched the Horizon Scanning process to identify emerging and evolving food safety issues and assess their potential impact on the Company's products and activities. These issues include risks related to the safety of raw materials, ingredients, packaging materials that come into contact with products, production processes and finished products.

Since 2018, the process has also covered issues that are not associated with any proven food safety risk but are perceived by civil society as such.

Internal food safety management system

Danone's objectives include earning FSSC 22000 certification (a standard recognized by GFSI) for all production sites by 2020. But earning and maintaining this certification is not enough for Danone: it has also developed an audit guide that incorporates its own requirements. The Company also requires third-party stakeholders to earn food safety certification recognized by GFSI.

Food fraud management systems

Food fraud involves deceiving consumers through intentional adulteration (dilution, substitution, dissimulation or unauthorized improvement), inaccurate information (false labels or claims), counterfeiting, or grey market resale of foods, food ingredients or packaging for economic gain.

In 2017, the Food Safety team published an internal directive on preventing food fraud. A central, cross-Business team and local teams are tasked to deploy the directive at production sites.

This includes conducting on-site vulnerability studies to identify risks and launch prevention plans. The studies are based on a tool developed by the Safe Secure Approaches Field Environments (SSAFE) consortium, of which Danone is a member. The consortium's mission is to promote continuous improvement and development of international standards and systems.

Food defense management system

Food defense consists of 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, an effort that included stiffening requirements for the physical protection of production and logistics sites. These documents are the product of close collaboration between the Food Safety and Security Departments, which help all Company subsidiaries develop and deploy preventive and protective measures.

Outcomes

In 2018, 159 FSSC 22000 certification audits were conducted by independent certification bodies, up from 140 in 2017. Danone thus reached a site certification rate of 74%, versus 67% in 2017. As of December 31, 2018, when these audits were complete, 155 sites were certified and four were in the process of certification (see *Production Site Food Safety scope,* Methodology Note).

Also in 2018, the Global Food Safety Audit team conducted 27 in-house food safety audits, versus 46 in 2017. The decline was largely the result of organizational changes that affected audit planning (see *Production Site Food Safety scope,* Methodology Note).

Opportunities

Danone constantly looks ahead, anticipating risks that could affect its business and reformulating its products when the opportunity arises. This enables the Company to respond proactively to consumer questions and demand for natural products, to continuously improve its product portfolio, and to innovate over the long term.

RESPONSIBLE COMMUNICATION

Definition

Responsible communication is essential to forging and consolidating trust-based relationships between Danone, its consumers and its stakeholders – which is why Danone continues to promote its portfolio of products and brands through responsible marketing and communications for all. The Company is committed to ensuring that its marketing communications have integrity, meet ethical standards, are verified, and are based on solid scientific claims.

Policies

Danone's top priority is to allocate communication and marketing expenses in ways that encourage consumption of healthy products. Because 89% of volumes sold are foods and beverages that consumers can enjoy every day, Danone spends the majority of its marketing budget on healthy products.

An internal directive, applicable to all Businesses, is designed to ensure that the Health and Nutrition claims in Danone's communications are consistent, credible and scientifically accurate.

In its advertising, Danone has pledged to apply the International Chamber of Commerce Code for Responsible Food and Beverage Marketing Communication (ICC Code), aiming for compliance across all of its communications campaigns. Non-conformities can occur to time; when they do, the Company takes corrective action.

Governance

One goal of the internal directive on responsible communication is to reiterate the responsibilities of the General Manager of each subsidiary, who tasks a specific individual with deploying and applying processes for approving communications material.

Action plans

Responsible communication and marketing to children

Danone is a member of many local and regional pledge, including the EU Pledge program, which Danone co-founded in 2007. In most of the countries involved, compliance with this commitment is certified by an external agency.

Danone limits marketing aimed at children ages three to 12, ensuring that they are exposed only to products that meet:

- criteria set by local authorities, or;
- any stricter common industry criteria the Company is committed to, such as in the EU, or;
- as of 2021, the stricter Danone nutrition criteria.

Danone's full pledge incorporates the Company's commitment to abide by the following principles in marketing to children:

- no misleading messages;
- no undermining of parental influence;
- no suggestion of a time/sense of urgency or a price minimization pressure;
- no exploitation of a child's imagination or inexperience;
- no encouragement of unhealthy dietary habits;
- no blurring of the boundary between marketing and branding.

More specifically, Danone works hard to comply with these rules:

- no use of celebrities or licensed characters, except in the case of products meeting the above nutritional criteria;
- no use of promotional games, toys, vouchers, competitions, except in the case of products meeting the above nutritional criteria;
- no sampling or communication of products in primary or secondary schools, in nurseries, daycare centers and activity centers except where specifically requested by, or agreed with, the school administration for educational purposes, and only for products complying with the above nutritional criteria.

Danone's policies on marketing to children apply to advertising on television and radio, in print, and on Company-owned and third-party websites.

Danone joined the International Food and Beverage Alliance (IFBA) in 2017 and supports its commitment to restrict advertising for children under 12 to products that meet common nutrition criteria grounded in science-based recommendations. IFBA members also undertake not to advertise food products or drinks in primary schools.

Outcomes

In a 2018 audit conducted in France, Germany, Hungary, Italy, Portugal, Spain and the UK, Danone's television advertising was found to be 98.4% compliant with the EU Pledge criteria across all seven countries.

In the area of subsidiary websites and brand profiles on social networks, 100% of the websites audited and four of four brand profiles were compliant in all eight audited countries: Belgium, Bulgaria, France, Germany, Greece, Italy, Spain and Sweden.

Opportunities

Danone continues to strengthen its responsible communication and marketing practices by exploring digital opportunities to target consumers more accurately. The Company plans to empower consumers in this area by providing them with more information on the nutritional value of its products (see 5.2 *Changing consumption trends*).

BREAST MILK SUBSTITUTES

Definition

Through its Early Life Nutrition Business, Danone offers breast milk substitutes to parents who cannot, or choose not to breastfeed exclusively. Similarly, the Company is committed to complying with national and local law by practicing responsible communication and marketing.

Policies

Danone supports the World Health Organization (WHO) recommendations calling for exclusive breastfeeding in the first six months of a baby's life and continued breastfeeding up to the age of two, with safe, appropriate complementary foods added later.

In the Danone Policy for the Marketing of Breast-Milk Substitutes (BMS Policy), the Company recognizes the importance of the WHO Code (International Code of Marketing of Breastmilk Substitutes) and pledges to practice the principles of the Code and any relevant resolutions passed by the World Health Assembly.

As part of the BMS policy, the Company has deployed a strict international policy: no Danone subsidiary may advertise or promote breast milk substitutes for babies under six months, even if local law allows it. In accordance with the breast milk substitutes criteria of the FTSE4Good Index, in countries classified as higher-risk, Danone has voluntarily extended its BMS policy to infants up to 12 months of age, which may go beyond local legislation.

This policy applies to all Danone employees and partners involved in the marketing, distribution, sale, or governance of the affected products and/or related education programs. Danone is the first and only company with an international policy on marketing breast milk substitutes from birth to six months of age.

In 2016, Danone also published a position paper on Health and Nutrition during the first 1,000 days of life, based on two convictions:

- breastfeeding must be protected and promoted;
- mothers, infants and young children must receive the best possible nutrition.

Governance

Issues related to breast milk substitutes are managed by the Compliance Department within the Early Life Nutrition Business. This department comes under the authority of Danone's Chief Compliance Officer in the office of the General Secretary, ensuring that governance on this issue is independent of operations.

Action plans

In 2018, Danone updated its BMS Policy and published new internal directives consistent with its new HCS (Health Care Systems) Compliance Policy.

Because of its corporate responsibility commitments and practices, especially in the area of responsible marketing of breast milk substitutes, Danone remains on the FTSE4Good Index, calculated by FTSE Russell.

Under Danone's BMS Policy, the Company appoints an independent third party to conduct three market-based assessments of its breast milk substitute marketing practices every year. Danone published the results of the three assessments performed in 2017, as well as the 2017 report on alleged violations of its BMS Policy.

Lastly, responsible marketing practices are also included in Danone's Nutrition Commitments. Every country where Danone does business has now pledged to publish and deploy a local policy on this issue by 2020. These policies will include Danone's commitment on breast milk substitutes (see 5.2 *Responsible communication).*

Outcomes

In 2018, the Access to Nutrition Index (ATNI) ranked Danone third among top-performing food companies and first for breast milk substitutes.

In 2018, 91% of the Company's entities adopted a formal policy that promotes breastfeeding and is supported by their management committees. This policy must be translated into concrete action (See *Danone Way scope*, Methodology Note).

From January 2017 to October 2018, 3,253 employees were trained in Danone's policy on breast milk substitutes.

5.3 PRESERVE AND RENEW THE PLANET'S RESOURCES

Contents

ENVIRONMENTAL PROTECTION STRATEGY

Danone's environmental strategy sets out the four priorities that shape its environmental protection roadmap:

- combat climate change;
- protect the water cycle;
- ensure the transition to a circular economy;
- promote regenerative agriculture.

Governance

Danone's environmental strategy is sponsored by the EVP, Chief Financial Officer, IS/IT, Cycles & Procurement, who sits on the Executive Committee and on the Board of Directors.

The following governance bodies are involved in implementing and reviewing Danone's environmental strategy:

- the Chairman and Chief Executive Officer, and the EVP, Chief Financial Officer, IS/IT, Cycles & Procurement, who conduct a quarterly review of Danone's environmental roadmap, priorities and key challenges, and assess how the Company is implementing its strategy;
- the Social Responsibility Committee (see 5.1 *Sustainability governance*);
- the Executive Committee, which oversees the annual strategic planning process in tandem with the Board of Directors' Strategy Committee and draws up the roadmaps and action plans that Danone needs to deliver on its commitments;
- the Nature & Water Cycle Department, part of the Procurement Department, which implements Danone's environmental strategy, manages performance, and works with the Company's social innovation funds to design and finance pioneering environmental programs. The Nature & Water Cycle Department does not work in isolation: each Business and each strategic cycle (plastics, water and milk) has its own sustainability department. There are also around 100 environment officers who spearhead their business' environmental programs.

Focus – Training and awareness programs

Danone has created tools and opportunities for employees to learn and share best practice, starting with Workplace, the Company's enterprise social network, where thematic groups and communities meet up to exchange views on environment-related matters, share information and analyze best practice.

In 2018, Danone launched "One Planet. One Health", a Company-wide digital training portal with a strong focus on environmental issues. This portal features educational modules developed with partner organizations that include the United Nations Institute for Training and Research (UNITAR), the Food and Agriculture Organization of the United Nations (FAO), and the Ellen MacArthur Foundation.

Environmental management systems and tools

Danone uses an environmental management system (EMS) based on the international ISO 14001 framework to improve its environmental performance, to comply with environmental laws and regulations, and to raise employee awareness of key issues.

The Company reviews deployment of its EMS as part of its GREEN audit program (Global Risk Evaluation for ENvironment).

Danone also has its EMS certified to ISO 14001 at its major production sites, a prerequisite for obtaining the highest GREEN audit rating (excellent), as described below.

Year ended December 31

	2017	2018
Total number of sites in the Production Site Environment scope [a]	180	187
Environmental performance coverage rate [a]	95%	96%

(a) *Production Site Environment scope* (see Methodology note).

Year ended December 31	2017	2018
Total number of ISO 14001 certified sites [a]	87	86
Percentage of ISO 14001 certified sites [a]	48%	46%
Percentage of volumes covered by ISO 14001 certification [a]	70%	68%

(a) *Production Site Environment scope* (see Methodology note).

GREEN audit program

Under its GREEN program, Danone commissions external audits to identify and track key environmental risks at its production sites around the globe.

GREEN audits enable the Company to monitor and manage atmospheric emissions (greenhouse and refrigerant gases), and releases into water (wastewater) and soil (sludge from treatment plants and livestock farming at some of its subsidiaries). They also monitor noise pollution at Company production .

A remedial action plan is set in motion whenever a site falls below acceptable standards, and the site in question is audited more often to track plan implementation.

Danone updated its GREEN audit framework in 2018, incorporating new water risk assessment criteria from the World Wide Fund for Nature's (WWF) Water Risk Filter (WRF) (see *Water stewardship*).

Year ended December 31	2017	2018
Percentage of sites having undergone an external GREEN audit	69%	66%
Number of sites having undergone an external GREEN audit	124	124
Number of sites compliant with GREEN standards (scoring over 800 out of 1,000)	104	108
Percentage of sites compliant with GREEN standards (scoring over 800 out of 1,000)	84%	87%

See 2.7 *Risk factors* for details of how risks are managed (weather, seasonal, and industrial and environmental risks in particular).

Danone Way results

Danone monitors Environmental Management System (EMS) deployed by its entities under the Danone Way program.

In 2018, 86% of entities have established an Environmental Management System (EMS) including Environmental Policy and the associated strategy/management plan (see *Danone Way scope,* Methodology note).

In 2018, 90% of entities have the relevant structure to support Environmental/Nature policy implementation (see *Danone Way scope,* Methodology note).

In 2018, 69% of entities have identified and engaged relevant internal stakeholders to support their nature roadmap implementation (see *Danone Way scope,* Methodology note).

Environmental expenditures and investments

In 2018, Danone invested over €31 million, or approximately 3.4% of its total capital expenditures, in environmental protection (vs €27 million, or approximately 2.8%, in 2017). These investments focused mainly on reducing water and energy use, cutting carbon emissions, and improving water quality.

Environmental operating expenditures stood at €123 million in 2018 (vs €120 million in 2017). Of that amount, Danone spent €33 million on waste management, wastewater and atmospheric emissions, and €61 million on the packaging levy. Other expenditures totaled €29 million.

Provisions and guarantees for environmental risks

No significant provision for environmental liabilities and risks was recognized on Danone's consolidated balance sheet as of December 31, 2018 (no change from December 31, 2017).

5

CLIMATE CHANGE

Danone's climate policy

Definition

Danone works to protect natural water cycles, soil, biodiversity and ecosystems in a number of ways.

See 2.7 *Risk factors* for details of Danone's risk identification and management policy, which explains how it assesses climate change impacts.

Danone has identified the following medium-term risks:

- ingredients such as milk and fruit could be in short supply in parts of the world experiencing drought and inclement weather;
- coastal sites could be adversely affected by extreme weather events;
- water could become scarce, and watersheds and groundwater reserves could become degraded, potentially disrupting Danone's operations and complicating its relationship with local stakeholders (see 5.3 *Water stewardship*);
- it could prove difficult to secure funds to finance the transition to more sustainable agricultural practices (see 5.3 *Regenerative and organic agriculture*).

Policies and action plans

In its 2015 Climate Policy, Danone set a target of carbon neutrality emissions across its entire value chain by 2050. The Company will achieve that target by:

- cutting emissions;
- transforming agricultural practices;
- eliminating deforestation from the supply chain by 2020;
- keeping more carbon in the ground;
- offsetting remaining emissions.

Cutting emissions

Danone's carbon emissions reduction trajectory is consistent with the 2°C warming scenario set by the United Nations Framework Convention on Climate Change (UNFCCC). The Company's emissions reduction targets, approved by the Science Based Targets initiative in 2017, call for:

- cutting emissions intensity by 50% (measured in grams of CO_2 equivalent per kilogram of finish product sold) across its full scope (*i.e.* scopes 1, 2 and 3) between 2015 and 2030;
- cutting absolute emissions by 30% (measured in metric tons of CO_2 equivalent) across scopes 1 and 2 between 2015 and 2030, as per the GHG Protocol.

Danone signed up to the RE100 initiative in December 2017, pledging to shift to 100% renewable electricity by 2030, with an interim target of 50% by 2020.

Transforming agricultural practices

As a member of the 4 per 1000 initiative for regenerative agriculture, Danone has pledged to do more and has placed agriculture at the center of its low-carbon strategy (see 5.3 *Regenerative and organic agriculture*).

Eliminating deforestation from the supply chain by 2020

Forest Footprint Policy

The Forest Footprint Policy sets out Danone's ambition to eliminate deforestation from its supply chain by 2020, and explains how it is supporting reforestation and natural ecosystem restoration programs in part through the Livelihoods Carbon fund (see *2018 Annual Integrated Report*).

The policy includes specific commitments for six commodities: palm oil, soy for animal feed, paper and cardboard packaging, wood biomass, cane sugar, and bio-based plastics for packaging.

Policies regarding palm oil, soy and paper and cardboard are detailed below and assessed by the Global Canopy Program.

Palm Oil Policy

The 2015 Palm Oil Policy states that all palm oil used by Danone should:

- be traceable to the plantation where it was produced;
- come from plantations whose expansion does not threaten High Conservation Value (HCV) or High Carbon Stock (HCS) forests;
- come from plantations whose expansion does not threaten any tropical peatland, of whatever depth;
- come from plantations that respect indigenous peoples' and local communities' rights to give or withhold their Free, Prior, Informed Consent to operations on lands to which they hold legal, communal or customary rights;
- come from plantations that respect the rights of all workers.

Danone used 71,443 metric tons of palm oil in 2018 – more than the 39,000 tons it used in 2017, owing chiefly to the recent WhiteWave acquisition. Danone uses palm oil in certain end-user products, mainly in its Early Life Nutrition Business, and in some products made by the Essential Dairy & Plant-Based Business.

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). Following the WhiteWave acquisition, Danone is working to apply the Palm Oil Policy to its new sources of supply. In 2018, 58% of the palm oil that Danone sourced was RSPO Segregated, 96% excluding products in WhiteWave's portfolio.

Soy Policy

Danone is working with key stakeholders to help build a more sustainable soy value chain. Its Soy Policy sets out five strategic goals:

- seek full transparency throughout the supply chain, from field to animal feed;
- encourage farmers to replace imported soy with local, protein-rich crops, so they can grow everything they need to feed their animals on their own farms;
- promote sourcing from countries not exposed to deforestation risk;
- ensure that all the soy it sources can be traced to deforestation risk-free regions–for instance, soy that is certified by ProTerra or the Round Table on Responsible Soy (RTRS);
- join international alliances to help drive lasting change on a global scale.

See 5.5 *Responsible sourcing-supplies other than milk* for an explanation of how Danone uses soy.

In 2018, 69% of Danone entities have a concrete roadmap that shows progression to eliminate deforestation from soy in plant-based recipes and/or in animal feeding by 2020, in line with the Company commitment described in the Soy Policy (see *Danone Way scope*, Methodology note). In 2017, for instance, Danone signed the Cerrado Manifesto, which calls for an end to deforestation, largely caused by soy cultivation in Brazil's Cerrado tropical savanna region.

Paper and Cardboard Packaging Policy

Danone developed its Paper and Cardboard Packaging Policy with input from the Rainforest Alliance and other prominent NGO. The policy sets out three aims:

- switch to lighter-weight packaging across its product range;
- use recycled fiber wherever possible;
- where that is not possible, use FSC certified virgin fiber.

Keeping more carbon in the ground

By adopting regenerative agricultural practices, the farmers who supply Danone are not only reducing the amount of carbon they emit into the atmosphere, they are also improving soil health and keeping more carbon trapped in the ground (see 5.3 *Regenerative and organic agriculture*).

Offsetting emissions

Danone is committed to offsetting its remaining carbon emissions and also to restoring the ecosystems that some of the world's poorest communities depend on to make a living.

Danone began using Livelihoods Carbon fund carbon credits to offset emissions from *evian* product sales in 2013. The brand was certified carbon neutral in the United States and Canada in 2017 and is aiming to achieve the same feat globally by 2020 (see *2018 Annual Integrated Report*).

Outcomes

Global recognition

Danone is on the CDP Climate Change A list, meaning it is recognized for its climate strategy, engagement, performance and governance. In addition, the Company made the CDP Supplier Engagement leader board for its work combatting climate change all along its supply chain.

Danone also updated its performance-related share award policy for senior executives, adding a new criterion contingent on its CDP Climate Change score (see 6.4 *Detailed information on long-term and multi-annual compensation plans*).

Measuring greenhouse gas emissions

Danone measures greenhouse gas emissions across all three scopes (scopes 1, 2 and 3) in accordance with GHG Protocol and World Resources Institute (WRI) guidance (see *Methodology note*). In 2018, the Company included WhiteWave in its reporting scope, which had a material impact on its overall performance.

Scope 1 and 2 emissions

Under Danone's reporting method, scopes 1 and 2 cover emissions from activities under the operational control of its assets (production sites, warehouses and vehicle fleets).

Danone sets its scope 1 and 2 emissions targets according to the GHG Protocol market-based method (see *Methodology note*), so as to reflect the share of renewables in its energy mix.

Despite the inclusion of WhiteWave, scope 1 and 2 emissions according to Danone's reporting method (in metric tons of CO_2 equivalent, or tCO_2eq) were 1.9% lower in 2018 than in 2017–largely as a consequence of purchasing electricity from renewable energy sources and improvements in energy efficiency. On a like-for-like basis, scope 1 and 2 emissions were down 12.2% on 2017 levels, and 20.3% lower than in 2015.

Scope 1 and 2 emissions, location-based (in $ktCO_2eq$) [a]	**2017**	**2018**
Scope 1	644	753
Scope 2	937	960
Total scopes 1 and 2	1,581	**1,713**

(a) *Greenhouse Gas Environment scope* (see Methodology note).

Scope 1 and 2 emissions, market-based (in $ktCO_2eq$) [a]	**2017**	**2018**
Scope 1	644	753
Scope 2	817	679
Total scopes 1 and 2	1,460	**1,432**
Scopes 1 and 2: decline in absolute emissions since 2015, market-based	9.7%	**20.3%**

(a) *Greenhouse Gas Environment scope* (see Methodology note).

Scope 3 emissions: Life-cycle assessment method

In the majority of cases, Danone reports indirect emissions (scope 3) from its finished products using the life-cycle assessment method. It considers emissions all along the value chain, from raw material sourcing (including upstream agriculture), packaging, production, distribution and storage, to consumer use and end-of-life disposal (see *Methodology note*).

(in $ktCO_2eq$)	**2017**	**2018**
Purchased goods and services	15,454	19,055
Upstream transportation and distribution of goods	475	629
Downstream transportation and distribution of goods	1,158	1,886
Use of sold products	1,558	1,577
End-of-life treatment of sold products	993	1,004
Fuel and energy related activities	331	330
Waste generated by operations	185	405
Total: scope 3	20,154	**24,886**

Scope 1, 2 and 3 emissions

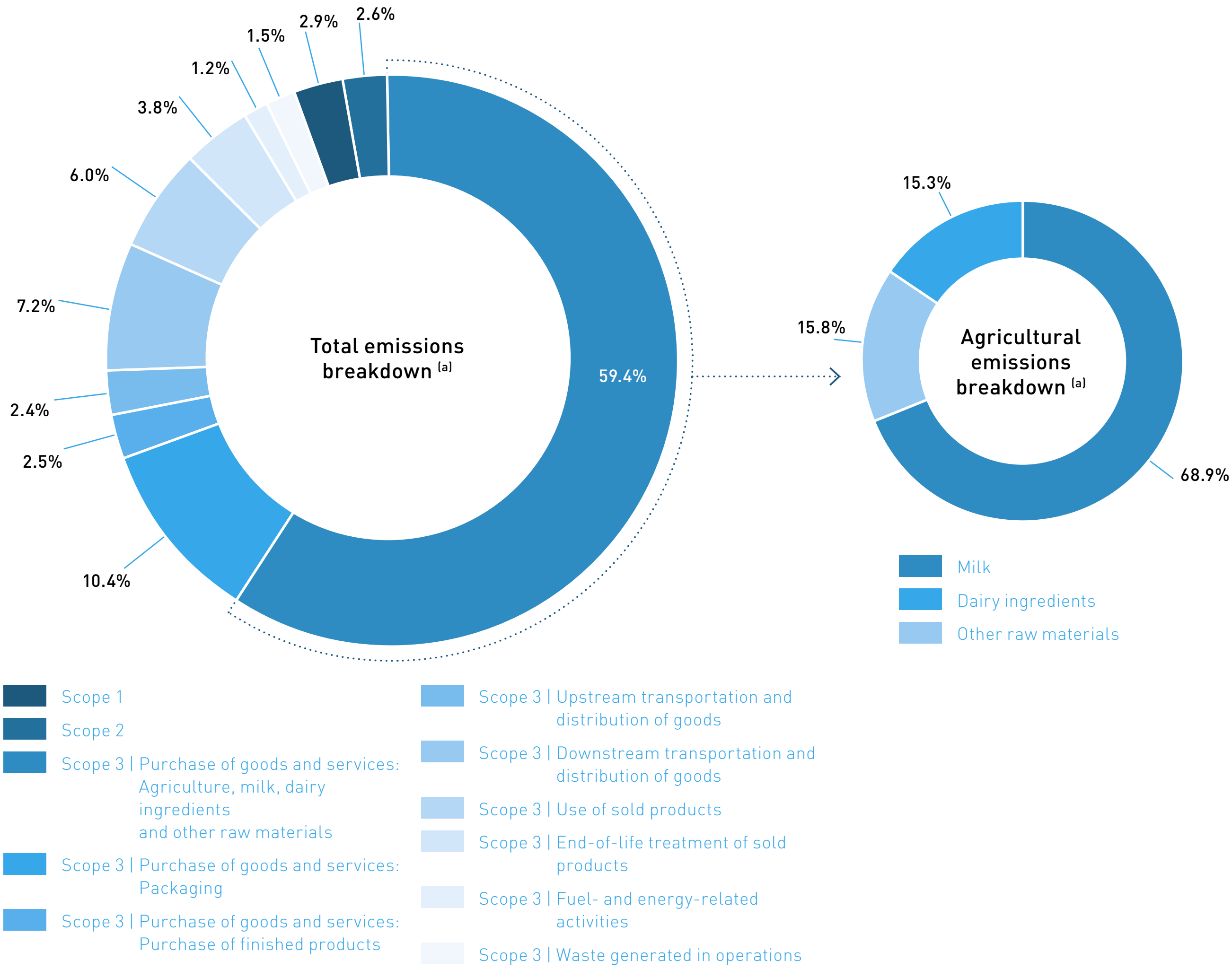
(in $ktCO_2eq$) [a]	**2017**	**2018**
Scope 1	644	753
Scope 2 [b]	817	679
Scope 3	20,154	24,886
Total: scopes 1, 2 and 3	21,614	**26,318**
Emissions intensity ratio, scopes 1, 2 and 3		
In grams of CO_2 eq.kg of product sold	**623.3**	**711.0**
Reduction in emissions intensity ratio, scopes 1, 2 and 3	**10.5%**	**15.6%**

(a) *Greenhouse Gases scope*, Methodology note.
(b) market-based.

In 2018, Danone's full-scope emissions (scopes 1, 2 and 3) stood at 26.3 million tCO_2eq, up from 21.6 million in 2017 owing chiefly to the inclusion of WhiteWave in its reporting scope.

Between 2017 and 2018, Danone recorded a 14.1% increase in its emissions intensity ratio across scopes 1, 2 and 3, again largely as a consequence of the inclusion of WhiteWave. On a like-for-like basis, the ratio was 5.8% lower than in 2017 and 15.6% down on 2015 levels, as the Company has purchased more electricity from renewable energy sources, streamlined its logistics operations, and begun using more recyclable materials in its packaging.

Scope 3 makes up the overwhelming majority of Danone's full-scope emissions, at 94.5% (scopes 1 and 2 account for 2.9% and 2.6% respectively).



(a) *Greenhouse Gases scope*, Methodology Note

Energy efficiency and renewable energies

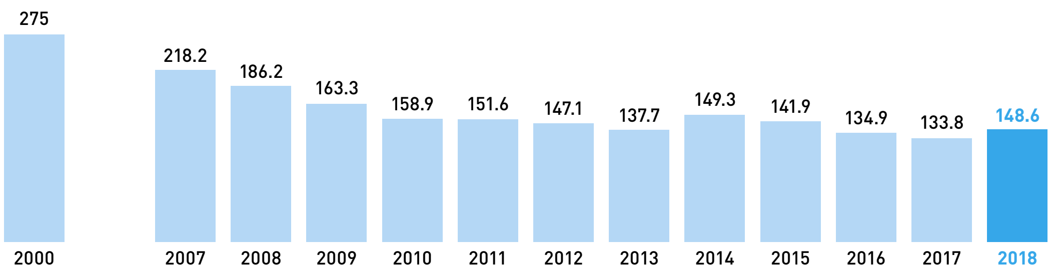
Danone's energy intensity ratio was 11% higher in 2018 than in 2017, largely as a result of the inclusion of WhiteWave in its reporting scope. On a like-for-like basis, the ratio was down 3.1% over the same period.

Energy efficiency initiatives in the Waters Business subsidiaries accounted for 1.3% of that decline. The remaining 1.8% can be attributed to lower sales in the Essential Dairy & Plant-Based Business (where the ratio is higher than the Company-wide average) and stronger sales in the Waters Business (lower than the Company-wide average).

		Year ended December 31
(MWh)	**2017**	**2018**
Thermal energy [a]	2,714,842	3,395,125
Electricity [a]	2,013,185	2,181,458
Total	**4,728,026**	**5,576,583**
Energy intensity (kWh per metric ton of product)	133.8	148.6
Reduction in energy intensity since 2000 (kWh per metric ton of product)	**51%**	**46%**

(a) *Production Site Environment scope* (see Methodology note).

Intensity of total energy consumption at production sites
(in kWh/ton of product)



In 2018, Danone's production sites used 46% less energy than they did in 2000 (vs 51% less in 2017), largely as a consequence of the inclusion of WhiteWave in the Company's reporting scope. On a like-for-like basis, energy use was down 53% on 2000 levels.

Energy efficiency initiatives
Danone is delivering on its commitment to become a more energy-efficient business in two ways:

- producing more electricity locally;
- using energy more efficiently.

Energy efficiency initiatives have multiplied since 2016, when the Company's production sites began sharing best practices.

Renewable energy use

	Year ended December 31	
	2017	**2018**
Production sites purchasing 100% renewable electricity	24	40
Percentage of renewable electricity [a]	18.2%	34.2%
Percentage of renewable energy [a]	11.3%	16.2%

(a) *Production Site Environment scope* (see Methodology Note).

Danone is a member of the RE100 initiative. In 2018, 40 production sites ran on 100% renewable energy, and Danone purchased 34% of its electricity from renewable sources such as wind farms and hydropower plants (compared with 18% in 2017).

Locally, Danone is testing renewable thermal energy generation technologies–such as biofuels, methane digesters, and wood-fired boilers–and some sites are running on the power generated from these sources.

In 2018, 16% of the energy that Danone used was generated from renewable sources compared with 11% in 2017.

Opportunities

By tracking and adopting new, more efficient and more sustainable power generation and distribution technologies, Danone is able to build a more energy-efficient business and deliver on its ambitious energy-cost reduction targets.

Danone is also aware that consumers are taking an ever keener interest in its climate policy, and that it needs to factor new patterns of consumption into the way it conducts its business. Following the WhiteWave acquisition, Danone has added more plant-based food and beverage products–which have a lower environmental footprint–to its portfolio. The acquisition is consistent with the Company's climate policy and reflects its determination to do more to combat climate change.

CIRCULAR ECONOMY

Packaging

Definition

Danone is committed to accelerating the global transition towards a circular economy of packaging. The Company recognizes that packaging, marine littering and plastic waste are matters of growing concern across society–among consumers, the general public and NGO. That is why the Company is working to promote the circular economy worldwide.

Policies

Packaging Policy
Danone published its new Packaging Policy in 2018, setting out how far the Company has come and how it will go further in the years ahead to accelerate the shift from a linear to a circular economy of packaging on a global scale.

The policy is founded on three guiding principles:

GUIDING PRINCIPLE	WHAT DANONE WILL DO:
Packaging designed for circularity	• design all its packaging to be 100% recyclable, reusable or compostable by 2025; • cut the amount of material that goes into its packaging, and keep waste to a minimum; • launch alternatives to plastic and single-use packaging across all its major water markets by 2025; • develop reusable packaging for certain products, introduce pioneering new distribution and consumption models, and eliminate non-recyclable and excess plastic packaging wherever it can; • transform how people consume its products at home, by developing reusable containers and by pioneering new ways of sourcing water.
Reused, recycled and composted in practice	• promote inclusive waste collection and recycling systems that work; • meet or go beyond the collection targets set by regulators, such as the minimum 90% collection target for beverage bottles expected to be set in the EU by 2025; • invest in private initiatives to strengthen circular-economy infrastructure, especially in countries where formal systems are absent or in development, or where there is a high risk of leakage into the environment or oceans.
Preservation of natural resources	• preserve natural resources by transforming waste into a resource, reintegrating recycled materials into its packaging, and using more renewable materials; • use 50% recycled PET (rPET) in the manufacture of its water and beverage bottles by 2025.

Each Danone Business has its own roadmap setting out how it will deliver on the Company's packaging pledges.

Partnerships

In 2017, Danone stepped up its commitment to building a circular economy by embarking on a three-year partnership with the Ellen MacArthur Foundation.

As a Global Partner, Danone has formed an alliance with the United Nations Environment Programme (UNEP), governments, NGO and other companies to tackle plastic waste and pollution. The Company signed up to the initiative in October 2018, joining more than 250 organizations that together represent 20% of worldwide plastic packaging production.

Action plans and outcomes

Designing packaging for circularity

At present, more than half of the water that Danone sells (by volume) comes in reusable packaging. In Indonesia, Turkey and Mexico, water is sold in large reusable plastic containers, while a number of restaurants in France have switched to reusable glass bottles.

In 2018, 69% of entities have identified the recyclability challenges of the existing packaging portfolio and used them for new packaging launches or if the topic is managed centrally, the entity should be aware of its evolution and encourage it (see *Danone Way scope*, Methodology note).

Some Danone subsidiaries have already begun exploring ways to shift away from non-recyclable packaging. For instance, *evian* has piloted a new multipack design that replaces non-recyclable shrink film with specially designed adhesive and handles.

Reusing, recycling or composting packaging in practice

Danone proactively supports the most efficient formal waste collection and recycling systems, including, where locally appropriate, Extended Producer Responsibility (EPR) and Deposit Return Scheme models. The Company is working with public authorities and private companies to refine EPR and DRS waste management systems. For example, the Company helped pioneer the EPR concept in France by founding Eco-Emballages (now known as CITEO). AQUA, Danone's Waters subsidiary in Indonesia, has pledged to collect more plastics than it uses–for instance, by picking litter from the sea.

Danone monitors waste production and recovery (recycling, reuse, composting and waste-to-energy) across its business. Its production sites sort locally, train staff, work with waste recovery subcontractors, and share best practices to recover as much of their waste as they can.

In 2018, 87% of Danone's packaging was recyclable, reusable or compostable.

	Year ended December 31	
	2017	**2018**
Waste management at production sites [(a)]		
Total quantity of waste generated (thousands of tons)	397	499
Total quantity of waste recovered (thousands of tons)	331	412
Proportion of waste recovered (%)	83.3%	82.5%
Ratio of total quantity of waste per ton of product (kg per metric ton)	11.2	13.3

(a) *Production Site Environment scope* (see Methodology note).

The ratio of waste generated per metric ton of product was 18% higher in 2018 than in 2017, largely as a consequence of the inclusion of WhiteWave in Danone's reporting scope. On a like-for-like basis, the ratio was 4.6% lower, owing to declining raw material and finished product losses at production sites in its Essential Dairy & Plant-Based, and Early Life Nutrition Businesses.

Danone recovered 82.5% of its industrial waste in 2018, down from 83.3% (see *Production Site Environment scope,* Methodology note).

In 2018, 97% of packaging waste was recovered at Danone's production sites (up from 91% in 2017). The Company aims to achieve a 100% recovery rate by 2025.

In 2018, 72% of entities have a recycling system (collection, sorting, recycling) assessment in place and main stakeholders have been identified for improving on at least one of two dimensions: recycling or regulations (see *Danone Way scope*, Methodology note).

In countries where recycling systems are still informal, Danone works with local communities, governments and partners like the Inter-American Development Bank to improve waste collection standards and develop recycling infrastructure.

Danone and the Danone Ecosystem Fund have supported inclusive recycling projects in seven countries, helping to ensure that waste pickers work in a safe environment, are paid decent wages, and are afforded greater social protection. Since 2014, close to 6,000 waste pickers have received support and training through these projects, and in 2018 they led to over 46,000 metric tons of waste being recycled (see *2018 Integrated Annual Report*).

Preserving natural resources

In 2018, Danone used 17% recycled PET (up from 14% in 2017) in the manufacture of its water and beverage bottles (for markets where rPET is permitted under local laws and standards).

evian was France's first natural mineral water brand to use the material in its packaging. All *evian* products now come in bottles containing 28% rPET on average, and the brand will shift to 100% rPET by 2025 (see *2018 Integrated Annual Report*).

At the 2018 Our Ocean Conference in Bali, AQUA, Danone's Indonesian waters subsidiary, unveiled Indonesia's first bottle made from 100% rPET. The brand is planning to increase the amount of recycled plastic in its bottles and roll them out to consumers. At the same time, Danone launched its first 100% rPET bottle with the *Lanjarón Red* natural mineral water brand in Spain.

Opportunities

By sorting waste at home, consumers can do their bit to help build the circular economy. Danone's brands have a vital role to play in engaging consumers and supporting Research and Innovation. That is why the Company will continue building partnerships in its bid to find cutting-edge solutions to manage plastic waste.

For instance, *evian* is taking part in a research mission with The Ocean Cleanup, a Dutch non-profit startup that has developed scalable advanced technologies to help rid the oceans of plastic.

Danone has also joined forces with Nestlé, PepsiCo and Origin Materials to increase the amount of renewable bio-based materials in packaging. The alliance will bring the first 100% bio-based PET bottle to commercial scale by 2025.

By tackling the issue of plastic waste and pollution head-on, Danone is giving those brands that adopt pioneering approaches to packaging a genuine competitive edge.

Reducing food waste

Definition

Food waste is a material concern for Danone. The Company is working to recover more waste food throughout its supply chain and at its production sites, as it seeks to cut waste across its business. Danone measures food waste at all its production sites (excluding Waters bottling plants) in line with the Food Loss and Waste Accounting and Reporting Standard–the leading international quantification and reporting standard of its kind. Food waste includes finished products, raw materials and by-products (whey not used for human consumption) that are collected on-site, discharged with wastewater, or contained in sludge from water treatment facilities.

Policies

In line with The Consumer Goods Forum's Food Waste Resolution (approved in 2015), Danone has pledged to halve food waste (unrecovered waste sent to landfill, incinerated without energy recovery, or discharged in wastewater) by 2025 compared with a 2016 baseline.

Action plans

Danone is determined to minimize food waste at its production sites and distribution centers. It gives away unsold food that is safe to eat, and any waste that is unfit for human consumption is turned into animal feed or, if that is not possible, recovered in other ways.

In 2013, the Essential Dairy & Plant-Based Business rolled out a Zero Waste program with two objectives in mind:

- to cut food waste by refining its production and distribution processes;
- to donate more unsold items to food banks and social businesses.

The Business will also enhance its product line as part of the program.

Outcomes

Year ended December 31	2017	2018
Food waste management at production sites [a] [b]		
Total quantity of food waste generated (thousands of tons)	260	331
Ratio of total quantity of food waste per ton of product (in kg/ton)	36.2	37.7
Total quantity of food waste recovered (in thousands of tons)	217	283
Ratio of total quantity of food waste recovered per ton of product (in kg/ton)	38.0	32.3
Proportion of waste recovered	83.7%	85.5%

(a) *Production Site Environment scope* (see Methodology note).
(b) Excludes Waters Business sites.

The ratio of food waste generated per metric ton of product was 4.2% higher in 2018 than in 2017, largely as a consequence of the inclusion of WhiteWave in Danone's reporting scope. On a like-for-like basis, the ratio was 5.3% lower, owing to declining raw material and finished product losses at production sites in its Essential Dairy & Plant-Based, and Early Life Nutrition Business. The recovery rate increased from 83.7% to 85.5%.

Danone Way results

In 2018, 76% of entities have a food waste reduction program for industrial and/or finished good's food waste (see *Danone Way scope*, Methodology note).

In 2018, 74% of entities have taken at least one concrete action to improve its food waste recovery rate (see *Danone Way scope*, Methodology note).

Opportunities

Danone is tackling the issue of food waste from every angle, engaging with distributors, consumers and charities to limit the amount of food that is wasted.

The Company is working with distributors to keep its products fresh for longer and prevent food going to waste. For instance, it is looking at ways to improve transit, storage and replenishment practices, and exploring potential gains from demand forecasting (including promotions) and inventory management.

Danone is also doing its part to help some of the poorest people in society by giving away more unsold items to food banks and other specialized charities under formal arrangements. In France, for example, Danone's Essential Dairy & Plant-Based Business has teamed up with the French Federation of Food Banks to make sure that people facing hardship have access to traceable food that is safe to eat.

WATER STEWARDSHIP

Definition

Danone recognizes the physical, financial and organizational risks that could arise if water scarcity were to occur in its operations. That is why the Company is determined to protect and restore aquatic and marine ecosystems and to respect the natural water cycle–with a focus on risk-prone areas and locally appropriate solutions.

Policies

In implementing its water stewardship strategy, Danone adheres to international scientific frameworks, follows national and local laws and regulations, and is mindful of stakeholder expectations. The Company forges locally strategic alliances with public- and private-sector partners on the ground to make sure its efforts address specific local needs.

In 2018, Danone created a new Water Cycle team to lead on strategy and delivery in its four priority areas for water stewardship:

- water resources and ecosystems;
- water in agriculture;
- water in operations;
- access to drinking water, sanitation and hygiene.

The Groundwater Resources Protection Policy explains what Danone does to sustain natural resources and to protect and enhance aquatic and marine ecosystems wherever it does business.

The Company uses two internationally recognized tools developed by other organizations to assess water risk comprehensively, via a two-step process. First, it uses the World Resources Institute's (WRI) Aqueduct Water Risk Atlas to map water risk by region and to anticipate how that risk might evolve in the medium term. Second, it uses WWF's Water Risk Filter (WRF) to explore risk factors inherent to each production site.

Both tools feature indicators divided into three risk categories:

- physical risk (quantity and quality);
- regulatory risk;
- reputational risk.

Danone has used these tools to produce a water risk map and identify especially risk-prone sites. For each of these sites, the Company has introduced the GEMI Local Water Tool (LWT)–an advanced risk assessment and mitigation plan development system–to improve how it manages and mitigates water risk, which can vary from one site to the next.

Action plans and outcomes

Water resources and ecosystems

Danone's entities aim to better understand watershed issues by using SPRING (Sustainable Protection and Resources managING), Danone's in-house water resource stewardship tool, developed in partnership with the Ramsar Convention and the International Union for Conservation of Nature. This tool, which covers physical, regulatory and community management of aquifers and watersheds, is deployed at 100% of all Waters Business sites. Once assessed, sites were awarded a resource stewardship score and a separate improvement plan was drawn up for each.

Danone also carries out risk assessments to refine its understanding of local issues and draw up targeted action plans, encouraging broad input and working with partners from the public and private sectors. In 2017, for instance, the Company renewed its long-standing partnership with the Ramsar Convention (the intergovernmental wetland conservation treaty) for a further three years.

Water in agriculture

Agriculture accounts for the vast majority of Danone's water footprint. That is why the Company is determined to work with its suppliers to preserve water quality and use resources more rationally. For instance, it is helping all the farms it works with to adopt resilient agricultural practices that respect natural ecosystems and preserve the water cycle.

Water risk assessment

Danone stepped up its water risk assessment strategy in 2018, using WRI's Aqueduct Water Risk Atlas to begin assessing water risk all along its value chain.

The first assessment focused on the Company's fresh liquid milk supply chain, which has one of the largest water footprints, in a far-reaching exercise spanning more than 20 countries and over 8,000 farmers and collecting centers. Danone produced a detailed map of suppliers and dairy farms in potentially water-stressed areas under a 2030 scenario.

The assessment drilled down into the details, looking at animal feeding methods (pasture, fodder, and locally produced and imported silage) to pinpoint where the Company might be able to reduce its water footprint. Danone used the data to identify regions of particular concern and has set about drawing up a targeted action plan for each.

In North Africa, for instance, Danone is harnessing its social innovation platforms to deploy the Feed the Cows program, selecting local climate-appropriate crops so that Algerian, Egyptian and Moroccan farmers can grow their own animal feed and provide their cattle with enough water to drink.

Danone is also working on a number of initiatives targeting other parts of its supply chain, such as fruit and vegetables. In Spain, Danone's European plant-based products subsidiary Alpro has partnered with WWF to develop a new water allocation management method so that resources are shared fairly and sustainably across each watershed.

Water in operations

Danone has identified two key areas where it needs to do better: managing risks related to water extraction quality and quantity, and treating all the wastewater it discharges back into the environment to eliminate ecosystem impacts. As a matter of policy, Danone assesses water quality across all its operations, and monitors how that water is used. The Company has set two targets for 2020:

- use 60% less water in industrial processes at its plants, compared with 2000 as a baseline year, by employing the 4Rs principle (Reduce, Reuse, Recycle, Recover);
- bring 100% of sites that discharge wastewater directly into the environment in line with the Danone Clean Water Standards (Danone's standards for clean water based on IFC standards).

To do so, Danone's business carry out monthly discharge and compliance audits to track progress towards those targets.

Initiatives to cut water use in operations

Every Danone production site measures progress towards its annual targets by monitoring water quality and calculating how much water it uses in its production, cleaning and other processes.

- In 2017, the Essential Dairy & Plant-Based Business launched its Aquathon program to map water use in its operations, to identify where and how it could reuse or recycle that water, and to draw up roadmaps setting out how it will achieve its targets. Danone has also joined forces with Veolia to audit technical and managerial aspects of water management across all plants in the near future. Non-conformities, and a remedial action plan will be drawn up for the site in question.
- In 2018, the Essential Dairy & Plant-Based Business rolled out its Triple Zero program to explore how innovation could help it use less water and energy. The program has already made a difference on the ground. For instance, Danone has installed a wastewater treatment and reuse facility at its site in Rotselaar, Belgium, where water is in short supply. By re-employing the water in its boilers and cooling towers, the site will halve the amount of water it uses.
- In 2018, the Waters Business piloted its Blue Ops program at eight sites as it looks to embed sustainability in its bottling operations. At its site in Hidalgo, Mexico, the Business is shrinking its water footprint by supplying recovered, treated wastewater to the nearby CEMEX plant. The Business has also deployed WaterWatcher, a water use monitoring and process improvement tool, at all its bottling plants.

Assessing water risk in operations

In 2018, Danone added water risk assessment to its GREEN environmental audit program, which covers all of the Company's production entities.

In 2018, 9% of Aqueduct-audited production sites were found to be at high or extremely high risk in the comprehensive risk assessment (physical, regulatory and reputational risk).

Also in 2018, Danone assessed water risk using the WRF tool at 64% of its production sites, and 14% were found to pose a high risk to the business (see *Environmental indicators scope*, Methodology note).

Outcomes

Water use in operations

	Year ended December 31	
(thousands of m³)	**2017**	**2018**
River water extracted from the surrounding area [a]	3,102	2,937
Municipal water withdrawn from the surrounding area [a]	17,011	23,395
Well water withdrawn from the surrounding area [a]	48,572	48,161
Total water withdrawn from the surrounding area [a]	**68,685**	**74,493**

(a) *Production Site Environment scope* (see Methodology note).

	Year ended December 31	
	2017	**2018**
Water consumption in the product processes [a] (thousands of m³)	39,113	43,311
Water consumption intensity related to the production processes [a]	1.11	1.15
Reduction in water use intensity since 2000	**50%**	**48%**

(a) *Production Site Environment scope* (see Methodology note).

Total water extraction and resource preservation

In 2018, Danone extracted 74,493,000 m³ of water, an 8.5% increase on 2017 (68,685,000 m³), owing chiefly to the inclusion of WhiteWave in its reporting scope. On a like-for-like basis, Danone extracted 2.4% less water in 2018 than it did in 2017.

Water use in products

Danone used 74,493,000 m³ of water in 2018. Of that amount, 31,182,000 m³ went into its finished products and, to a lesser extent, its by-products (0.2% of the total amount), chiefly at its bottling plants. That represented a 5.4% increase on 2017 (29,572,000 m³), largely as a consequence of the inclusion of WhiteWave in Danone's reporting scope.

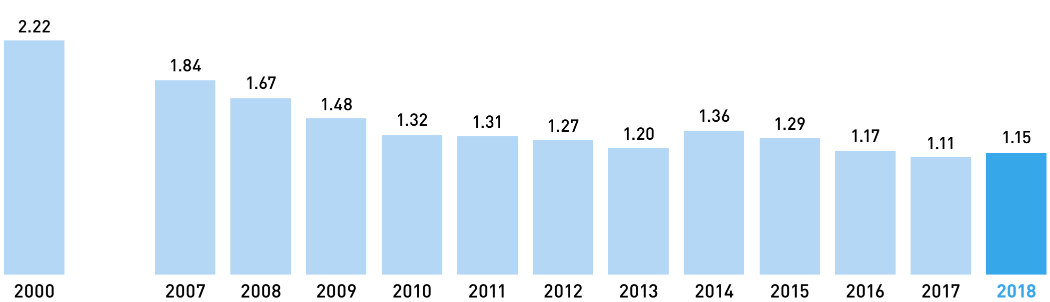
Water use in production processes

Water used in production process water – for example rinse water –, is distinct from the water used in the composition of finished products. Since 2016, Danone has omitted once-through cooling water from its reporting indicators (see *Methodology note*).

Production processes accounted for 43,311,000 m³ of the 74,493,000 m³ that the Company used in 2018–a 4.2% increase in intensity per ton of production from 2017 (39,113,000 m³), owing chiefly to the inclusion of WhiteWave in its reporting scope. On a like-for-like basis, Danone used 5.7% less water in its production process in 2018 than it did in 2017.

Water use intensity in industrial processes

(en in kg/ton of product)



In 2018, water use intensity in industrial processes at Danone's production sites was 48% lower than in 2000 (vs 50% lower in 2017), largely as a result of the inclusion of WhiteWave in the Company's reporting scope. On a like-for-like basis, water use intensity was down 53% on 2000 levels.

Discharged wastewater quality and chemical oxygen demand (COD)

Under its Clean Water Standards, Danone applies stringent concentration limits to all wastewater discharges from its production sites. The Company measures substance concentrations, in line with current practice, to make sure the water it releases into the environment does not adversely affect ecosystems and consumers.

Chemical oxygen demand (COD)–the amount of oxygen required to oxidize organic and inorganic compounds in water–is an indicative measure of on- or off-site treated wastewater quality. Danone's assessment of off-site treatment effectiveness is based on certain assumptions (see *Methodology note*).

	Year ended December 31	
	2017	**2018**
Final discharge of chemical oxygen demand (COD) [a] (in thousands of tons)	6.9	6.63
Net COD ratio [a] (in kg/ton of product)	0.20	0.18

(a) *Production Site Environment scope* (see Methodology note).

Access to drinking water, sanitation and hygiene

Danone uses the UN and World Business Council for Sustainable Development (WBCSD) WASH Pledge Self-Assessment tool–for Water, Sanitation and Hygiene–to ensure that all its employees have access to drinking water, sanitation and hygiene at the workplace, no matter where they work.

Opportunities

Water kiosks

Danone, through its brands and the Danone Communities Fund, is working with local communities and NGO to bring safe drinking water to everyone.

Under the Fund's water kiosk concept, kiosk owners sell affordable, safe drinking water to people living in their community (see *2018 Integrated Annual Report*).

Water resource preservation

Through its work, Danone is rallying communities and stakeholders around efforts to redress local water use imbalances.

In 2018, Villavicencio Natural Reserve in Argentina – where Danone sources water for its *Villavicencio* natural mineral water brand – became the first privately owned wetland to be added to the Ramsar Convention list. At the 13th Meeting of the Conference of the Contracting Parties to the Ramsar Convention on Wetlands (COP13), Danone received a special award from the 170 contracting parties to mark its 20-year commitment to wetland conservation.

REGENERATIVE AND ORGANIC AGRICULTURE

Definition

Agriculture is Danone's number-one source of carbon emissions, accounting for 59% of its total emissions (scopes 1, 2 and 3) in 2018. The Company believes that regenerative agriculture is one way to help build a more climate-resilient world, which is why it has committed to promoting these farming practices and contributing to the transition.

Policies

The guiding principles laid out in Danone's Sustainable Agriculture White Paper describe how the Company will shape a more sustainable food chain–by strengthening the relationship between farmers and consumers, and by developing agricultural production models that simultaneously meet demand for food and protect the natural cycles linked to soil, water, climate and biodiversity on which its business depends.

At the COP23 conference in 2017, Danone announced its intention to sharpen its focus on regenerative agriculture. The Company sees regenerative agriculture as resting on three pillars:

- protecting soils, water and biodiversity;
- empowering a new generation of farmers;
- respecting animal welfare.

In line with its Animal Welfare Position Paper, the Company has restated its commitment to adopting more stringent animal welfare standards in its Early Life Nutrition Business. Also in 2018, Danone pledged to source 100% cage-free eggs and egg ingredients across all countries and divisions by end-2019. Danone's Animal Welfare Policy and welfare performance data are published on its website.

See *Environmental protection strategy* for an explanation of how regenerative agriculture is governed at Danone.

Action plans

Protecting soils, water and biodiversity

Soil health is a key component of Danone's regenerative agriculture model. The Company is committed to promoting agricultural practices to its upstream partners that:

- preserve and improve the physical and biological structure of soil (enhancing its organic matter content by reducing soil tillage, rotating crops, and planting permanent cover crops);
- maintain soil's natural capacity to regulate water resources;
- nourish and protect plant and animal biodiversity (limiting the use of fertilizers, pesticides and other chemicals, and, where a possible, planting buffer strips and hedges around fields to protect local wildlife habitats).

These principles will help Danone achieve its zero net carbon target, because when farmers adopt regenerative practices, they emit less carbon and trap more of it in the ground.

That is why Danone is working with its suppliers to draw up action plans and help them shift to new ways of farming their land (see *2018 Integrated Annual Report*).

In 2018, Danone North America launched a five-year soil health initiative under the Dannon Pledge, including a $6 million contribution to soil health research. Also in 2018, Danone teamed up with experts from Cornell University and Ohio State University's Carbon Management and Sequestration Center to identify ways to regenerate soils and store more carbon in the ground.

Danone is determined to do more on soil carbon sequestration and is engaging with more experts to draw greater attention to this vital issue. In 2017, the Company joined the French government's 4 per 1000 soil health initiative. It is also collaborating with experts, NGO and other businesses around the world, on a pre-competitive basis, to establish commonly recognized and accepted soil organic carbon accounting practices. In 2018, Danone, Gold Standard, Mars and Livelihoods Carbon fund published guidance on soil organic carbon quantification in corporate reporting.

Empowering a new generation of farmers

The shift to regenerative agriculture starts first and foremost with farmers. Danone's goal is to better equip farmers to make that shift, and to support them as they pass along their craft to the next generation.

One way the Company does this is by building durable relationships with farmers, often over multiple generations. These close relationships allow Danone to sign stable, long-term Cost-Performance Model (CPM) contracts with its suppliers, guaranteeing them a steady income (see 5.5 *Responsible sourcing–milk*).

Another way Danone is working to empower farmers, is by facilitating access to training, equipment and financing. Through projects supported by its societal funds, Danone has provided financial and technical support to some farmers.

Respecting animal welfare

Danone's 2016 *Animal Welfare Position Paper* is based on the internationally recognized Five Freedoms developed by the Farm Animal Welfare Council:

- freedom from hunger or thirst by ready access to fresh water and a diet to maintain full health and vigor;
- freedom from discomfort by providing an appropriate environment including shelter and a comfortable resting area;
- freedom from pain, injury or disease by prevention or rapid diagnosis and treatment;
- freedom to express normal behavior by providing sufficient space, proper facilities and company of the animal's own kind;
- freedom from fear and distress by ensuring conditions and treatment which avoid mental suffering.

Danone is also engaged in a joint animal welfare initiative with NGO Compassion In World Farming (CIWF).

Focus - Protecting biodiversity

Danone is committed to protecting biodiversity, because it recognizes that biodiversity loss threatens the health of natural ecosystems and the continuity of its business operations. The Company is delivering on this pledge in three ways:

- stopping deforestation (see 5.5 *Responsible sourcing-supplies other than milk*);
- promoting regenerative agricultural practices that nourish and protect plant and animal diversity all along the supply chain;
- protecting biodiversity near its production sites and training its employees. At its sites in France, Danone is working to raise awareness and to encourage its employees to take concrete action. The Volvic site, for instance, is running a red kite conservation program with the French Bird Protection League (LPO). Danone has also installed beehives at its spring water catchments to raise awareness, nourish biodiversity, and promote balanced plant and wildlife habitats.

In July 2018, Danone joined with other businesses to launch Act4Nature, publicly pledging its commitment to protect biodiversity and raise awareness of the issue around the globe.

Outcomes

Danone and CIWF have developed a new tool to measure dairy cow welfare at farms that supply it with fresh milk. The Company rolled out the tool across most Essential Dairy & Plant-Based Business entities in 2018. By 2020, 80% of the fresh milk that Danone sources in 14 countries will be CIWF or Validus Certified for animal welfare. In 2018, 43% of total fresh milk volumes sourced were covered by this tool or by Validus certification for the business.

In 2018, 100% of sheep and beef cattle at farms supplying the Early Life Nutrition Business had access to pasture.

In 2018, 65% of entities (in the Early Life Nutrition and Essential Dairy & Plant-Based Businesses) have a clear roadmap on Animal Welfare allowing the entity to be compliant with the Animal Welfare position paper (See *Danone Way scope*, Methodology note).

In 2018, Danone is ranked Tier 2 status in the Business Benchmark on Farm Animal Welfare (BBFAW)–testament to the Company's commitment to enhancing animal welfare, and to its transparent reporting practices.

Opportunities

Some Danone subsidiaries have signaled their determination to do more to support regenerative agriculture and to get consumers on board. In France, for instance, Danone has committed to greater transparency and pledged to introduce more regeneratively and organically farmed products. On September 21, 2018, all Danone brands in France donated a full-day's proceeds to regenerative agriculture projects. To mark the occasion, the Company teamed up with ten partner retailers, dispatching over 1,500 employees and farmers to stores up and down the country to talk to shoppers about the changing face of agriculture. The initiative raised more than €5 million for the Danone Ecosystem Fund; beneficiaries were projects focusing on animal welfare, and soil and biodiversity conservation, as well as initiatives to support farmers–because the transition starts first and foremost with them.

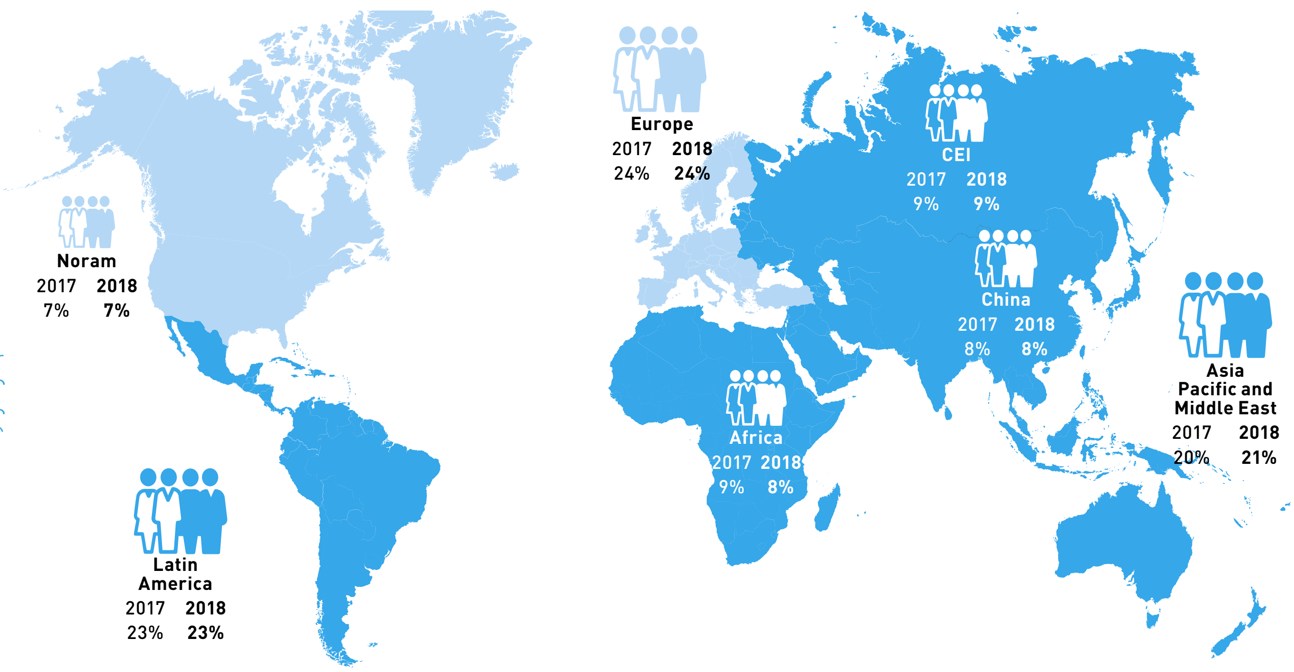
5.4 BUILDING THE FUTURE WITH DANONE EMPLOYEES

Contents

DANONE'S EMPLOYMENT APPROACH

Employees

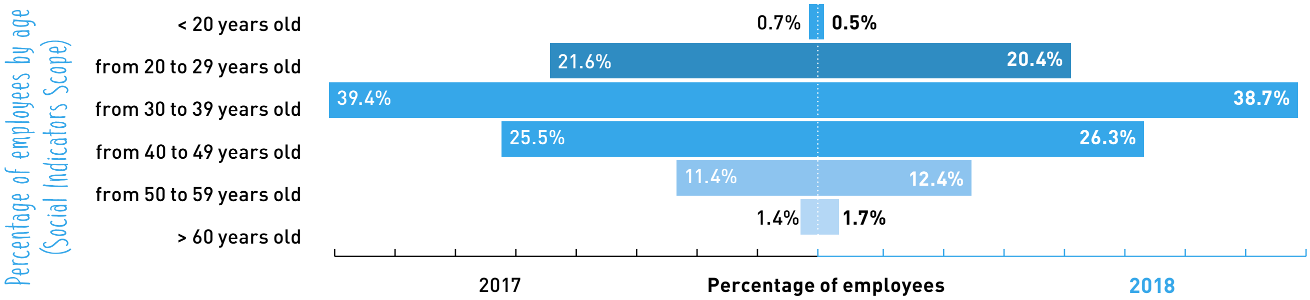
Breakdown by geographical area

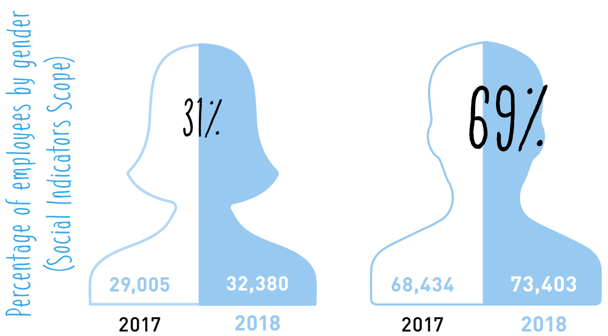


Total number of employees		Europe & Noram		Rest of the World	
2017	2018	2017	2018	2017	2018
104 843	105 783	31%	31%	69%	69%

Breakdown by Business

	2017	2018
Essential Dairy & Plant-Based		
EDP International	36%	36%
EDP Noram	6%	6%
Specialized Nutrition	20%	20%
Waters	35%	35%
Other		
Headquarters sites, Danone Research, Evian Resort	3%	3%





Hiring and dismissals

In 2018 there were 4,635 dismissals across all Danone entities, down from 5,619 in 2017, and 15,208 people were hired, up from 12,842 in 2017. (See *Social Indicators scope*, Methodology Note).

Compensation and benefits

Compensation

Danone offers fair, competitive, comprehensive compensation based on its own system of evaluating and classifying jobs. Criteria used in this system include human resource development as well as the local regulations, requirements and situations affecting the Company's entities.

Every year, levels of compensation are reviewed in each country, using studies of external compensation levels and decision-making tools that ensure fairness. Median compensation for each classification level and procedures for increasing compensation are established in line with market conditions and the needs of the Company's entities.

Variable annual compensation rewards collective and individual performance based on two sets of targets:

- business targets, measuring how well Danone performed financially and how targets were met; and
- targets measuring social progress, skill-building and efficiency as defined with each employee's immediate manager.

Over the past ten years, Danone has gradually incorporated social and environmental performance criteria such as carbon footprint reduction, employee safety and diversity into the variable compensation of around 1,800 senior executives (see 6.3 *Compensation and benefits of governance bodies*).

Employee profit-sharing and stock ownership

Employees of Danone's French subsidiaries are eligible for a profit-sharing plan indexed primarily on Danone's results. Other French subsidiaries and some foreign entities have adopted indexed employee incentive and/or profit-sharing plans based on their own results. In 2018, Danone and its fully consolidated entities recognized expenses of €106 million in connection with employee profit-sharing and incentive plans, the same figure as in 2017.

Employees of Danone's French entities may also enroll in 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 for its employees in accordance with the laws and customs of the countries where its entities do business. The Company also has contractual commitments covering severance pay, retirement indemnities and personal protection, most of which are managed by independent fund management entities.

Commitments related to existing defined-benefit plans generate an actuarial liability, recognized as a provision in the consolidated financial statements. There is no actuarial liability for defined-contribution plans. The provision posted for these commitments on December 31, 2018 and the expenses for the year are presented in Note 8.3 of the Notes to the consolidated financial statements.

Organization of working hours

Work schedules and working hours vary according to local conditions for each entity and may include part-time work and home-office work practices. This flexibility helps improve quality of life for Danone employees.

In 2018, part-time employees accounted for 3% of the Company's total headcount, the same as in 2017. Part-time work is more common in Danone's corporate functions and Advanced Medical Nutrition Business: respectively, these two areas accounted for 8% and 12% of part-time employees in 2018, versus 8% and 11% in 2017. Regionally, part-time work is most common in Europe, where it accounted for 12% of employees in 2018, the same as in 2017.

Danone also encourages its entities to apply best practices for scheduling work, in particular by assessing their policies, setting up systems to measure time worked, conducting employee surveys to gauge workload, and launching targeted action plans when employees exceed normal hours.

Absenteeism

	Year ended December 31	
	2017	**2018**
Absentee rate [a]	2.4%	2.4%

(a) See *Methodology Note*.

WORKPLACE HEALTH AND SAFETY

Workplace safety: the WISE² program

Definition

Danone is committed to providing a safe, secure, healthy workplace where its employees can flourish, grow and strike a healthy work/life balance.

Policies

WISE² program

Targets	By 2020: reduce fatal accidents to zero and cut workplace accidents requiring medical absence to half the number for 2014.
Scope	Danone tracks workplace accidents (with and without medical absence) for all personnel at its sites: employees, subcontractors, and workers from staffing agencies and other outside labor providers.
How WISE² works	The program is built on: • the 13 elements of the safety culture, including: 1) health and safety policy, 2) visible engagement from management, 3-4) health and safety targets and indicators, 5-6) rules and standards, 7-8) motivation and communication, 9) training, 10) accident analysis, 11) observation on the ground, 12) audits. WISE² also assesses each site's compliance with safety standards. • the 13 safety standards for the most critical high-risk situations 1) hazardous energy, 2) working at height, 3) chemicals, 4) confined spaces, 5) explosives, 6) dangerous gases, 7) fire and evacuation, 8) dangerous machines, 9) lift trucks, 10) racks and pallets, 11) truck loading and unloading, 12) truck fleets and 13) work permits. • Complying with standards In 2017 Danone expanded compliance to include sales offices and headquarters, formalizing standards for high-risk activities specific to these sites: ergonomics, merchandising, event-planning, home-office work, emergency procedures, hotels and travel.

Focus – Preventing stress and promoting well-being in the workplace

In 2015 and 2016, working groups in several countries inventoried existing initiatives. Their effort resulted in a systematic approach to promoting health and well-being in the workplace, built on five pillars: (1) working at the right pace; (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 manuals encourage subsidiaries and Danone sites and entities to implement these practices, and a number of initiatives have already been launched. Subsidiaries have already implemented initiatives including:

- the right to disconnect;
- sessions with psychologists and social workers, and setting up committees tasked with identifying cases of workplace isolation;
- training managers to detect and prevent employee stress.

Governance

Under the leadership of the Human Resources Department, the WISE² program is deployed in each Business, at production sites and logistics warehouses, and in sales and distribution.

Action plans

Most sites conduct self-assessments to identify their top risks. In Europe, the Unified Risk Evaluation Document requires businesses to assess their risks and adopt the action plans they need to keep employees safe.

To ensure that the WISE² program is deployed widely and effectively, audits are conducted in some 50% of Danone sites every year, focusing on safety culture and compliance with standards. Since 2017, WISE² audits have covered sales forces as well as operations sites, and in 2018 deployment of WISE² audits got implemented at some administrative offices.

Employees are also involved in identifying and escalating risks and accidents via a participatory process open (i) to all Danone employees, (ii) to workers employed through Danone staffing agencies or service providers and (iii) to subcontractors. For serious risks and accidents, Danone has adopted targeted procedures and a system to relay information to the right level.

With musculoskeletal disorders on the rise, Danone has also incorporated supervision of working conditions into its WISE² action plans. Over the past several years, the Company has launched new initiatives, focusing in particular on assessing ergonomic risks, providing movement and posture training and redesigning workstations. Increasingly, the engineering units in Danone's Businesses are sharing ergonomic and safety-related design guidelines and training their project engineers to apply them.

Danone is also taking steps to reduce working hours and turnover in community-based distribution.

The rate of work-related illness and associated absenteeism is monitored at local level, largely to comply with prevailing law in each country.

Outcomes

Year ended December 31

(in number of accidents, except frequency rate)	2017			2018		
	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	207	2.4	–	211	2.3
Waters	1	99	1.1	1	102	1.2
Specialized Nutrition	–	54	1.1	–	46	0.9
Other	–	49	3.4	1	35	2.4
Total	**2**	**409**	**1.7**	**2**	**394**	**1.6**

(a) Safety scope, Methodology note.

Year ended December 31

	2017	2018
Frequency Rate 2 (FR2)	2.1	1.7
Severity Rate [a]	0.08	0.06

(a) Safety scope, Methodology note.

Health programs for employees

Definition

For Danone, offering healthcare coverage and health education to every employee is a priority, and the Company is committing to deploy the Dan'Cares program in every country where it does business.

Policies

Danone launched the Dan'Cares program with the ultimate goal of providing all Danone employees with quality healthcare coverage for major risks, without losing sight of practices specific to local markets. The top three risks covered are hospitalization and surgery, outpatient care and maternity care.

Action plans

Danone believes that its mission, promoting health, begins with caring for its own employees and has thus launched a number of employee health initiatives. These include Health@Work, a program that educates its employees and makes them aware of the benefits of good eating habits and exercise. Over the past two years, 13,296 employees have received training in nutrition and/or hydration.

Outcomes

What makes Dan'Cares different is its sheer scope: over the long term, the Company plans to roll it out in all Danone entities, even in countries where there is no tradition of employee healthcare coverage. As of December 31, 2018, a total of 74,420 employees in 49 countries had healthcare coverage that met Dan'Cares standards, up from 70,000 employees and 42 countries in 2017.

Within Dan'Cares beneficiaries, most of them had the option of including their family members. Result: 95% are covered for hospitalization and surgery, 83% for maternity care, and 80% for outpatient care.

Opportunities

Nutrition programs for employees include at least one of three key elements: better nutrition, better physical health and better well-being. In the UK, for example, a study by Danone's Waters entity showed that many people – including Company employees – do not know their cholesterol levels. The entity responded by providing free nutrition assessments for its employees and offering education programs to help them cultivate healthier eating habits.

ATTRACTING TALENT, BUILDING SKILLS

In addition to providing a safe workplace and health/wellness programs for its employees, Danone is committed to career development: the Company is aware that it cannot succeed without attracting and retaining quality employees and supporting their growth in ways that reflect the diversity of Danone and its communities. For Danone, talent management is critical to building high-performance teams that leverage the strengths of each employee.

Inclusive diversity

Definition

Danone works hard to ensure that every employee, at every level, is treated fairly and without discrimination in recruitment, compensation, benefits and career development.

Policies

Diversity policy

When Danone signed the Global Agreement on Equal Opportunities with the IUF, it committed to promoting greater diversity within its corporate structure. More specifically, Danone's Chief Executive Officer and its Executive Committee pledged that by 2020, 30% of the Company's executives would be women and 30% of its executives would come from countries outside Western Europe.

In parallel, Danone is rolling out a worldwide inclusive diversity program focusing on three priorities: inclusion, gender balance, and culture and nationality. In 2018, Danone launched the program in its leading regions, working to link inclusive diversity to all Company activities, functions and employees, both locally and globally.

Danone believes in welcoming and encouraging all differences, visible or invisible, including age, gender, nationality, disability, background, religion, education, mindset, culture and sexual preference.

Parental policy

Danone is committed to creating the conditions every employee needs to make the most of parenthood, and to developing a family-friendly culture by 2020.

Danone's global parental policy is based on three key elements:

- pre-natal support, including modified working conditions and nutrition counseling during pregnancy;
- extended parental leave for both men and women, including 18 weeks for a birth parent, 14 weeks for the legally adoptive parent and 10 working days for a secondary caregiver;
- post-natal support, including job protection measures and return-to-work support, flexible working conditions and breastfeeding support by providing lactation rooms for mothers at all sites that employ more than 50 women.

Danone's goal is to deploy this parental benefits policy in every country where it does business by 2020.

Governance

To meet this goal, the Company has named a group of global Inclusive Diversity ambassadors, who also serve on a Board representing 12 key Danone functions, such as marketing, quality, Research and Innovation. Rollout of the program is supervised by a steering committee and by the Danone Way program in the entities.

Action plans

HeForShe campaign

HeforShe is a global campaign by UN Women that encourages men to take an active role in empowering women.

In Brazil, Indonesia, Italy and the Netherlands, Danone has deployed HeForShe through its Leadership Mentoring program especially for women, enabling newly appointed women leaders to seek advice from experienced senior managers.

The launch of the parental policy of the Company marked a new milestone in gender equality for Danone, and the HeForShe movement honored the expected impact of this achievement by naming Emmanuel Faber as a Thematic Champion.

LEAD Network

In 2018, Danone entered into a partnership with LEAD Network, a group of leaders who promote diversity in consumer goods companies in Europe. Aimed at attracting, retaining and supporting women's professional development, LEAD provides local inter-company networks that enable exchanges on gender equality best practices in the workplace.

Disability

In 2018, some of Danone's regional headquarters began to give workers with disabilities a special place in their action plans, as part of an effort to make their diversity policy as inclusive as possible. In Brazil, for example, Danone has partnered with Ser Especial, an NGO dedicated to promoting social and professional integration for jobseekers with disabilities, and the Company has already provided job-market training to 720 young people under this partnership. Danone has also created an on-line CV platform tailored to the needs of jobseekers with disabilities.

Outcomes

	2017	2018
Percentage of women executives	25%	28%
Percentage of executives from countries outside Western Europe	23%	28%
Percentage of women managers, directors and executives [a]	49%	50%
Percentage of employees with disabilities in France	3.6%	3.6%

(a) Within Danone's total headcount, the proportion of managers, directors and executives (that hold the positions of greatest responsibility) represents 10.6%.

In 2018, 68% of entities have key performance indicators and a roadmap based on Danone's Inclusive Diversity Cluster Toolkit. These include the contribution of the entity on the three inclusive diversity global key performance indicators (inclusive behaviors, gender balance, and culture and nationality) defined by the Company (See *Danone Way scope*, Methodology Note).

In 2017 Danone rolled out its Parental Policy in three pilot countries: Australia, Italy and New Zealand. In 2018, the program expanded to Belgium, Spain, the Netherlands, the United Kingdom, Singapore and Turkey.

Also in 2018, Danone had its first Global Day of Parents celebration, including a presentation on its parental policy.

Opportunities

Danone is committed to fostering an inclusive working environment that represents all forms of diversity, both visible and invisible. The Company's aim is to create a workplace environment that promotes both personal fulfilment for employees and efficient teamwork, with a view to developing solutions that are culturally relevant to consumers.

Employee training and development

Definition

Danone is committed to offering in-house training and career development programs for every employee at every level.

Policies

Danone offers training plans to help employees grow and stay employable through a combination of well-being, efficiency and autonomy, with the goal of offering training to as many employees as possible. Therefore, the Company provides functional training programs, many of them developed internally and taught by Danone managers from a variety of functions and countries. In 2018, Campus for All events were held in Southeast Asia, Dubai, India and Singapore, aimed at involving more employees – and particularly non-managers – by using a range of training channels, including conferences, e-learning and networking.

Danone rounds out these functional training programs by developing a leadership culture based on the principle that every employee can develop leadership skills. Danone's leadership model is called CODES, for Committed, Open, Doer, Empowered, Self-awareness. Several complementary programs based on this model have been added since, to train managers and as many employees as possible.

In addition to offering these methods and tools, Danone is working to cultivate a new mindset–a belief that all employees can grow and build skills at any moment in their working lives, and not just during training. As part of this effort, the Company promotes on-the-job learning through its One Learning a Day program.

Governance

Danone's Chief Talent Officer is responsible for talent management and employee training. He or she reports directly to the Company's General Secretary, who sits on the Executive Committee.

Action plans

In 2018, the Company encouraged all employees to take an active role in developing the roadmap towards its 2030 Goals. To support their involvement, the Company built its "One Person, One Voice, One Share" program on an internal platform where employees can access in-depth training modules on Danone's vision and objectives. Some of the platform's content was developed with high-profile partners such as the United Nations Institute for Training and Research (UNITAR) and the Ellen MacArthur Foundation, which offers access to training programs on the challenges of the circular economy.

Using these tools, Danone provides employees with training and information modules tailored to the needs of each function and Business, including environmental material on the circular economy and the fight against climate change.

Workplace, Danone's corporate social network, enables the Company's employees to share work experiences and exchange best practices. This social network is connecting employees around the world, whether they work in an office or in the field. Issue-specific communities provide spaces where participants can converse and share knowledge in targeted areas, such as environmental and social issues, health/nutrition and other subjects.

5

Outcomes

	2017	2018
Number of permanent employees who took at least one training course	83,653	94,125
Total number of training hours	2,517,432	2,479,826
Percentage of employees trained	90%	94%
Average number of hours per person trained	27	25

Danone Way results

- In 2018, 95% of entities planned an annual development conversation for each member of the entity's CODI, director or manager, providing feedbacks, leading to a development plan, offering visibility on possible next positions, etc. which is formalized and saved (See *Danone Way scope*, Methodology Note);
- In 2018, 99% of entities set up an induction plan designed for each internal or external newcomer (See *Danone Way scope*, Methodology Note);
- In 2018, 78% of entities planned a development conversation at least every two years to provide feedback, leading to individual development plans, offering visibility on possible next positions and training, etc. which are formalized (See *Danone Way scope*, Methodology Note).

Opportunities

Danone's goal is to offer a wide array of learning opportunities and career paths, based on each employee's aspirations. In Mexico, one of the first countries to hold a Campus for All event, 13,000 employees across the country have taken part in a variety of learning activities. Employees at all levels took the opportunity to deepen their understanding of Danone, network with employees from all divisions and build their professional and leadership skills.

EMPLOYEE RELATIONS

Because Danone believes that employee engagement is essential to sustainable operations, the Company works hard to cultivate responsible labor-management dialogue that considers the interests of all stakeholders.

Social dialogue

Definition

Danone aims to build successful relationships with its employees through continuous engagement and dialogue, effective systems for reporting problems and filling complaints, and the use of responsible practices, especially during company reorganizations. A strike or other interruption of the Company's business would represent a failure of social dialogue.

Policies

At December 31, 2018, ten worldwide agreements are in effect between Danone and the IUF.

Subjects of Danone-IUF agreements	• Diversity • Social dialogue • Actions required in the event of business changes affecting employment or working conditions • Fighting discrimination and encouraging diversity • Labor law • Procedures for consulting employee representatives in the event of business changes affecting employment, health, safety, working conditions and stress. • Sustainable employment and access to rights
UN Global Compact and the ILO's fundamental conventions	• In 2003, Danone joined the United Nations Global Compact, which incorporates the ILO's fundamental conventions, and renewed its membership in 2009. • Danone's commitment to comply with and promote the ILO's fundamental conventions has been formalized, implemented and promoted among employees and suppliers in a variety of ways over several stages. • The ILO conventions articulate seven fundamental labor principles, contained in an agreement between Danone and the IUF (see 5.5 *Responsible sourcing-supplies other than milk*). Even more importantly, they are the foundation of the RESPECT program, launched in 2005 with goals that include extending the principles to Danone's suppliers (see 5.5 *Responsible sourcing-supplies other than milk*). Danone communicates its commitments to all employees through the Code of Business Conduct (see 5.1 *Responsible Practices: ethics and integrity*).

Governance

At Danone, such dialogue is built on:

- the Information and Consultation Committee, a central body supported by a Steering Committee;
- negotiating and tracking international framework agreements with the International Union of Food Workers (IUF);
- active dialogue with union and employee representatives within Danone entities.

Danone encourages social dialogue and has adopted a team structure that allows any employee to speak freely at any level, so the Company can stay attuned to employee expectations and deploy action plans as needed. This dialogue also helps Danone to better assess union representations of employee sentiment and make appropriate adjustments in negotiations.

Action plans

Both Danone and the IUF are committed to reducing precarious employment through a shared methodology, definitions and processes, all carefully defined.

Danone also encourages its entities to apply best practices conducive to dialogue with employees. This includes recommending that they monitor: the number of business and socially oriented information sessions for all employees; the proportion of employees covered by labor representatives; and the annual number of meetings between site managers and employee representatives.

Danone also offers labor relations training programs within its entities, equipping them with the resources they need to address challenges and stay ahead of critical issues.

Outcomes

The framework agreements between Danone and the IUF are deployed in each entity, and on-site compliance assessments are conducted every year by a Danone representative and an IUF representative, with a total of 60 visits between 2009 and 2018.

Danone Way results

In 2018, 86% of entities reported a neutral attitude towards union or employee representatives: no obstacles prevent the existence social partners, discussions with identified social partners are welcome and promoted, or key messages to management teams on neutral attitude are formalized and regularly activated.

In 2018, 79% of entities implement regular collective labor agreement negotiations with social partners.

Opportunities

Danone views dialogue with employees as an integral part of its corporate culture and its dual economic and social project. It is also a powerful way to support employees' continuing efforts to improve the Company's performance.

Focus – Respecting and promoting human rights in Danone operations

As part of a Consumer Goods Forum initiative, in November 2017, Danone pledged to adopt appropriate policies to embed the priority industry principles throughout its own operations through concrete actions. The focus is on two groups: workers provided to Danone sites by staffing agencies, and subcontractor employees working on Danone sites.

In 2018, Danone published its Global External Workforce Policy, a set of internal guidelines that require staffing agencies to respect the fundamental rights and freedoms of workers, focusing especially on practices such as forcing workers to pay recruitment fees.

Danone mapped the relevant risks, with special attention to the status of migrant workers in regions where its entities are based. Three priority regions were targeted for the rollout of the policy as of 2018, using training modules and operations standards under development.

At the same time, the Company updated the Danone Way assessment guidelines, adding a human rights section that sets the recruitment standards its entities are expected to meet.

EMPLOYEE SECURITY

Definition

Because, Danone sells its products in over 120 countries, it may face a number of security challenges. In particular, the Company must protect employees from malicious acts by analyzing the security risks in each country, taking the right preventive measures to provide a secure workplace and responding effectively when action is needed.

Policies

In 2018, Danone's Chairman and Chief Executive Officer signed a formal Security Policy that defines the Company's vision, missions and objectives for this area. A set of Global Security Management Directives articulate the principles of the policy, with a special focus on protecting employees, and Danone's Security and Health Policy for Travelers rounds out the Company's corporate travel policy with a set of security guidelines.

Governance

The Chief Security & Competitive Intelligence Officer (CSO) is responsible for managing security risks. Since 2018, the CSO has been supported by a network of regional Security Directors, tasked with deploying Danone security directives in the various regions where the Company operates. This team is also responsible for managing risks related to business travel and providing employees with the information they need to travel safely.

In the countries where Danone is present, security experts support local Human Resource directors, who handle security as part of their overall responsibility for managing the local headcount.

Action plans and outcomes

Effective security measures are based on three core principles:

- anticipation: risk monitoring and analysis to understand the security threats facing Danone and its employees, and define action plans. Protecting employees means mapping risks on a country-by-country basis and working with local teams to refine the Company's analysis of the environment. Danone ensures that information relating to security risks is properly communicated to the employees and that security rules related to business travel are shared through regular communication and awareness actions;
- risk management: working with internal and external experts to implement preventive measures that reduce the likelihood of incidents. This includes monitoring business travel and expatriate assignments in high-risk countries and setting up the right security protocols. Each Danone site conducts a self-assessment using an audit checklist, then works with security experts to continue improving security based on the results. As of December 31, 2018, 83% of Danone plants (scope: 190 plants) had participated in this initial assessment campaign;
- response capabilities: positioning resources that enable the Company to respond in the event of an incident and using past experience to strengthen existing prevention and protection systems. The Security Department continuously applies an outsourced monitoring system as well as a medical and security assistance program.

5.5 PROMOTING SUSTAINABLE, INCLUSIVE GROWTH WITH SUPPLIERS

Danone has identified three risks linked to with responsible sourcing: trading and pricing practices; responsible sourcing; and human rights. This section will address these responsible sourcing issues, first for milk and then for all other ingredients. It is designed to cover the steps involved in complying with France's Duty of Vigilance Law: risk mapping, regular risk-map based evaluation procedures, appropriate measures for risk mitigation and prevention of serious breaches, whistleblowing system and monitoring of measures and assessment of their efficiency (see 5.1 *Danone's integrated vision of corporate responsibility*).

RESPONSIBLE SOURCING-MILK

Definition

Both consumers and civil society are increasingly sensitive to fairness towards suppliers and producers, in areas ranging from business practices to value-sharing and pricing. This is especially true for milk sourcing.

Policies

Danone sources local, raw milk from 58,000 farms in around twenty countries, both directly and indirectly. Milk collection methods reflect the broad diversity of the world's production systems.

Over 90% of Danone's producers own small farms with fewer than ten cows, and these suppliers are located primarily in emerging countries in Africa and Latin America. Every day, they deliver their output to a collection center, where Danone picks it up.

In South Africa, Europe and Russia, the Company's suppliers are family farms with herds ranging from a few dozen to thousands of cows. Though these producers represent only 15% to 20% of Danone's milk suppliers, they contribute most of the volume, and the Company generally collects milk directly from them. Because farmers play a critical role in the sustainability of the agriculture sector, Danone uses its programs and social innovation funds to support numerous projects that enable farmers to build skills over the long term.

In regions without a strong tradition of milk production, such as North America and certain Middle Eastern countries, Danone works with larger farms to ensure reliable access to sufficient volumes of quality milk.

Action plans and outcomes

MilQSat (formerly FaRMs, or Farmers Relationship Management)

In 1997, the Essential Dairy & Plant-Based Business and its partner farmers launched MilQSat, a farming and milk collection initiative that assesses the performance of farmers that sell milk directly to Danone. Originally, the program focused on quality, food safety and traceability, but later expanded to include economic, labor and environmental criteria.

Gradually, the MilQSat tool is being reorganized into several specialized tools dedicated to areas such as animal welfare, greenhouse gas emissions (Cool Farm Tool and Cap2Er), water consumption and labor issues. All of these tools will complement each other, and Danone will provide global coordination to enable optimum access to the data they collect.

Cool Farm Tool and Cap2Er

Cool Farm Tool, a tool that calculates greenhouse gas emissions from livestock, is being rolled out by year-end 2018; it is deployed in 14 entities, covering the majority of Danone's sourcing.

In France, Danone entities measure emissions with Cap2Er, a tool developed by the French Livestock Institute (Idele) and used throughout the sector.

Cost Performance Model (CPM)

Danone's partnerships with milk producers cover a wide range of areas, from technical factors such as milk quality and business performance to environmental and societal concerns. In recent years, Danone has worked with producers in the United States and Europe to develop innovative contracts that reduce milk price volatility, offering farmers greater financial stability and enabling them to plan ahead. Danone has also launched this model in Russia.

These Cost Performance Model (CPM) contracts factor production costs into milk pricing and are developed in partnership with milk producers or their organizations. Today, 43% of milk collected in Europe and the United States comes from producers with CPM contracts. Altogether, 24% of the milk Danone collects is covered by CPM contracts.

In 2015, Danone launched talks with producer organizations (POs) in France to jointly develop new milk price formulas over time. These formulas factor production costs into prices, reflecting local conditions as closely as possible. Since 2017, following an agreement with the most recent PO, the formulas have applied to all of the more than, 2000 Danone producers who belong to a PO.

Opportunities

As part of its commitment to promoting best trading practices and a sustainable pricing policy, Danone is working to develop responsible brands. In 2018, for example, its organic brand Les Prés Rient Bio launched the Faire Bien brand. Consumers, distributors, farmers and Les Prés Rient Bio employees joined forces for the project, with the goal of helping milk producers transition to organic farming. (See 5.3 *Regenerative and organic agriculture*). Faire Bien brand dedicates 5% of sales to support milk producers.

Danone also helps French dairy farmers working to reduce their carbon footprint, notably through its societal funds. In 2017 the 2 Pieds sur Terre project was created by the Danone Ecosystem Fund, Danone Produits Frais France, Les Prés Rient Bio (under its Les 2 Vaches brand), l'Institut de l'Élevage and MiiMOSA, the leading crowdfunding site for food and agriculture. The project supports farmers through audits that identify best practices for shrinking their carbon footprint.

RESPONSIBLE SOURCING-SUPPLIES OTHER THAN MILK

Definition

The global supply chains that power the food and beverage sector carry the risk of human rights and environmental violations, both at farm or plantation level upstream, and at direct suppliers. To limit these violations, Danone has established a set of fundamental principles, made specific, public commitments; and is working with suppliers towards more responsible practices.

Policies

Sustainability principles

At Danone, responsible sourcing is grounded in the Company's sustainability principles, which cover labor rights, environmental protection and business ethics. These principles apply to its operations as well as to its supply chain.

These principles include:

- seven labor principles based on the criteria set by the International Labour Organization (ILO): elimination of child labor; elimination of forced labor; non-discrimination; freedom of association and the right to collective bargaining, workplace health and safety; working hours; and compensation;
- five environmental principles: preservation of resources; use of chemicals; climate change and greenhouse gas emissions; environmental management; and animal welfare;
- principles of business ethics for fair, lawful transactions, expanded in 2017 to reflect the provisions of Danone's Code of Conduct for Business Partners.

Danone's sustainability principles are incorporated into a clause in its contracts with direct suppliers. Under this clause, the supplier warrants that the labor and ethical principles are already in place in its own organization, and that its employees, agents, suppliers and subcontractors comply with these as well. The supplier also undertakes to adopt the environmental principles.

Environmental commitments

In addition to the core principles set out in its sustainability principles, Danone has pledged to eliminate deforestation from its supply chains by 2020 (see *Environmental protection strategy*). To meet this pledge, the Company has focused on six priorities: paper and cardboard packaging, palm oil, soy for animal feed, wood biomass, sugar cane and bio-based raw materials for packaging. Three of these categories – palm oil, soy, and paper and cardboard packaging –, are covered by specific policies that grew out of Danone's Forest Footprint Policy.

To help farms transition to practices that are more favorable for the environment, Danone has also committed to deploying regenerative agriculture practices aimed primarily at preserving soil, water and biodiversity (see 5.3 *Regenerative and organic agriculture*).

Human rights

As part of Danone's commitment to human rights, in 2016 the Company joined the Consumer Goods Forum's collective effort to eradicate forced labor from global supply chains. To meet this goal, Danone updated its fundamental social principles in 2017 to include the three priorities identified by the Consumer Goods Forum: every worker should have freedom of movement; no worker should pay for a job; and no worker should be indebted or coerced to work. In 2018, this commitment was formalized in the Danone statement on forced labor.

Governance

Compliance with the responsible purchasing and human rights programs is monitored by the Nature & Water Cycle Department, under the responsibility of the Chief Procurement & Cycles Officer.

Responsible purchasing and human rights compliance is also followed up at Board of Directors level. In 2018, the Social Responsibility and Audit Committees of the Board of Directors were informed of the human rights due diligence formulated by Danone for its own operations and its supply chain.

Due diligence in responsible procurement

Danone implements responsible purchasing due diligence towards its direct suppliers through its RESPECT program and also for the highest-risk agricultural raw materials in its supply chain (see sections on risk-mapping, traceability and certification below).

Scope of RESPECT program

The RESPECT program applies to Danone's direct suppliers in purchasing categories other than raw milk, *i.e.* processed raw materials such as fruit preparations and powdered milk, packaging, production machinery, and transport and other services.

Subcontractors (suppliers that manufacture finished products on Danone's behalf) are also covered by the RESPECT program, but Danone does very little subcontracting, as the majority of its finished products are made at its own production sites.

Danone is aware of the human and environmental risks that may arise from its operations. To meet rising its stakeholder expectations, Danone is moving its RESPECT policy towards a more comprehensive due diligence approach and stepping up its human rights requirements. This new approach is inspired by the United Nations Guiding Principles on Business and Human Rights (UNGP) and contributes to development of the vigilance plan required by French law.

To reduce the risks of human rights and environmental violations, Danone requires buyers to participate in RESPECT program training, which includes forced labor risks and the Company's commitment to the CGF's three priority principles. Since the end of 2017, Danone has promoted this commitment to relevant members of its Procurement, Human Resources and General Secretary teams.

Danone practices the due diligence required of parent companies and ordering companies under France's Duty of Vigilance Law, applying a continuous improvement approach and tailoring the requirements to its specific challenges and risks. To protect against serious labor and environmental risks, the Company has broadened its measures to include sourcing further up the supply chain, beyond the community of suppliers with which it has longstanding business relationships.

Environmental and labor risk-mapping

In 2017, Danone updated its global materiality and risks analysis, reaffirming the importance of responsible purchasing and respect for human rights.

More specifically, the Company mapped major potential risks for the 20 purchasing categories with the highest exposure. Danone analyzed these risks with a checklist derived from the ISO 26000, GRI G4 and SA 8000 standards, integrating the potential impacts of purchased products on labor and human rights, local communities, consumers, fair trade practices and the environment.

Using the results of the risk-mapping exercise, Danone identified the categories of purchased goods and services it would treat as human rights priorities over the next few years. The priority categories are workers employed through outside labor providers, together with four agricultural raw materials: palm oil, cocoa, cane sugar and fruit. In the agricultural categories, potential risks identified are mainly upsteam at farms and plantations. For the environment, the risk-mapping exercise confirmed the three priority categories set out in Danone's Forest Footprint Policy (palm oil, soy, and paper and cardboard packaging).

In 2018, Danone updated its risk-mapping process to include changes to its ingredient portfolio resulting from the WhiteWave acquisition.

In 2018, the Company stepped up its approach with direct suppliers, conducting a risk analysis using geographic and sector-based data for the 4,000 Danone supplier sites registered on the Sedex platform (see hereinafter). An expert, multi-criteria filter (including the Global Slavery Index and Transparency International) made a first cut, and then the purchasing teams in each category made a second cut based on their knowledge of local risks.

Traceability of agricultural raw materials

With input from independent experts, Danone has launched traceability initiatives in these five priority categories:

- **palm oil:** Danone works with The Forest Trust to ensure traceability of palm oil. In 2018, 58% of the palm oil purchased by Danone was certified "RSPO segregated", reaching 96% excluding WhiteWave scope (see 5.3 *Climate change*).
- **fruit:** following changes in Danone's approach to sourcing traceability has been re-assessed at 100% traceable, back to the first level of industrial processing after harvest;
- **cocoa:** in 2018, Danone reached 70% country-level traceability;
- **cane sugar:** Danone works with the NGO ProForest to ensure traceability of this ingredient. In 2018, Danone reached 43% mill-level traceability and 41% plantation-level traceability;
- **soy:** Danone estimates that soy accounts for less than 5% of feed consumed by its dairy cows. In North America and Brazil, its dairy farmers buy soy locally, in regions with no risk of deforestation. In Europe, Danone has worked with Transparency for Sustainable Economies (Trase) to ensure the traceability of soy imported from Brazil, which could come from regions at risk of deforestation. To mitigate this risk, Danone has adopted action plans consistent with its soy policy and aims to promote use of soy or local alternatives. The soy used in Danone North America products made with vegetable protein (from the WhiteWave portfolio) is grown exclusively in the United States, and the soy used by Alpro comes mainly from Austria, Belgium, France, Italy, the Netherlands and Canada, all viewed as regions with very low deforestation risk.

Regular risk map-based evaluation procedures for direct suppliers

Danone asks its suppliers to join the Sedex (Supplier Ethical Data Exchange) collaborative platform and complete a self-assessment questionnaire evaluating their sustainability performance, which is then analyzed by Sedex. At the end of 2018, 4,043 supplier sites had joined the platform, versus 4,082 in 2017. When Sedex determines that a supplier is at risk, it is audited by a third-party organization using the SMETA (Sedex Members Ethical Trade Audit) protocol, which covers labor, health and safety, the environment and business ethics.

Danone is working to refine its assessment procedure by adopting a more selective approach with two aims: (i) concentrate on high-risk regions and (ii) become more effective in helping suppliers improve their performance. Based on its 2018 risk analysis, the Company identified some 200 sites that may be at risk for human rights issues and launched a two-year plan to audit them.

Through the Sedex platform, Danone also has access to audits of shared suppliers by peer companies, and it participates, too, in mutual audit recognition through the AIM-Progress forum. In 2018, a total of 333 SMETA audits were carried out on Danone suppliers, either by the Company itself or by its peers.

Mitigating risk and preventing serious violations

Audits

With direct suppliers, Danone's goals are (i) to establish regular dialogue on their responsible purchasing processes; and (ii) to monitor deployment of corrective action plans by audited suppliers.

When critical non-conformities are identified, purchasing teams track action plan deployment by the suppliers. Since July 2017, Danone has monitored an indicator that tracks timely launch and closure of SMETA audits: As of December 31, 2018, 51.8% of Danone's suppliers were in compliance with Danone's standards; for central procurement, the rate was 74.5%. In most cases, critical non-conformities were related to safety and working hours.

Certification

Danone deploys programs that focus on the ingredients with the highest exposure to environmental and labor risks in the upstream portion of its supply chain. In particular, the Company uses certification for the following categories: RSPO for palm oil; UTZ for cocoa and for Danone North America's coffee; FSC or equivalent for paper; and RTRS or Proterra for soy.

Projects

Danone has a long history of supporting small producers. The Company works directly with select producers further up the supply chain and has developed many collaborative projects that help small producers address environmental and labor issues (see 5.3 *Regenerative and organic agriculture*). For example:

- in 2018, Danone made the commitment to expand its organic offer in France, and to help its partners transition towards regenerative agriculture;
- the Livelihoods fund for family farming is supporting a vanilla plantation project involving 3,000 family farms. Its aim is to develop solutions that improve the quality and traceability of vanilla production, boost food security for farmers and preserve biodiversity (see *2018 Integrated Annual Report*);

- To counter forced labor and informal employment abuses in the recycled plastic sector, the Company has worked with the Danone Ecosystem Fund and local partners to develop cooperatives for waste-pickers. These organizations enable their members to move from the informal economy to paid jobs that are recognized by public authorities and include benefits (see *2018 Integrated Annual Report*).

Collaborative initiatives

In addition to the efforts of its funds, Danone is working with its suppliers in a number of areas. One example is the Coalition, a group of Danone suppliers and other palm oil-consuming companies that aim to develop sustainable, inclusive production models in Indonesia's Siak and Palawan regions.

Danone also participates in several dedicated palm oil platforms such as POIG, SASPO and RSPO, as well as more generic platforms such as the Sustainable Agriculture Initiative (SAI). The Company also contributes to collaborative food and beverage sector initiatives that promote responsible procurement practices, particularly by taking part in AIM-Progress and the Consumer Goods Forum.

Whistleblowing system

In 2017, Danone added two new categories to the Danone Ethics Line (see 5.1 *Responsible practices: ethics and integrity*) to allow whistleblowers to report suspected environmental and human rights violations.

In 2018, the Danone Ethics Line received a total of 12 reports in the "human rights" category, which includes violations in the areas of child labor, forced labor, right to collective bargaining, working time and wages. The category is selected by the whistleblower, and the reports received in 2018 focused on routine human resources matters. None of them qualified as a human rights violation, but all have been or are being pursued in thorough internal investigations.

The reporting process was developed in consultation with employee representatives and ensures that whistleblowers are protected.

All reported wrongdoing will be examined by a steering committee comprising representatives of the Sustainable Development, Human Resources and General Secretary functions.

Tracking and assessing the effectiveness of supplier programs

Danone tracks indicators that (i) show supplier registration on the Sedex platform; and (ii) monitor the progress of post-audit remediation plans for critical non-conformities. The Company also continues to develop its measurement and assessment tools.

5.6 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, 2018 and action plans are planned and/or in progress to ensure the availability and reliability of the data. These are primarily the recently acquired of entities in Africa, including in particular the companies in the Fan Milk group (EDP International, West Africa), and EarthBoundFarm for Danone North America 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 the indicator categories, as described in the sections below:

INDICATORS	SCOPE
Production Site Food Safety	In 2018, 208 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 Headcount **Social Indicators**	In 2018, 183 entities representing 100% of Danone's total headcount reported social indicators.
Safety	In 2018, 181 entities representing approximately 99.9% of Danone's total headcount reported safety-related indicators. In addition, the safety data of subsidiaries removed from the consolidation scope as of December 31, 2018 is reported up to the date of their deconsolidation, but is not included in the headcount as of December 31, 2018.
Production Site Environment	In 2018, 187 (of Danone's 194) production sites representing approximately 96% of the total production of its industrial sites reported environmental indicators. WhiteWave activities, acquired in 2017, are included in the Production Site Environment scope in 2018. The environmental impact of the administrative offices, logistics centers and transportation is not included in the consolidation scope (except for certain indicators when logistics centers are adjacent to 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 industrial sites and warehouses under Danone's operational control. • 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 Standard. 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 (see *Production Site Environment scope*), 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.

	WhiteWave activities, acquired in 2017, are included in scope 3 in 2018 except activities of Earthbound Farm, the *Vega* brand and the WhiteWave factory located in Mexico, which represent less than 1% of Danone's sales volumes. Scope 3 emissions for WhiteWave activities in North America and Alpro in Europe are calculated in accordance with the GHG Corporate Protocol. For this last scope, scope 3 emissions categories "*Waste generated by operations*", "*Purchase of finished products*" and "*Use of sold products*" are excluded. These represent less than 2% of Danone's total emissions. In 2018, scope 3 emissions cover a scope representing approximately 93% of Danone's sales volumes (compared with 89% in 2017).
Health and Nutrition	In 2011, Danone created a series of performance indicators (One Health Scorecard) to measure improvements and progress made regarding Health and Nutrition, particularly product composition and responsible communication. These indicators are consolidated for a scope of 16 countries covering all of Danone's Businesses and geographic regions. In 2018, 61 entities representing about 65,2% of consolidated sales reported Health and Nutrition indicators. The Health and Nutrition indicators scope excludes entities from the WhiteWave portfolio.
Danone Way	In 2018, 116 entities conducted a Danone Way self-assessment, representing 66.7% of Danone's consolidated sales (compared with 83.9% in 2017). The decrease in the Danone Way coverage rate is due to the exclusion of B Corp™ certified entities representing approximately 30% of Danone's consolidated sales.

LIKE-FOR-LIKE CHANGES IN SCOPE (CONSTANT SCOPE)

Danone measures changes in environmental indicators and in greenhouse gases emissions on a like-for-like basis, *i.e.* at constant consolidation scope and constant methodology. The 2018 data has been restated using the same consolidation scope and constant methodology as that of 2017.

DEFINITION OF THE BUSINESSES

Essential Dairy & Plant-Based	Production and distribution of fresh fermented dairy products and other dairy specialties, plant-based products and drinks, and coffee creamers and organic products.
Specialized Nutrition	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.
Waters	Production and distribution of bottled water, water sold in large containers (jugs), and water sold in small containers.

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 contributors comments. 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, nutrition and Danone Way data are available on request from the Sustainability Integration Department.

The social, safety, environmental, and Health and Nutrition indicators are transmitted by subsidiaries and/or production sites and consolidated at global level by relevant departments. The environmental data are checked at the subsidiary level and then at the Business level when reported. Social and safety data are checked at the end of the second quarter and at the time of consolidation as of December 31, 2018. Lastly, the Health and Nutrition data are checked at the subsidiary level and then at the Business level when reported.

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 entity in AIRSWEB, Danone's safety data consolidation system.

Environmental indicators

The Nature & Water Cycle Department is responsible for environmental indicators.

Production Sites Environment indicators are reported by each production site's Environment manager using the new PURE Platform tool implemented in 2018 with UL EHS Sustainability. Data related to Greenhouse Gas emissions (scope 3) is reported via the Danprint application or SAP Carbon and through a specific tool for WhiteWave entity.

Health and Nutrition indicators

The Alimentation Science 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 to calculate the global indicators. Product data are generated by Business-specific systems (Nutripride for the Essential Dairy & Plant-Based and Early Life Nutrition Businesses, and Aquamap for the Waters Business). Data on volumes 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 for which it has been determined that one or more practices are applicable and applied. They are reported by the Danone Way coordinators at each subsidiary using the Calame application.

INFORMATION REGARDING METHODOLOGIES

The methodologies used for certain social, environmental and nutrition 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.

Food safety

The number of food safety audits in 2017 decreased from 58 to 46 following the strengthening of the criteria that define this indicator.

Headcount

A negligible portion of the managerial headcount 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 headcount accounting methods for expatriate employees (this 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 9 months) are not counted in the total headcount 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 headcount.

Fixed-term contracts and movements within Danone are not included in the entries/exits.

Number of training hours/Number of permanent employees trained/Percentage of permanent employees trained/Number of training hours per permanent employee

Training data for 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, 2018.

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, 2018.

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 headcount.

The number of training hours per employee is equal to the ratio of the number of training hours to the average permanent employee headcount.

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 9 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's subsidiaries in Brazil and in Argentina, SALUS (Waters, Uruguay), 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), Sequels Natural ULC (EDP Noram, Canada), Vega US LLC DE (EDP Noram, United States), Earthbound Holding LLC DE (EDP Noram, United States) and Advanced Medical Nutrition (Specialized Nutrition, Argentina).

Frequency rates of work accidents

The frequency rate of workplace accidents with medical leave (FR1) represents the number of workplace accidents with lost time of one day or more that occur over a 12-month period per 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 provided estimates for this indicator as of December 31, 2018.

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 work 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 collection of working hours for temporary employees and workers employed through staffing agencies is under the local responsibility of the subsidiaries. The control of this data by Danone, the wide fluctuation in this population of workers, and the disparity of the agencies limit the completeness of data relating to this category.

Accident reclassifications have occurred, which impacts the values published in 2017 in this document:

- in 2017, 3 lost time accidents and 2 non-lost time accidents were recorded in addition to the reported values;
- within the safety indicators scope, the integration of 1,900 merchandisers (workers employed through staffing agencies) in the Mexican subsidiary of Essential Dairy & Plant-Based Products Business (EDP, Mexico) is reported to 2019.

In 2017, these two factors had a non-significant impact on the FR1 and FR2 safety indicators, for the scope of all Danone employees:

- FR1 increased from 1.72 to 1.76;
- FR2 increased from 2.08 to 2.13.

For Danoners no change was recorded: FR1 (1.8) and FR2 (2.2). This scope includes permanent and temporary employees of Danone, excluding workers employed through agencies or labor providers.

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 for methane (CH_4) and nitrous oxide (N_2O) as well as the impact of fugitive emissions of refrigerants, 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 (2017 publication of energy mixes in 2015);
- the factors used for heating and steam are from the 2017 version of UK Department for Environment Food & Rural Affairs (DEFRA) and the factors used for cooling are from the carbon database of 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 Fifth Assessment Report (AR5) "Climate Change 2013: The Physical Science Basis", published in 2013.

Scope 3 greenhouse gas emissions

Scope 3 emissions are calculated using the life-cycle analysis of sold finished products in accordance to the GHG protocol methodology, or the GHG Corporate Protocol. These emissions are calculated by applying emissions factors from life-cycle analysis databases (Ecoinvent), professional federations (Plastics Europe, FEFCO, FEVE), Food and Agriculture Organization of the United Nations, suppliers that have measured their products, and measures recorded as part of the deployment of Cool Farm tool.

Waste

Following the application of a new standard, the Food Loss and Waste Protocol (version 1.0 of June 2016), since 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 consolidated at all Danone plants with the exception of the Waters Business plants. It 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.

In 2018, sludge from wastewater treatment in external wastewater treatment plants started to be included in the indicator of recovered waste, when the traceability of this recovery is available. The completeness of this data will be improved in future exercises.

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 due to losses or to overflow upstream from the plant (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 in Health and 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, Specialized Nutrition Business products (except biscuits and beverages for children under 3 years of age), including products marketed by Africa strategic business unit, waters and beverages (aquadrinks) with 0% sugar. This indicator is calculated in the One Health Scorecard scope.

Percentage of the volume of nutritionally improved products in 2018

The percentage of the volume of nutritionally improved products in 2018 is calculated in the Health and Nutrition scope for the Essential Dairy & 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

The Alimentation Science department compiles an updated list of countries covered by Nutriplanet studies these include:

- summaries of the local nutrition/health context (*Nutripacks*);
- more detailed surveys on food and/or fluid intake (*diet data and fluid intake data*);
- socio-anthropological studies (*FoodStyles*).

Number of active education and information programs during the year/Number of people potentially impacted

The people considered to be potentially affected are consumers for the Essential Dairy & Plant-Based and Waters Businesses and parents, patients and caregivers for the Specialized Nutrition Business.

Subsidiaries take into account the people affected by the program since its launch (for example, the number of unique visitors to a website, the number of participants in conferences or training sessions, etc.).

5.7 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE NON-FINANCIAL STATEMENT INCLUDED IN THE MANAGEMENT REPORT

For the year ended December 31, 2018

To the Shareholders,

In our capacity as Statutory Auditor of Danone (the "Company"), appointed as an independent third party and accredited by COFRAC under the number 3-1060 rév.2 (whose scope is available at www.cofrac.fr), we hereby report to you on the non-financial statement for the year ended December 31, 2018 (hereinafter the "Statement"), included in the management report pursuant to the legal and regulatory provisions of articles L. 225 102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce).*

The entity's responsibility

Pursuant to legal and regulatory requirements, the Board of Directors is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are available on request from the company's head office.

Independence and quality control

Our independence is defined by the provisions of the article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional guidance and applicable legal and regulatory requirements.

Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the provisions of the article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with the article R. 225 105 I, 3 and II of the French Commercial Code, *i.e.*, the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on:

- The entity's compliance with other applicable legal and regulatory provisions, in particular the French duty of care law, anti-corruption and tax evasion legislation;
- The compliance of products and services with the applicable regulations.

Nature and scope of our work

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional guidance of the French Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes, "CNCC") applicable to such engagements, as well as with ISAE 3000 – *Assurance engagements other than audits or reviews of historical financial information*.

Our procedures allowed us to assess the compliance of the Statement with regulatory provisions and the fairness of the Information:

- we obtained an understanding of the entity's activities, the description of the social and environmental risks associated with the activities and, where applicable, the impact of these activities on compliance with human rights, anti corruption and tax evasion legislation, as well as the resulting policies and their outcomes;
- we assessed the suitability of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in the article L. 225 102 1 III, as well as information regarding compliance with human rights, anti corruption and tax evasion legislation;
- we verified that the Statement presents the business model and the principal risks associated with the entity's activities, including where relevant and proportionate, the risks associated with its business relationships and products or services, as well as its policies, measures and the outcomes thereof, including key performance indicators;
- we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under the article R. 225-105 II;
- we assessed the process used to identify and confirm the principal risks;
- we asked what internal control and risk management procedures the entity has put in place;
- we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;

- we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative outcomes that we considered to be the most important, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data;
  - substantive tests, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities: Danone GMBH (Germany), Danone GESMBH (Austria), Danone AG (Switzerland), Aguas Danone de Argentina (Argentina), Danone Water China (China), Danone Dairy Egypt (Egypt), Danone SA (Espagne), Danone Portugal SA (Portugal), ILTESA-Industrias Lacteas (Canary Islands), Bledina (France), Danone Produits Frais France (France), Nutricia Nutrition Clinique SAS (France), Fan Milk Limited (Ghana), AQUA (Indonesia), Bonafont (Mexico), HOD Mexico IG (Mexico), N.V. NUTRICIA (Netherlands), Danone Unimilk Russia (Russia), Danone Ukraine (Ukraine). This selection covers between 18% and 23% of the consolidated data relating to the key performance indicators and outcomes selected for these tests.
- we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important;
- we assessed the overall consistency of the Statement based on our knowledge of the entity.

We believe that the work carried out, based on our professional judgement, is 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.

Means and resources

Our work was carried out by a team of 10 people between July 2018 and March 2019 and took a total of 27 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted 20 interviews with about 30 people responsible for preparing the Statement, representing the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine/March 1, 2019

One of the Statutory Auditors

PricewaterhouseCoopers Audit

François JAUMAIN
Partner

Sylvain LAMBERT
Sustainable Development Partner

Appendix: List of the information we considered to be the most important Quantitative information (results and key performance indicators)

Cross-thematic issues

- Evolving consumption trends
  - % of volumes sold corresponding to healthy categories
  - % of product volume sold nutritionally improved
  - % of product volumes sold compliant with Danone's 2020 nutrition targets
  - Number of employees trained on Health and Nutrition and/or hydration
  - Number of active education and information programs
  - Potential audience reached by these active education and information programs

Environment

- Cross-thematic environmental issues
  - Certification: Total number of ISO 14001 certified sites
  - Energy: Total energy consumption at the production sites, renewable energy use
  - Carbon: Scope 1 & 2 emissions (market-based and location-based)
- Plastic packaging
  - Waste management at production sites
  - % of entities which identified the recyclability challenges of existing packaging portfolio and used them for any new packaging launch
  - % of entities which have a recycling system (collection, sorting, recycling) assessment in place and identified main stakeholders for improving on at least one of these two dimensions: recycling or regulations
- Water Management
  - Water use in operations
  - Discharged wastewater quality and chemical oxygen demand
- Organic regenerative agriculture
  - % of entities with a documented animal welfare roadmap that aligned with Danone's Animal Welfare Policy (in the Early Life Nutrition and Essential Dairy & Plant-Based business lines)

Social

- Attracting and developing talents
  - Total headcount and breakdown by gender, by age and by geographic regions
  - Hiring and dismissals
  - Absenteeism rate
  - Training hours
  - % of part-time employees
  - % of entities with key performance indicators and roadmaps based on Danone's Inclusive Diversity Cluster Toolkit
- Social Dialogue
  - % of entities which reported a neutral attitude towards union and employee representatives
  - % of entities which held talks on collective bargaining agreements with employee representatives

- Employee security
  - % of Danone site which conducted a self-assessment using Danone's audit checklist
  - Frequency and severity rate

Health and Nutrition

- Responsible communication
  - Compliance rate from Danone's television advertising to the EU Pledge criteria
  - Compliance rate from the subsidiary websites to the EU Pledge criteria
  - Compliance rate from the brand profiles to the EU Pledge criteria
- Breast milk substitutes
  - % of entities which adopted a formal policy that promotes breastfeeding which is translated into concrete action
  - Number of employees trained on Danone's policy on breast milk substitutes

Responsible sourcing & human rights

- Business practices and price fixing
  - % of milk collected by Danone which comes from producers with CPM contracts
- Responsible sourcing
  - % of country-level traceability for cocoa
  - Number of supplier sites which joined the Sedex platform
  - % of Danone's suppliers in compliance with Danone's standards

Qualitative information (actions and results)

- Cross-thematic issues
- Changing consumption trends

Health and Nutrition

- Breast milk substitutes
- Responsible communication

Environment

- Plastic Packaging
- Water management
- Organic regenerative agriculture

Responsible sourcing & human rights

- Promoting sustainable and inclusive growth with suppliers

Social

- Employee training and development
- Social dialogue
- Employee security

Compliance

- Responsible practices

6

CORPORATE GOVERNANCE

In accordance with Articles L. 225-37 and L. 225-37-4 of the French Commercial Code, this Corporate Governance section includes the Report of the Board of Directors on corporate governance, the composition of the Board of Directors and the conditions for preparation and organization of the Board's work (section 6.1 Governance Bodies*).*

In accordance with Article L. 225-37-4 of the French Commercial Code, the Company affirms that it voluntarily adheres to the corporate governance Code for listed companies amended in June 2018 (AFEP-MEDEF Code).

This report, inspired in particular by the comments gathered through a dialogue with Danone's shareholders in the context of the Shareholders' Meeting, was prepared following various efforts made by the Legal Department working closely with the Human Resources, Finance and Internal Control departments. It was initially presented to the Nomination and Compensation Committee at its February 1, 2019 meeting and then approved by the Board of Directors on February 18, 2019.

6.1 GOVERNANCE BODIES

Contents

BOARD OF DIRECTORS

Composition and organization of the Board of Directors

Composition as of December 31, 2018: 16 Directors

Personal information						Position on the Board		
Name	Gender	Age	Nationality	Primary function	Number of shares	Starting date of Director's term	Expiration date of Director's term [a]	Years on the Board
Corporate Officer								
Emmanuel FABER	Male	54	French	Chairman and Chief Executive Officer of Danone	68,571	2002	2022 [c]	16
Directors								
Franck RIBOUD	Male	63	French	Director and Honorary Chairman of Danone	195,745	1992	2022 [c]	26
Guido BARILLA [b]	Male	60	Italian	Chairman of the Board of Barilla	4,000	2018	2021	< 1
Cécile CABANIS	Female	47	French	Executive Vice President, Chief Financial Officer, IS/IT, Cycles and Procurement of Danone	6,681	2018	2021	< 1
Gregg L. ENGLES	Male	61	American	Founder and Executive Managing Partner of Capitol Peak Partners	4,132	2017	2020	1
Clara GAYMARD [b]	Female	58	French	Co-founder of Raise	4,235	2016	2022 [c]	2
Michel LANDEL [b]	Male	67	French	Lead Independent Director of Danone	4,000	2018	2021	< 1
Gaëlle OLIVIER [b]	Female	47	French	Managing Director of Kyouko	4,340	2014	2020	4
Benoît POTIER	Male	61	French	Chairman and Chief Executive Officer of Air Liquide SA	8,846	2003	2021	15
Isabelle SEILLIER	Female	58	French	Vice-President of Investment Banking for J.P. Morgan for Europe, the Middle East and Africa	4,073	2011	2020	7
Jean-Michel SEVERINO [b]	Male	61	French	Head of I&P SARL	4,361	2011	2020	7
Virginia A. STALLINGS [b]	Female	68	American	Professor of Pediatrics at the Children's Hospital of Philadelphia	4,000	2012	2021	6
Serpil TIMURAY [b]	Female	49	Turkish	Member of the Executive Committee of Vodafone	7,271	2015	2021	3
Lionel ZINSOU-DERLIN [b]	Male	64	French and Beninese	Vice-Chairman of the Supervisory Board of PAI Partners SAS	4,369	2014	2020	4
Directors representing employees								
Frédéric BOUTEBBA	Male	51	French	Director representing employees	–	2016	2020	2
Bettina THEISSIG	Female	56	German	Director representing employees	–	2014	2020	4

(a) Date of the Shareholders' Meeting.
(b) Independent Director (see section *Review of Directors' Independence* hereinafter).
(c) Subject to renewal by Shareholder's meeting of April 25, 2019.

Pursuant to Act No. 2013-504 of June 14, 2013 and the Company's by-laws, two Directors representing employees are members of 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.

In 2017, 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, share his experience, speak to Danone's teams, represent Danone, particularly among its long-time partners, and take part in major corporate events.

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, the October 2017 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 decided 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 in line with Danone's governance tradition;
- the decision to separate the offices was made primarily 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;
- this governance structure also promotes a close relationship between the Board and executive management, allowing Danone to continue implementing its strategy while speaking with one voice and making decisions in an agile and transparent manner.

The Board has agreed to discuss the relevance of the chosen governance method annually, as part of its report on its operation, and each time the Chairman and Chief Executive Officer's term of office is renewed. In February 2019, the Board again reviewed this point and concluded that its governance method remains the most appropriate for Danone.

Chairmanship of the Board

In his capacity as Chairman of the Board of Directors, the Chairman and Chief Executive Officer organizes and leads the work of the Board and reports on it to the Shareholders' Meeting. He ensures the proper functioning of the Company's bodies and ensures in particular that directors are able to fulfill their duties by providing them with all necessary information.

Balanced distribution of powers

The Board determined that balanced governance is ensured through 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 unified governance.

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 dialogue with shareholders (see hereinafter section *Lead Independent Director*).

Independence and powers of the Board and Committees

The composition of the Board of Directors and the membership diversity policy contribute to the balance of powers, particularly thanks to 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 (as defined by the AFEP-MEDEF Code), with the exception of the Strategy Committee. The full involvement of the Directors in the work of the Board and Committees, their diverse profiles and the regular meetings of the outside Directors also ensure this balance.

The Directors' ability to convene the Board directly in case of emergency also contributes to the balance of powers. This convening, which may be verbal, results 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.

The work in the committees enables the Director to review certain matters in greater detail and be in direct contact with Danone's teams. The groundwork has therefore been laid for a free and independent review of agenda items.

Limits on the 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 set limits on powers that are stricter than the legal requirements with respect to decisions that must receive prior approval from the Board of Directors (see details in the table below).

Thus, the Board of Directors must approve strategic investment projects and all transactions, namely acquisitions or disposals, that may significantly impact Danone's results, its balance sheet structure or its risk profile.

Transactions requiring the prior approval of the Board of Directors

Type of transaction	Authorization thresholds for Danone's shares
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 of more than €50 million.

Meetings by outside Directors
The Lead Independent Director holds regular meetings for outside Directors, thereby promoting free and independent discussions on all matters deemed relevant by the meeting participants.

The subjects discussed at these meetings make it possible to promote regular dialogue between the Lead Independent Director and the Chief Executive Officer.

Lead Independent Director

Presentation of the Lead Independent Director

Established in 2013
In 2013, following discussions with the Company's shareholders, the Board of Directors took note that certain shareholders perceived corporate governance risks as a result of the combination of offices of Chairman of the Board of Directors and Chief Executive Officer.

The Board therefore decided 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. The Board then created the position of Lead Independent Director.

Appointment by the Board of Directors
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 as director.

Appointment of Mr. Michel LANDEL in 2018
On December 14, 2017, the Board of Directors decided to appoint Mr. Michel LANDEL as Lead Independent Director, thereby replacing Mr. Jean LAURENT, who previously held the position since 2013. This decision took effect following his appointment as Director by the Shareholders' Meeting of April 26, 2018.

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/her to now be informed directly of their demands, meet with them, when necessary, without the Chairman and Chief Executive Officer, and convey their questions regarding governance to the Board. His/her 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 dialogue with each of the Directors.

Duties 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 process to recruit 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 dialogue with each of the Directors, particularly the Independent Directors, and organizes a meeting of the outside Directors at least once a year;
- prevents conflicts of interest from occurring, mainly 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.

Lead Independent Director's relations with shareholders
The Lead Independent Director:

- receives questions from shareholders regarding governance and ensures that they are answered;
- assists the Chairman and 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' questions regarding governance to the Board.

Participation of the Lead Independent Director 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 outside research 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.

At the end of each term of office of the Lead Independent Director, the Board conducts a study on the operation of this body as well as a review of its powers in order to adapt them, if necessary. Meanwhile, each year the Lead Independent Director presents to the Board a summary of the work he/she has performed during the past year.

Work in 2018

The Lead Independent Director who was appointed in 2018 participated in an enhanced integration process during which he met with all Executive Committee members and all Directors. He also met with many Danone staff members in several departments: legal, human resources, investor relations and finance, as well as with several operating staff members.

Since his appointment last April, he performed the following duties in particular:

- maintained an ongoing dialogue with the Chairman and Chief Executive Officer and with the General Management staff, mainly through one or more individual meetings lasting two hours with each member of the Executive Committee;
- participated in the preparation of the agenda for meetings of the Board of Directors and of the Nomination and Compensation Committee;
- organized and presided over a meeting of outside Directors;
- participated in a dialogue with the Company's main shareholders: individual meeting with around 15 key Danone investors representing approximately 30% of the share capital, as part of establishing a constructive dialogue;
- participated in the Investors Seminar in London;
- was actively involved in the implementation of the Board's self-assessment by participating in each of the individual interviews with the Directors;
- monitored the renewal of the Chairman and Chief Executive Officer's term of office as a Director in the framework of unified governance;
- participated in the joint Strategy Committee and Audit Committee meeting focused on risk mapping;
- reviewed the conflict of interest questionnaires filled out by each Director;
- participated in an annual three-day strategic seminar for Danone's senior managers and participated in the integration day for recently promoted and hired managers;
- visited several sites: production sites; research centers; regional centers.

Rules applicable to the composition, organization and governance of the Board of Directors

Diversity policy of the Board of Directors and Committees

The Board of Directors pays close attention to its composition, notably in order to promote its diversity and that of its Committees, believing that this diversity is essential since it acts as a source of vitality, creativity and performance and ensures the quality of the Board's discussions and decisions.

This approach, which has been implemented for several years, led to a noticeable change in the composition of the Board to reach balanced representation, notably in terms of the independence, gender, expertise, age and seniority of its members.

The Board's policy with respect to diversity, its composition and that of its committees aims to ensure the promotion of a variety of cultures, skills, experiences and nationalities, and to ensure that the Board's tasks are performed in a thoroughly independent and objective manner, but also in a collegial and open-minded spirit:

- the Board seeks to combine the necessary skills for the development and implementation of Danone's long-term strategy and ensures that they are varied and also cover the consumer goods industry, the food and beverage industry, nutrition, governance, operational management of companies, international experience, finance, mergers and acquisition and corporate social and environmental responsibility;
- it pays close attention to ensuring that its members' profiles are complementary and in line with Danone's strategy, and that a balance exists between the most senior directors and those recently appointed, thereby promoting the Board's combination of vitality and experience;
- the terms of office are limited to three years, with staggered expiration dates;
- as part of its assessment, the Board regularly reviews whether its composition and that of its Committees is consistent with its diversity policy and identifies the guidance to provide in order to ensure the best possible balance based on the objectives of this policy. To that end, it takes into account the work and recommendations of the Nomination and Compensation Committee;
- the Board ensures in particular that a non-discrimination and diversity policy is implemented, notably with respect to compensation for women and men on management boards.

Diversity and expertise of the Board members as of December 31, 2018 and compatibility of their membership on the Committee to which they were appointed

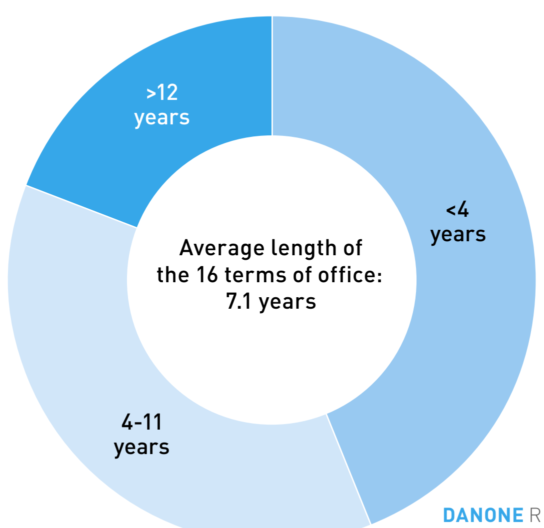
General Information		Directors' expertise							Participation to Board Committees			
		Core skills				Sector-specific skills						
Name	Number of terms in listed companies [a]	Operational management of large companies/governance of listed companies	Experience in emerging markets	International experience	Finance/Audit/M&A	FMCG/food and beverage industry	Social and environmental responsibility	Nutrition/Health	Audit Committee	Nomination and Compensation Committee	Social Responsibility Committee	Strategy Committee
Emmanuel FABER	1	√	√	√	√	√	√	√				•
Franck RIBOUD	1	√	√	√	√	√	√	√				•
Guido BARILLA	1	√	√	√		√	√	√			•	
Frédéric BOUTEBBA	1					√	√		•			
Cécile CABANIS	3	√	√	√	√	√	√	√				
Gregg L.ENGLES	3	√	√	√	√	√	√	√				
Clara GAYMARD	4	√		√	√		√			•		
Michel LANDEL	1	√	√	√	√	√				C		
Gaëlle OLIVIER	1	√	√	√	√		√		•			
Benoît POTIER	3	√	√	√	√		√	√		•		C
Isabelle SEILLIER	1	√	√	√	√							•
Jean-Michel SEVERINO	2	√	√	√	√		√	√	C			•
Virginia A. STALLINGS	1			√			√	√			C	
Bettina THEISSIG	1					√	√	√			•	
Serpil TIMURAY	1	√	√	√	√	√	√	√			•	
Lionel ZINSOU-DERLIN	3	√	√	√	√	√	√	√	•	•		
Total	28	13	12	14	12	10	14	11	4	4	4	5

(a) Includes DANONE SA Director's term.

Committee member: • Committee Chairman: C

The main areas of expertise and experience are described in more detail in the biographical information for each Director in section 6.2 *Positions and responsibilities of the Directors* below.

Breakdown of the length of Board members' terms of office and average length of terms of office as of December 31, 2018



6

Change in the composition of the Board of Directors and Committees

Changes in the composition of the Board of Directors and Committees occurring in 2018

Situation as of December 31, 2018

	Departures	Appointments	Renewals
Board of Directors	Jacques-Antoine GRANJON	Guido BARILLA	Benoît POTIER
	Jean LAURENT	Cécile CABANIS	Virginia STALLINGS
	Mouna SEPEHRI	Michel LANDEL	Serpil TIMURAY
Audit Committee	Mouna SEPEHRI	Frederic BOUTEBBA	
		Lionel ZINSOU-DERLIN	
Nomination and Compensation Committee	Jean LAURENT	Michel LANDEL	
Social Responsibility Committee		Guido BARILLA	

All changes took effect on April 26, 2018.

Proposals for the Shareholders' Meeting of April 25, 2019

Danone's teams maintain an ongoing dialogue with investors, notably with respect to preparations for the Shareholders' Meeting and tracking voting intentions on resolutions. Discussions are also held with the principal shareholders in order to get their opinions on resolutions presented to the Shareholders' Meeting.

	Departures	Appointments	Renewals
Board of Directors	–	–	Emmanuel FABER
			Franck RIBOUD
			Clara GAYMARD

Renewals of Directors' terms subject to the approval of the Shareholders' Meeting held on April 25, 2019

Emmanuel FABER	Mr. Emmanuel FABER, Chairman and Chief Executive Officer, joined Danone in 1997. Since his appointment as Chief Executive Officer in 2014, and as Chairman and Chief Executive Officer in 2017, he has been fully involved in the Company's success.
Franck RIBOUD	Mr. Franck RIBOUD, the Honorary Chairman, has historical knowledge of the Company and its culture, having presided over it as Chairman and Chief Executive Officer from 1996 to 2014. His presence makes it possible to ensure the continuation of Danone's values, after he helped transform the Company to a global food and beverage industry leader.
Clara GAYMARD	Mrs. Clara GAYMARD, member of the Board for three years, has a proven skill as a manager. Her successful experience at the international level and her in-depth understanding of key markets for Danone represent a major asset for the work of the Board of Directors.

Composition of the Board of Directors and its Committees

Characteristics of the Board of Directors, subject to the proposed renewals being approved by the Shareholders' Meeting of April 25, 2019

	Composition subsequent to the Shareholders' Meeting held in:		
	2017	**2018**	**2019**
Percentage of women	43%	43%	43%
Average age of Directors	57.5 years	57.6 years	58.6 years
Average length of term of office	7.2 years	6.4 years	7.4 years
Percentage of Directors of non-French nationality	36%	36%	36%
Rate of independence [a]	57%	57%	57%

(a) Since 2018, Danone has strictly applied all independence criteria mentioned in the AFEP-MEDEF Code, notably the one on the length of terms of office. The independence rate based on the former calculation method was 71% in 2017 and 64% in 2018 and would be 64% in 2019.

In accordance with the recommendations of the AFEP-MEDEF Code and statutory provisions, Directors representing employees are not factored into the calculation of the Board of Directors' independence rate or the percentage of female Board members. To maintain the consistency of information presented, they are therefore not recognized in the calculations with respect to average age, average length of terms of office or the percentage of non-French Directors.

The independence rate has remained stable since 2017, stability which would be maintained subject to a favorable vote by the Shareholders' Meeting of April 25, 2019. This rate would be above than the one required by the AFEP-MEDEF Code.

Dialogue with Shareholders

The responsibility for relations with investors lies with the Chairman and Chief Executive Officer, who is assisted by the Finance Department, in the framework of a regular dialog during dedicated events, such as the Investors' Seminar.

In addition, the dialog with shareholders concerning governance matters is also carried out by the Lead Independent Director, whose powers have been extended.

The Board is regularly informed of the discussions with the main investors.

Rules applicable to the operation of the Board of Directors

Directors' terms of office

Length and renewal of terms of office

Duration under the by-laws	Under the by-laws, the term of office for a Director is three years, renewable.
Age limit	The term of office for any individual Director ends, in its own right, at the conclusion of the Shareholders' Meeting held to approve the previous year's financial statements and held in the year in which this Director has reached or will reach age 70. If the Shareholders' Meeting so decides, this age limit is nevertheless not applicable to one or more Directors whose term of office could be maintained or renewed on one or more occasions, as long as the number of Directors affected by this provision does not exceed one-fourth of active Directors.
Staggering	In order to promote the smooth renewal of the Board, Directors' terms of office are staggered over time. This staggering and the three-year limit under the by-laws facilitates their regular renewal, thereby allowing the Shareholders' Meeting to vote each year on several terms of office.

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 DANONE shares (*i.e.* €246,040 based on the share closing price on December 31, 2018).

Rules of procedure adopted in 2002

- specify the rights and obligations of Directors, as well as the Board's method of operation;
- are reviewed on a regular basis and have been amended following regulatory developments and certain Board of Directors' self-assessments;
- were amended several times in 2017, notably as part of the change in the conflict of interest management procedure, the end of the Chairmanship with enhanced duties and the enhancement of the Lead Independent Director's powers;
- are published on the Danone website and a number of provisions are summarized hereinafter.

Summary of the main provisions of the rules of procedure in force

General

Duties	The Board of Directors determines the orientations of the Company's activity and ensures their implementation. It adopts a position on all decisions related to Danone's major strategic, economic, social, financial, environmental and technological orientations.
Meetings	The Board of Directors is a collegial body that meets at least five times per year. In addition, Danone's independent Directors meet at least once per year on the initiative of the Lead Independent Director, who may also invite the Company's other outside Directors to participate in this meeting.
Committees	The Board of Directors may decide to create one or more specialized Committees, whose composition, powers and rules of operation it determines, and which perform their activity under its responsibility. The Committees comprise only Directors. Their members are appointed by the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee. They are designated personally and may not be represented by anyone else.

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.

Ban on the use of any hedging instrument

Each Director and any closely related persons must refrain from using any hedging instruments for DANONE shares and all financial instruments related to DANONE shares, in particular (i) call options or options to subscribe DANONE shares, (ii) rights to DANONE shares granted subject to performance conditions, (iii) DANONE shares issued through options or issued through shares granted subject to performance conditions, (iv) DANONE shares subject to a holding period requirement by the Board of Directors or by law, and lastly, (v) any other DANONE shares held by this Director.

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 understand Danone's business, risks and organization, and 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

Criteria applied by Danone

Danone strictly applies all AFEP-MEDEF Code recommendations, although it is felt that long-term experience on the Board provides a better understanding of the cultural traits specific to the Company and its mission and constitutes an advantage to help inform the Board's work and make critical and independent assessments at the various Board meetings.

When reviewing business relationships between a Director and Danone to determine whether significant business relations exist that could affect a Director's independence, the Board uses quantitative and qualitative criteria, notably the amount of sales generated between Danone and the company or Group to which the Director is associated, both in absolute and relative value, and the analysis of the nature of existing relations.

Directors representing employees are not subject to an assessment, in accordance with the recommendations of the AFEP-MEDEF Code.

Review on February 18, 2019

Acting on the recommendation of the Nomination and Compensation Committee, the Board of Directors' meeting of February 18, 2019 reviewed, as it does each year, the independence of each Director based on the above-mentioned independence criteria.

	Independents	Non-independents	Directors not subject to an assessment
Number	8	6	2
Rate of independence	57%	43%	–
Directors	Guido BARILLA	Cécile CABANIS	Frédéric BOUTEBBA
	Clara GAYMARD	Gregg L. ENGLES	Bettina THEISSIG
	Michel LANDEL	Emmanuel FABER	
	Gaëlle OLIVIER	Benoît POTIER	
	Jean-Michel SEVERINO	Franck RIBOUD	
	Virginia A. STALLINGS	Isabelle SEILLIER	
	Serpil TIMURAY		
	Lionel ZINSOU-DERLIN		
Comments	The Board confirmed that each person satisfied all independence criteria of the AFEP-MEDEF Code, notably with respect to the absence of significant business relationships between them and Danone, and thereby confirmed their status as independent Directors.	The Board decided to consider them as not independent, as described below.	

Non-independent Directors

Emmanuel FABER	**Danone corporate officer**
Franck RIBOUD	**Former Danone corporate officer**
Cécile CABANIS	**Danone EVP, Chief Financial Officer, IS/IT, Cycles and Procurement**
Isabelle SEILLIER	**Senior executive at the J.P. Morgan group** ***Business relationships*** The Nomination and Compensation Committee and the Board examined the business relationship between Danone and J.P. Morgan, which is one of the banks with which Danone regularly conducts business particularly for financing. 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. The Board therefore decided to consider Mrs. Isabelle SEILLIER a non-independent Director. ***Measures implemented to address potential conflicts of interest*** 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) 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) non-involvement in the negotiation and implementation of agreements entered into between Danone and J.P. Morgan.
Gregg L. ENGLES	**Founder and Executive Managing Partner of Capitol Peak Partners** ***Business relationships*** 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 that company, which is now controlled by Danone. ***Measures implemented to address potential conflicts of interest*** As a reminder, pursuant to the recommendations of the AFEP-MEDEF Code, various measures for 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.
Benoît POTIER	**Chairman and Chief Executive Officer of Air Liquide SA** ***Exercise of term of office for more than 12 years*** The Nomination and Compensation Committee and Board examined his situation in light of the AFEP-MEDEF Code rules defining the independence criteria for Directors, and in particular the criteria by which the exercise of a term of office for more than 12 years is sufficient to lose the status of an independent. Recognizing that Mr. Benoît POTIER has been a director for 16 years, the Board therefore considered him non-independent in accordance with the AFEP-MEDEF Code, even though it feels that a Director who has been a member of the Board of Directors for more than 12 years remains capable of reaching a free, informed and critical judgment, and that in particular, with respect to Mr. Benoît POTIER, his capacity to think and speak freely attest to his considerably independent spirit.

Situation as of February 18, 2019 of each Director with regard to the independence criteria defined by the AFEP-MEDEF Code – French Financial Markets Authority Recommendation 2012-02

Name	Corporate officer during the past five years	Cross-directorships	Significant business relationship	Family relationship	Statutory Auditors	Term of office exceeding 12 years	Status of non-executive corporate officer	Status of major shareholder
Emmanuel FABER		✓	✓	✓	✓		✓	✓
Franck RIBOUD		✓	✓	✓	✓			✓
Guido BARILLA	✓	✓	✓	✓	✓	✓	✓	✓
Frédéric BOUTEBBA		✓	✓	✓	✓	✓	✓	✓
Cécile CABANIS		✓	✓	✓	✓	✓	✓	✓
Gregg L. ENGLES		✓	✓	✓	✓	✓	✓	✓
Clara GAYMARD	✓	✓	✓	✓	✓	✓	✓	✓
Michel LANDEL	✓	✓	✓	✓	✓	✓	✓	✓
Gaëlle OLIVIER	✓	✓	✓	✓	✓	✓	✓	✓
Benoît POTIER	✓	✓	✓	✓	✓		✓	✓
Isabelle SEILLIER	✓	✓		✓	✓	✓	✓	✓
Jean-Michel SEVERINO	✓	✓	✓	✓	✓	✓	✓	✓
Virginia A. STALLINGS	✓	✓	✓	✓	✓	✓	✓	✓
Bettina THEISSIG		✓	✓	✓	✓	✓	✓	✓
Serpil TIMURAY	✓	✓	✓	✓	✓	✓	✓	✓
Lionel ZINSOU-DERLIN	✓	✓	✓	✓	✓	✓	✓	✓

✓ when the independent criterion is met, and a blank space when it is not met.

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 corporate officer is connected to the Company or one of its subsidiaries via a service contract granting any benefits whatsoever.

Training of Directors

Upon joining the Board	Each new Director receives documents and information enabling him/her to get to know and understand Danone and its culture, its accounting, financial and operating specificities.
Integration process	Danone offers each new Director an enhanced integration process that includes individual interviews with several existing Directors and as well as with members of General Management and the Executive Committee.
Presentation sessions and site visits	Danone offers all Directors presentation sessions by senior managers of Danone's main functions as well as regular site visits. Thus Messrs. Guido BARILLA and Michel LANDEL, Directors appointed in 2018, participated throughout the year 2018 in an integration process that included several individual interviews with certain members of General Management and the Executive Committee as well as presentations by certain senior managers of Danone's main functions.
Sharing of Danone's unique culture	Directors participate in major events organized by Danone. During his/her term of office, each Director receives a press review consisting of articles on Danone and its environment, as well as analyst notes regarding DANONE shares.

Involvement of Directors outside of Board meetings

Danone's Directors are involved in activities other than Board meetings through discussions among themselves and with Danone's corporate officers outside of Board meetings. They also meet several times informally outside of Board meetings, 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 participate in annual strategic presentations;
- all Directors also typically attend the Shareholders' Meeting.

Directors' attendance fees

The rules governing the payment of attendance fees are presented in detail in section 6.3 *Compensation and benefits of governance bodies*.

Work

Meetings and attendance

	2017	2018
Number of meetings	6	5
Average meeting duration	3:04 hours	4:00 hours
Attendance rate	90.60%	96.25% [a]

(a) The attendance rate takes into account the attendance by Directors whose term of office ended in 2018.

Attendance rates for Board members as of December 31, 2018

Name	Board of Directors	Audit Committee	Nomination and Compensation Committee	Social Responsibility Committee	Strategy Committee
Emmanuel FABER	100%	–	–	–	100%
Franck RIBOUD	100%	–	–	–	75%
Guido BARILLA	100%	–	–	100%	–
Frédéric BOUTEBBA	100%	100%	–	–	–
Cécile CABANIS	100%	–	–	–	–
Gregg L. ENGLES	100%	–	–	–	–
Clara GAYMARD	100%	–	80%	–	–
Michel LANDEL	100%	–	100%	–	–
Gaëlle OLIVIER	100%	100%	–	–	–
Benoît POTIER	100%	–	100%	–	100%
Isabelle SEILLIER	100%	–	–	–	75%
Jean-Michel SEVERINO	100%	85.7%	–	–	100%
Virginia A. STALLINGS	100%	–	–	100%	–
Bettina THEISSIG	100%	–	–	100%	–
Serpil TIMURAY	100%	–	–	100%	–
Lionel ZINSOU-DERLIN	100%	100%	100%	–	–

Matters reviewed and discussed by the Board of Directors in 2018 and February 2019

Strategy

- regular presentations by the Chairman and Chief Executive Officer of Danone's strategic priorities and main operational choices;
- annual strategic presentations of each Division by each Division head during a special one-day event;
- monitoring of the latest innovations;
- consultation with the Works Council on strategic orientations;
- review of Danone 2030 objectives;
- monitoring of B Corp™ certification.

Activity and results

- review of Danone's financial position and debt (change, amount, composition, repayment schedules and rating agencies);
- review of Danone's financial commitments (security interests and guarantees) and renewals of financial authorizations to General Management (bond issues, share buybacks, guarantees, short-term marketable securities program) and capital increases (annual capital increase reserved for employees, payment of dividend in shares);
- monitoring of Danone's 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;
- authorization of regulated agreements;
- monitoring of the Protein cost-reduction Program;
- dividend distribution proposal;
- monitoring the boycott in Morocco;
- monitoring of the "One Person, One Voice, One Share" program.

Corporate governance

- monitoring the relevance of the governance method in connection with the renewal of the Chairman and Chief Executive Officer's term of office as a Director;
- 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 Directors at the 2018 and 2019 Shareholders' Meetings;
- review of the governance/compensation resolutions submitted to shareholders for approval and preparation of the 2018 and 2019 Shareholders' Meetings;
- review of written questions from shareholders for the 2018 Shareholders' Meeting.

Compensation

- development and formalization of the compensation policies for corporate officers;
- review of the conditions for the renewal of Mr. Emmanuel FABER's term of office, in particular: employment contract, severance pay, non-compete indemnity and retirement plan;
- determination of the annual compensation principles for 2018 and 2019, 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 (2017 in February 2018, and 2018 in February 2019): acknowledgement of the level of attainment of the various objectives, review of the balance between the various components;
- review of the fulfillment of the performance condition related to the increase in retirement benefit for the Chairman and Chief Executive Officer;
- review of directors' attendance fees;
- review 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 non-financial 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;
- monitoring of the *"Je sais, j'agis"* project and approval of the supplementary grant to Danone Ecosystem Fund for that purpose.

Assessment

In accordance with its rules of procedure, the Board of Directors conducts an assessment every two years, 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. Every other time, the assessment is performed by an outside firm that assesses in particular the individual contribution of each Director. Following some of these assessments, the Board 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.

External assessment in 2016

An external assessment of the Board of Directors' operation has been organized in 2016 based on individual interviews with each Director conducted by a specialized consulting firm (which conducts most of the external assessments of French listed companies).

The results and recommendations of this assessment were presented to the Nomination and Compensation Committee and then to the Board. It revealed that the Board's operation has improved thanks to an effective and efficient implementation of the last recommendations from the 2014 assessment. Of the Directors who sit on comparable boards, 80% felt that Danone's board takes a more active approach and operates more efficiently.

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. In addition, during certain meetings, several of Danone's managers and members of the Executive Committee had a chance to share technical presentations with the Directors. Furthermore, a detailed presentation of Danone's key risk matrix was also made to the Board members. Finally, 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.

Assessment in 2018

In the fall of 2018, Mr. Michel LANDEL, in his capacity as Lead Independent Director, conducted an internal assessment of the Board of Directors, working with the Board Secretary, on the basis of individual interviews with each Director. This assessment was performed using a detailed questionnaire sent beforehand to each Director.

Findings

Among the topics covered were the Board's operation, structure, governance, composition and duties, as well as the information provided to Directors, the choice of matters discussed, the quality of the discussions, participation and the general operation of the Committees.

The summary of the assessment was reviewed by the Nomination and Compensation Committee at its November 29, 2018 meeting, then presented and discussed at the December 5, 2018 Board of Directors' meeting.

The assessment revealed that the Board is considered to be of very high quality, that it is considered highly professional and very involved.

The main areas of satisfaction involved:

- the atmosphere of trust, mutual respect and openness, enabling members to speak very freely, which encourages the participation of members and diverse viewpoints;
- the diverse and complementary profiles of Board members, notably through the addition of sector expertise to the Board;
- the quality of the discussions during Board meetings, which are considered to be of high quality, and the answers provided by management, which are seen as transparent and on point;
- the governance transition, which was considered to have been structured in an effective manner and carried out skillfully;
- the integration process for new Directors, which is greatly appreciated.

The Board discussed the main recommendations, which focused on:

- diversifying the panel of participants who come before the Board, in order to favor meetings with operating managers on a more regular basis;
- performing a more in-depth analysis of Danone's risks, as well as certain Human Resources matters;
- organizing some presentations in English, especially with respect to strategy;
- the time required to make some documents available, which could be improved;
- the request to extend the duration of some Board meetings and to hold some Board meetings abroad.

Review of the individual contribution of Directors

When conducting the external assessment of the Board in 2016, 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 next external assessment of the Board in 2020, the individual contribution of each Director will be reassessed.

Annual review of the Board's operation

In 2018, as it does each year, 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 cohesiveness and 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, 2018

Jean-Michel SEVERINO Chairman	**Start date as Committee member: April 2012, Chairman 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	**Start date as Committee member: February 2015** Mrs. Gaëlle OLIVIER developed strong financial expertise while working on the trading floor at Credit 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.
Lionel ZINSOU-DERLIN	**Start date as Committee member: June 2018** Lionel ZINSOU-DERLIN is an Associate Professor of Economics and Social Sciences and therefore has a strong understanding of economics. His professional experiences, notably at the Rothschild & Cie bank and the PAI Partners SAS investment fund, enabled him to acquire sound financial expertise.
Frédéric BOUTEBBA	**Start date as Committee member: June 2018** Mr. Frédéric BOUTEBBA joined Danone in 1992, where he held several positions in the Sales Department. His practical knowledge of Danone and the challenges encountered by its employees enable him to bring to the Committee a concrete approach to audit work.

Rules of procedure

Duties

Monitoring the process for preparing the financial statements and financial information and the statutory audit of annual and interim consolidated financial statements by the Statutory auditors	• reviewing the Company's statutory and consolidated financial statements before they are submitted to the Board of Directors; • ensuring the consistency of the accounting policies applied by the Company; • reviewing the accounting treatment of the main complex and/or non-recurring transactions; • reviewing the consolidation scope of Danone's companies; • reviewing the policy for monitoring off-balance sheet commitments; • being informed of the Statutory auditors' opinions and comments; • reviewing the Company's financial position, cash position and commitments every six months; • reporting the main options concerning the closing of the annual and interim consolidated financial statements to the Board of Directors; • reviewing, together with General Management, press releases on Danone's results and receiving Danone's main financial communications documents; • receiving non-financial information published by Danone which has been presented to the Social Responsibility Committee.
Monitoring the independence of the Statutory auditors	• managing the selection process by supervising the calls for tender launched by General Management; • making proposals for the appointment, renewal and compensation of the Statutory auditors; • reviewing the results of their work and audits as well as their recommendations and follow-up actions on them; • regularly meeting with the Statutory auditors, including without the presence of any managers; • ensuring the independence of the Statutory auditors, particularly by approving some of their assignments in advance.
Monitoring the effectiveness of internal control, risk management and internal audit systems	**Internal control** • ensuring that an internal control system is in place and monitoring its effectiveness; • being informed of any significant failures or weaknesses in internal control and any major fraud; • 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; • 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; • being informed of significant complaints received under this system and supervising the processing of the most important files referred to it; • being available for consultation by the Social Responsibility Committee for any questions relating to the business conduct policy or ethics. **Internal audit** • approving the internal audit plan and overseeing its implementation; • 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; • expressing an opinion on the adequacy of resources and the independence of internal audit. **Risk management** • ensuring that structures and systems are in place to identify and evaluate Danone's risks, as well as monitoring the effectiveness of such systems; • being informed of any event that exposes the Company to a significant risk; • being informed of Danone's main social, societal and environmental risks.

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 being present.

Main amendments/changes

The Audit Committee's rules of procedures are reviewed regularly, to ensure that they comply with the most recent statutory provisions and new recommendations of the AFEP-MEDEF Code.

Work

Meetings and attendance

	2017	2018
Number of meetings	6	7 [a]
Attendance rate	80%	91.7 [b] %

(a) Of which two joint meetings with, respectively, the Social Responsibility Committee and the Strategy Committee.
(b) The attendance rate takes into account the attendance by Directors whose term of office ended in 2018.

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.

The Executive Vice President, Chief Financial Officer, IS/IT, Cycles and Procurement works with the Audit Committee on a regular basis and participates in Committee meetings.

Work of the Committee in 2018 and early 2019

- review of Danone's interim and annual statutory and consolidated financial statements. This review systematically involves: (i) presentation by the Chief Financial Officer, IS/IT, Cycles and Procurement of Danone's principal financial results; (ii) review of financial indicators non defined by IFRS, (iii) presentation by the Statutory auditors of their audit approach; (iv) 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 of the main accounting options chosen; (v) review of main legal disputes involving Danone, and (vi) hearing the findings of the Statutory auditors, including their audit adjustments;
- semi-annual monitoring of Danone's financial situation;
- review of draft press releases on annual and interim consolidated results;
- presentation of the proposed dividend distribution submitted to shareholders for approval;
- review of financial authorizations submitted to the Shareholders' Meeting for approval;
- review of risk map for Danone's principal risks (including financial) by the person responsible for risk monitoring and management;
- monitoring the organization and effectiveness of internal audit and control systems;
- validation of Danone's internal audit plan and review of main results of audit assignments conducted during the year;
- review of the sections of the Management Report focusing on internal control and risk management;
- annual monitoring of compliance at Danone: policies involving anti-corruption efforts, competition law, personal data protection, international sanctions;
- review of Danone's tax situation and monitoring current tax developments;
- approval and regular monitoring of Statutory auditors' fees;
- approval of the procedure for authorizing services performed by the Statutory auditors and the members of their networks;
- monitoring food safety at Danone;
- review of the new framework on non-financial obligations and reporting: declaration of non-financial performance, sustainability risk mapping, law on the duty of vigilance and human rights.

NOMINATION AND COMPENSATION COMMITTEE

Composition as of December 31, 2018

	Date of joining the Committee
Michel LANDEL Chairman	April 2018
Benoît POTIER	April 2012
Lionel ZINSOU-DERLIN	February 2015
Clara GAYMARD	April 2016

Rules of procedure

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 nominations	• determine and regularly review the 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 procedure are reviewed on a regular basis. They were completely updated in 2017.

Work

Meetings and attendance

	2017	2018
Number of meetings	6	5
Attendance rate	94%	95%

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.

Work of the Nomination and Compensation Committee in 2018 and early 2019

Regarding governance

- reviewing the relevance of the governance structure as part of the renewal of the Chairman and Chief Executive Officer's term of office as a Director;
- review of Danone's governance;
- report on the activity 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, prompting a review at the 2018 and 2019 Shareholders' Meetings of the renewal of terms of office and appointments of new Directors;
- review of the composition of the Committees and, more specifically, of the appointment of Messrs. Lionel ZINSOU-DERLIN and Frederic BOUTEBBA to the Audit Committee and Mr. Guido BARILLA to the Social Responsibility 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.
- review of the self-assessment conducted by the Lead Independent Director;
- as part of preparations for the succession plan of management boards, review of Danone's managerial skills model;
- monitoring the organization of the renewal of the Chairman and Chief Executive Officer's term of office as a Director.

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 hold their shares;
- review of the 2018 compensation policy for the corporate officers;

REVIEW OF THE CONDITIONS FOR THE RENEWAL OF MR. EMMANUEL FABER'S TERM OF OFFICE, IN PARTICULAR: EMPLOYMENT CONTRACT, SEVERANCE PAY, NON-COMPETE INDEMNITY, AND RETIREMENT PLAN:

- preparation of the resolutions proposed at the 2018 Shareholders' Meeting regarding the 2017 compensation of the corporate officers;
- review of the 2018 and 2019 compensation policy for the corporate officers;
- preparation of the resolutions proposed at the 2019 Shareholders' Meeting regarding the 2018 compensation of the corporate officers;
- review of draft resolutions regarding the grant of GPS by the 2018 and 2019 Shareholders' Meetings;
- review of the amount of directors' fees;
- review of the impact of the new AFEP-MEDEF recommendations regarding non-compete clauses for corporate officers;
- review of the publications related to compensation: February 2018, July 2018 and February 2019.

SOCIAL RESPONSIBILITY COMMITTEE

Composition as of December 31, 2018

	Start date as Committee member
Virginia A. STALLINGS Chair	February 2015, Chair since July 2017
Serpil TIMURAY	April 2015
Bettina THEISSIG	October 2016
Guido BARILLA	July 2018

Rules of procedure

Duties

The Social Responsibility Committee focuses mainly on Danone's action principles, policies and practices in the following areas:

Social with respect to Danone employees and those of its partners, subcontractors, suppliers and customers	• conduct a review of social policies implemented by Danone, the objectives set and results obtained.
Environmental relating to (i) activities controlled directly (industrial production, packaging, etc.) or indirectly by Danone (purchasing, transportation, energy, etc.), and (ii) the use of non-renewable natural resources;	• review the main risks and opportunities for Danone in the environmental area, taking into account the challenges specific to its missions and its activities; • be informed of internal control procedures implemented at Danone with respect to its main environmental risks.
Ethical relating to Danone employees, consumers and, more generally, all Danone stakeholders	• ensure the application of ethical rules defined by Danone; • be periodically informed of complaints received as part of the employee whistleblowing system regarding ethical, social and environmental issues and review those related to its mission, working in conjunction with the processing of the Audit Committee.
Audit, internal control, internal reporting and non-financial ratings	• be consulted by the Audit Committee as part of proposed audit assignments related to areas within its scope of competency; • review the reporting, assessment and control systems in order to enable Danone to produce reliable non-financial information; • regularly review the results of Danone self-assessments as part of the Danone Way program; • review all non-financial information published by Danone, notably in the societal and environmental areas; • perform an annual review of a summary of ratings by non-financial rating agencies on the Company and its subsidiaries.
Investments in societal projects and action programs designed to promote social initiatives	• assess the impact of these investments for Danone; • review the application of rules established by Danone regarding investments or social programs in areas related to Danone's activities; • ensure that the Company's interests are upheld and, more specifically, prevent potential conflicts of interests related to interactions between these investments and Danone's other activities; • prepare and highlight the work of the Board on socially relevant investments and programs that Danone implements or participates in.
Nutritional	• review the public health issues, social impacts of its products; • review the communications with consumers.

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

Meetings and attendance

	2017	2018
Number of meetings	3 [a]	5 [a]
Attendance rate	100%	100%

(a) Including a joint meeting with the Audit Committee.

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. The reports and the minutes communicated enable the Board to stay fully informed of issues involving social and environmental responsibility, thereby facilitating its discussions.

Work of the Committee in 2018 and early 2019

- review of societal funds created by Danone: review of the annual budget for Danone Communities and, in that capacity, review of Danone's annual contribution to Danone Communities; review of investment projects by the Danone Communities venture capital fund; monitoring of the Danone Ecosystem Fund and the Livelihoods fund;
- annual review of Danone's policy regarding professional equality and equal pay for men and women;
- monitoring of the "One Person, One Voice, One Share" program;
- annual review of Danone's non-financial reporting
- annual update on Danone's participation in the *FTSE4Good* index;
- review of Danone's "One Planet. One Health" projects, and in particular monitoring of non-financial ratings;
- monitoring of *evian* initiatives with respect to sustainability, aimed at becoming a circular brand by 2025;
- monitoring the new policy in favor of a circular economy;
- monitoring initiatives in the area of water cycle management;
- annual update on food safety at Danone;
- review of the new framework on non-financial obligations and reporting: declaration of non-financial performance, sustainability risk mapping, law on the duty of vigilance and human rights;
- monitoring of B Corp™ certification;
- monitoring of sustainable financing.

STRATEGY COMMITTEE

Composition as of December 31, 2018

	Start date as Committee member
Benoît POTIER Chairman	2015, Chairman since 2017
Emmanuel FABER	2015
Franck RIBOUD	2015
Isabelle SEILLIER	2015
Jean-Michel SEVERINO	2015

Rules of procedure

Duties

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:

- 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

Meetings and attendance

	2017	2018
Number of meetings	2	4 [a]
Attendance rate	100%	90%

(a) Including a joint meeting with the Audit Committee.

Committee's work in 2018

- monitoring innovation in the Essential Dairy & Plant-Based Products reporting entity;
- analyzing the Early Life Nutrition strategy, notably in China;
- monitoring the boycott in Morocco;
- review of new consumer trends and e-business objectives;
- monitoring the Packaging strategy;
- preparation of the Investor Seminar;
- review of strategic risks; and
- monitoring the "One Person, One Voice, One Share" program.

EXECUTIVE COMMITTEE

Role

Under the authority of the Chairman and 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.

In accordance with the provisions of the September 5, 2018 Act for the freedom to choose one's future career, women make up one-third of the Executive Committee. Danone also ensures that women are represented in high-responsibility positions. Danone also strives to have balanced representation of men and women at each level of its organization. The Board ensures that a policy of non-discrimination and diversity is implemented in its management bodies.

Composition as of March 1, 2019: 6 members

Name	Age	Principal function at Danone	Starting date on Executive Committee member
Emmanuel FABER	55	Chairman and Chief Executive Officer	2000
Bertrand AUSTRUY	45	Executive Vice President, Human Resources and General Secretary	2015
Cécile CABANIS	47	Executive Vice President, Chief Financial Officer, IS/IT, Cycles and Procurement	2015
Francisco CAMACHO	53	Executive Vice President, Essential Dairy and Plant-Based	2011
Henri BRUXELLES	53	Executive Vice President, Waters and Africa	2017
Véronique PENCHIENATI	52	Executive Vice President, Specialized Nutrition	2018

APPLICATION OF THE AFEP-MEDEF CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES

In 2008, Danone decided to refer to the AFEP-MEDEF corporate governance Code and apply its recommendations, with the exception of the following points, which the Company does not apply in a strict manner:

Recommendations	Danone's practice and justification
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 three-fourths composed of independent Directors and therefore includes no corporate officers. A Lead Independent Director position was created in 2013 and its powers were enhanced in 2017 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 a corporate 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.
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 addition, in 2018 Mr. Frédéric BOUTEBBA, a Director representing employees, was appointed to the Audit Committee in order to give this Committee a concrete approach to audit transactions. In any event, it should be noted that three-fourths of Danone's Nomination and Compensation Committee consists of Directors considered independent according to AFEP-MEDEF Code criteria, and the Committee 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.
Ethical Rules for Directors (section 19 of the AFEP-MEDEF Code) *"The director is bound to report to the Board any conflict of interest, whether actual or potential, and abstain from attending the debate and taking part in voting on the related resolution."*	The Board has implemented various measures to ensure that all conflicts of interest are controlled by Danone, namely: (i) prior notification by a Director to the Board Secretary of any conflict of interest, including potential or future conflicts of interest, that involve or could potentially involve that Director, in order to get the Secretary's approval; (ii) obligation to submit a sworn statement indicating whether or not he/she has any conflicts of interest, including potential conflicts of interest, at the time he/she takes office, annually as part of preparations for 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 working days following the occurrence of any event that causes a Director's previously filed statement to become inaccurate, in whole or in part. Moreover, 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. In its concern to maintain the collegiality of the Board, and given the strong independence of Directors making up the Board and their considerable freedom of expression, the Board decided not to ask Directors involved in conflict of interest situations to exit the meeting of the Board during its review of the deliberation involving such conflicts of interest.

6.2 POSITIONS AND RESPONSIBILITIES OF THE DIRECTORS

(Article R. 225-83 of the French Commercial Code)

Information regarding the 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;*
  - *current terms of office correspond to terms of office held at December 31, 2018;*
  - *DANONE shares correspond to the number of DANONE shares held at December 31, 2018;*
  - *the terms of office followed by the symbol SM approval are subject to approval by the Shareholders' Meeting of April 25, 2019.*

Directors whose renewal of office is proposed

Emmanuel FABER

Franck RIBOUD

Clara GAYMARD

Directors representing employees

Frédéric BOUTEBBA

Bettina THEISSIG

Current Directors

Guido BARILLA

Cécile CABANIS

Gregg L. ENGLES

Michel LANDEL

Gaëlle OLIVIER

Benoît POTIER

Isabelle SEILLIER

Jean-Michel SEVERINO

Virginia A. STALLINGS

Serpil TIMURAY

Lionel ZINSOU-DERLIN

GUIDO BARILLA

Chairman of the Board of Directors of BARILLA

Independent Director, Member of the Social Responsibility Committee

Age 60 – Italian nationality

First appointed to the Board: 2018 Shareholders' Meeting
End of term: 2021 Shareholders' Meeting
DANONE shares: 4,000

Expertise – Experience – Main activities

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, headquarters of the Barilla Group, he became an executive at the company in 1986 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. e R. F.lli S.p.A., and was then named Vice Chairman in 1988. Following his father's death in 1993, he became Chairman of the Board of Directors of Barilla G. e R. F.lli S.p.A. and Group Chairman as of 2003. In 2009, he became Chairman of the Advisory Board of the Barilla Center for Food and Nutrition (BCFN), currently the BCFN Foundation.

Current terms of office

Danone companies

- Director and member of the Social Responsibility Committee of DANONE SA

Other companies

Foreign unlisted companies

- Director and Chairman of the Board of Directors 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)
- 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)

(a) *Barilla group company.*

Terms of office that expired over the past five years

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FRÉDÉRIC BOUTEBBA

Political and Social Project Manager of DANONE SA

Director representing employees, Member of the Audit Committee

Age 51 – French nationality

First appointed to the Board: 2016 Shareholders' Meeting
End of term: 2020 Shareholders' Meeting
DANONE shares: –

Expertise – Experience – Main activities

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. In January 2018, he became an advisor and urgent applications judge for the Industrial Tribunal (*Conseil de Prud'hommes*) of Bergerac.

Current terms of office

Danone companies

- Director representing employees and member of the Audit Committee of DANONE SA

Other companies

–

Terms of office that expired over the past five years

- Member of the *DANONE* Group-level Works Council
- 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*

6

CÉCILE CABANIS

Executive Vice President, Chief Financial Officer, IS/IT, Cycles and Procurement of DANONE SA

Non-Independent Director

Age 47 – French nationality

First appointed to the Board: 2018 Shareholders' Meeting
End of term: 2021 Shareholders' Meeting
DANONE shares: 6,681

Expertise – Experience – Main activities

Cécile CABANIS 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 as 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 has been in charge of Cycles, Procurement and Sustainable Resources Development at Danone since October 2017.

Current terms of office

Danone companies

- Director of DANONE SA
- Director of *MICHEL ET AUGUSTIN SAS* [a]
- Director and Chair of the Board of Directors of *LIVELIHOODS FUND (SICAV)* [b] (Luxembourg)

Other companies

French listed companies

- Director and Chair of the Audit and Risks Committee of SCHNEIDER ELECTRIC SE
- Member of the Supervisory Board of MEDIAWAN

French unlisted companies

- Member of the Supervisory Board of SOCIETÉ ÉDITRICE DU MONDE

Terms of office that expired over the past five years

- Director of *DANONE SA* [a] (Spain), *DANONE DJURDJURA* [a] (Algeria), *PRODUITS LAITIERS FRAIS IBERIA* [a] (Spain), *CENTRALE DANONE* [a] (Morocco), *FROMAGERIE DES DOUKKALA* [a] (Morocco), *DAN TRADE B.V* [a] (Netherlands), *DANONE LIMITED* [a] (United Kingdom), *DANONE RUSSIA* [a] (Russia), *DANONE INDUSTRIA LLC* [a] (Russia), *DANONEWAVE PUBLIC BENEFIT CORPORATION* [a] (United States), *COMPAGNIE GERVAIS DANONE* [a], *FONDS DANONE POUR L'ÉCOSYSTÈME* (Danone Ecosystem Fund) [b]
- Member of the Supervisory Board of *TOECA INTERNATIONAL COMPANY B.V.* [a] (Netherlands), *DANONE SP. Z.O.O* [a] (Poland)
- Chief Executive Officer of *DANONE CIS HOLDINGS BV* [a] (Netherlands)

(a) Danone group company or company in which Danone holds a stake.
(b) Duties performed within the framework of social projects initiated by Danone.

GREGG L. ENGLES

Founder and Managing Executive Partner of CAPITOL PEAK PARTNERS

Non-Independent Director

Age 61 – U.S. nationality

First appointed to the Board: 2017 Shareholders' Meeting
End of term: 2020 Shareholders' Meeting
DANONE shares: 4,132

Expertise – Experience – Main activities

Gregg L. ENGLES has founded and led several investment firms: Kaminski Engles Capital Corporation in 1988, Engles Capital Corporation in 1989, and Engles Management Corporation in 1993. He founded Suiza Foods Corporation in 1993 and became Chairman and Chief Executive Officer in 1994. Suiza Foods Corporation was listed in 2016. Later called Dean Foods Company, the company was founded to consolidate the U.S. fluid milk industry and became one of the nation's leading food and beverage companies. Mr. ENGLES created a branded dairy alternative business (WhiteWave) to the Dean Foods portfolio and built The WhiteWave Foods Company through a series of acquisitions, including International Delight in 1997, Silk in 2002, Horizon Organic in 2004, and Alpro in 2009. Mr. ENGLES became Chairman and Chief Executive Officer of WhiteWave Foods Company following the spin-off of Dean Foods Company in 2012. He held this position until April 2017, when the company was purchased by Danone.

Current terms of office

Danone companies

- Director of DANONE SA

Other companies

Foreign listed companies

- Director, Audit Committee Chairman, member of the Compensation Committee, member of the Nominating and Corporate Governance Committee of *LIBERTY EXPEDIA HOLDINGS, INC.* (United States)
- Director, member of the Audit Committee, the Compensation Committee, the Nominating Committee and the Corporate Governance Committee of *GCI LIBERTY, INC.* (United States)

Foreign unlisted companies

- Founder and Managing Executive Partner of *CAPITOL PEAK PARTNERS LLC* (United States)
- Director of *MENIMO FOODS* (United States), *JL DARLING, INC.* (United States)

Terms of office that expired over the past five years

- Chairman and Chief Executive Officer of *THE WHITEWAVE FOODS COMPANY* (United States)

EMMANUEL FABER

Chairman and Chief Executive Officer of DANONE SA

Non-Independent Director, Member of the Strategy Committee

Age 54 – French nationality

First appointed to the Board: 2002 Shareholders' Meeting
End of term: 2022 Shareholders' Meeting [a]
DANONE shares: 68,571

Expertise – Experience – Main activities

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 FABER joined Danone in 1997 to head the Finance department and became a member of the Executive Committee in 2000. In 2005, he was appointed Chief Executive Officer of the Asia-Pacific region, based in Shanghai. In 2008, he became Deputy General Manager of Danone. In 2011 he was appointed Vice-Chairman of the Board of Directors and he became Chief Executive Officer of Danone in October 2014. Emmanuel FABER has been Danone's Chairman and Chief Executive Officer since December 1, 2017. Since 2017, he has been Vice Co-Chair of the Consumer Goods Forum. 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 "Social Business - Enterprise and Poverty" Chair. 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).

Current terms of office

Danone companies

- Chairman and Chief Executive Officer, and member of the Strategy Committee of *DANONE SA*
- Chairman of the Board of Directors of *DANONE NORTH AMERICA PUBLIC BENEFIT CORPORATION* [b] (United States), *DANONE COMMUNITIES (SICAV)* [c]
- Member of the Board of Directors of *LIVELIHOODS FUND FOR FAMILY FARMING SAS* [c]
- Director of *COFCO DAIRY INVESTMENTS LIMITED* [b] (Hong Kong), *PROMINENT ACHIEVER LIMITED* [b] (Hong Kong)
- Director and Vice-President of *NAANDI COMMUNITY WATER SERVICES PRIVATE LTD* [b] (India)

Other companies

–

Terms of office that expired over the past five years

- Chief Executive Officer, Deputy General Manager, and member of the Social Responsibility Committee of DANONE SA
- Member of the Steering Committee of *LIVELIHOODS FUND* [c] (Luxembourg)
- Member of the Supervisory Board of LEGRIS INDUSTRIES SA
- Director of *GRAMEEN DANONE FOODS LIMITED* [c] (Bangladesh)

(a) Provided his term of office is renewed by the Shareholders' Meeting of April 25, 2019.
(b) Danone group company or company in which Danone holds a stake.
(c) Duties performed within the framework of social projects initiated by Danone.

CLARA GAYMARD

Co-founder of RAISE CONSEIL

Independent Director, Member of the Nomination and Compensation Committee

Age 58 – French nationality

First appointed to the Board: 2016 Shareholders' Meeting
End of term: 2022 Shareholders' Meeting [(a)]
DANONE shares: 4,235

Expertise – Experience – Main activities

Clara GAYMARD, a graduate of the École Nationale d'Administration, held numerous positions within the senior civil service from 1982 to 2006: she was an administrative officer at the Paris Mayor's Office between 1982 and 1984 and then, after leaving the ENA, she joined the French Public Audit Office (Cour des Comptes) initially as an auditor and then as public auditor as of 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. She left GE at the end of 2015 to focus on Raise, a company she co-founded with Gonzague DE BLIGNIERES.

Current terms of office

Danone companies

- Director and member of the Nomination and Compensation Committee of DANONE SA

Other companies

French listed companies

- 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

French unlisted companies

- Director of SAGES
- Chair of *PABAFAJAMET, RAISE CARAS SAS*
- Chief Executive Officer of *RAISE CONSEIL, LE PONTON SAS*

Terms of office that expired over the past five years

- Chair of *GENERAL ELECTRIC FRANCE*
- Chair of *WOMEN'S FORUM FOR THE ECONOMY AND SOCIETY*
- Representative in France of *GENERAL ELECTRIC INTERNATIONAL INC.* (United States)

(a) Provided her term of office is renewed by the Shareholders' Meeting of April 25, 2019.

MICHEL LANDEL

Lead Director

Independent Director, Chairman of the Nomination and Compensation Committee

Age 67 – French nationality

First appointed to the Board: 2018 Shareholders' Meeting
End of term: 2021 Shareholders' Meeting
DANONE shares: 4,000

Expertise – Experience – Main activities

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. He served as Chief Executive Officer of Sodexo and Chairman of the Executive Committee from 2005 to January 2018.

Current terms of office

Danone companies

- Lead Director of DANONE SA
- Chairman of the Nomination and Compensation Committee of DANONE SA

Other companies

French unlisted companies

- Chairman of *ASTROLABE SERVICES*

Foreign unlisted companies

- Chairman of the Board of Directors of *LOUIS DELHAIZE – COMPAGNIE FRANCO-BELGE D'ALIMENTATION* (Belgium)

Terms of office that expired over the past five years

- Chief Executive Officer and Director of SODEXO
- Member of the Supervisory Board of *ONE SCA*
- Member of the Board of Directors of *SODEXO PASS INTERNATIONAL SAS, ONE SAS*
- Director of *SODEXO INC.* (United States)

GAËLLE OLIVIER

Manager of KYOUKO

Independent Director, Member of the Audit Committee

Age 47 – French nationality

First appointed to the Board: 2014 Shareholders' Meeting
End of term: 2020 Shareholders' Meeting
DANONE shares: 4,340

Expertise – Experience – Main activities

After starting her career at Crédit Lyonnais in the equity derivatives trading room, in 1998 Gaëlle OLIVIER joined the AXA group. 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. Gaëlle OLIVIER left the AXA group in December 2017 and is developing other business projects.

Current terms of office

Danone companies

- Director and member of the Audit Committee of DANONE SA

Other companies

French unlisted companies

- Manager of *KYOUKO (SARL)*

Foreign unlisted companies

- Chair of the Board of Directors of *GALYTIX LTD* (United Kingdom)

Terms of office that expired over the past five years

- Chair and Chief Executive Officer of *AXA GLOBAL P&C*
- Chair of the Board of Directors and of the Compensation Committee of *AXA CORPORATE SOLUTIONS ASSURANCE*
- Director of *AXA UK*
- Chair of the Board of Directors of *AXA GLOBAL DIRECT SA*
- Chair and member of the Board of Directors of *AXA ART* (Germany), *AXA THAILAND PUBLIC COMPANY LIMITED* (Thailand)
- Chief Executive Officer of *AXA ENTREPRISES*
- Director of *AXA GENERAL INSURANCE HONG KONG LIMITED* (China), *AXA GENERAL INSURANCE CHINA LIMITED* (China), *WIN PROPERTY* (SHANGHAI LINKS) LIMITED (China), *AXA TIAN PING PROPERTY & CASUALTY INSURANCE COMPANY LIMITED* (China), *AXA INSURANCE SINGAPORE PTE LTD* (Singapore), *AXA TECHNOLOGY SERVICES SINGAPORE PTE LTD* (Singapore), *AXA ASIA REGIONAL CENTRE PTE LTD* (Singapore), *AXA AFFIN GENERAL INSURANCE BERHAD* (Malaysia), *BHARTI – AXA GENERAL INSURANCE COMPANY LIMITED* (India)

BENOÎT POTIER

Chairman and Chief Executive Officer of AIR LIQUIDE SA

Non-Independent Director, Chairman of the Strategy Committee and member of the Nomination and Compensation Committee

Age 61 – French nationality

First appointed to the Board: 2003 Shareholders' Meeting
End of term: 2021 Shareholders' Meeting
DANONE shares: 8,846

Expertise – Experience – Main activities

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.

Current terms of office

Danone companies

- Director, Chairman of the Strategy Committee and member of the Nomination and Compensation Committee of DANONE SA

Other companies

French listed companies

- Chairman and Chief Executive Officer of AIR LIQUIDE SA

Foreign listed companies

- Member of the Supervisory Board and Member of the Nomination Committee of *SIEMENS AG* (Germany)

French unlisted companies

- Chairman and Chief Executive Officer of *AIR LIQUIDE INTERNATIONAL* [a]
- Director of *THE HYDROGEN COMPANY* [a]

Foreign unlisted companies

- Chairman and Chief Executive Officer of *AIR LIQUIDE INTERNATIONAL CORPORATION* [a] (United States)
- Director of *AMERICAN AIR LIQUIDE HOLDINGS INC.*[a] (United States)
- Co-Chair of *THE HYDROGEN COUNCIL* (Belgium)

Terms of office that expired over the past five years

–

(a) Air Liquide group company.

FRANCK RIBOUD

Honorary Chairman of Danone SA

Non-Independent Director, Member of the Strategy Committee

Age 63 – French nationality

First appointed to the Board: 1992 Shareholders' Meeting
End of term: 2022 Shareholders' Meeting [a]
DANONE shares: 195,745

Expertise – Experience – Main activities

Franck RIBOUD joined Danone in 1981 and 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 company 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. He served as Chairman and Chief Executive Officer of Danone from May 1996 to October 2014, at which time he became Chairman of the Board of Directors. Since December 2017, he has been the Honorary Chairman of Danone.

Current terms of office

Danone companies

- Honorary Chairman, Director and member of the Strategy Committee of DANONE SA
- Director of *BAGLEY LATINOAMERICA SA* [b] (Spain)

Other companies

Foreign unlisted companies

- Director of *ROLEX SA* (Switzerland), *ROLEX HOLDING SA* (Switzerland), *BOARDRIDERS, INC.* (United States)

Terms of office that expired over the past five years

- Chairman of the Board of Directors, Chief Executive Officer, Chairman of the Strategy Committee of DANONE SA
- Director of RENAULT SA and *RENAULT SAS*
- Member of the Steering Committee of *LIVELIHOODS FUND (SICAV)* [c] (Luxembourg)
- Chairman of the Board of Directors of *LIVELIHOODS FUND FOR FAMILY FARMING SAS* [c]
- Chairman of the Board of Directors of *DANONE COMMUNITIES (SICAV)* [c]
- Director of *DANONE SA* (Spain)

(a) Provided his term of office is renewed by the Shareholders' Meeting of April 25, 2019.
(b) Danone group company.
(c) 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, Member of the Strategy Committee

Age 58 – French nationality

First appointed to the Board: 2011 Shareholders' Meeting
End of term: 2020 Shareholders' Meeting
DANONE shares: 4,073

Expertise – Experience – Main activities

In 1987, Isabelle SEILLIER 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.

Current terms of office

Danone companies

- Director and member of the Strategy Committee of DANONE SA

Other companies

–

Terms of office that expired over the past five years

–

JEAN-MICHEL SEVERINO

Manager of I&P SARL

Independent Director, Chairman of the Audit Committee and member of the Strategy Committee

Age 61 – French nationality

First appointed to the Board: 2011 Shareholders' Meeting
End of term: 2020 Shareholders' Meeting
DANONE shares: 4,361

Expertise – Experience – Main activities

Jean-Michel SEVERINO began his career at the Inspection générale des finances (French General Inspection of Finance) (1984-1988). He was then 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 macroeconomic and financial crisis in 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 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 in 2010 and is currently a senior fellow and director of the Fondation pour les Études et Recherches sur le Développement International (FERDI).

Current terms of office

Danone companies

- Director, Chairman of the Audit Committee and member of the Strategy Committee of DANONE SA

Other companies

French listed companies

- Director and member of the Audit Committee of ORANGE

French unlisted companies

- Chairman of the Board of Directors of EBI SA (ECOBANK INTERNATIONAL)
- Director of PHITRUST IMPACT INVESTORS SA
- Member of the Investment Committee of *ENERGY ACCESS VENTURES*
- Manager of *ÉMERGENCES DÉVELOPPEMENT (EURL), I&P SARL (INVESTISSEURS ET PARTENAIRES)*
- Co-Manager of *I&P CONSEIL*

Foreign unlisted companies

- Director and member of the Investment Committee of *I&P GESTION* (Mauritius)
- Chairman of the Board of Directors of *I&P AFRIQUE ENTREPRENEURS* (Mauritius)
- Director of *I&P DÉVELOPPEMENT* (Mauritius)

Terms of office that expired over the past five years

- Member of the Social Responsibility Committee of DANONE SA
- Director and Member of the Investment Committee of *ADENIA PARTNERS* (Mauritius)

6

VIRGINIA A. STALLINGS

Professor of Pediatric Medicine at CHILDREN'S HOSPITAL OF PHILADELPHIA

Independent Director, Chair of the Social Responsibility Committee

Age 68 – U.S. nationality

First appointed to the Board: 2012 Shareholders' Meeting
End of term: 2021 Shareholders' Meeting
DANONE shares: 4,000

Expertise – Experience – Main activities

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 Children's Hospital of Philadelphia. She is a pediatrician and a clinical and research specialist focused on nutrition and health in children and adults, as well as on growth in children with chronic illnesses. Her research interests are in nutrition-related growth in healthy children and those with chronic illnesses. 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 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 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.

Current terms of office

Danone companies

- Director and Chair of the Social Responsibility Committee of DANONE SA

Other companies

Foreign unlisted companies

- Director of *FITLY* (United States)
- Founder and Administrator of the Scientific Advisory Board of *MEDICAL NUTRITION INNOVATION, LLC* (United States)

Terms of office that expired over the past five years

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BETTINA THEISSIG

Member of the European Works Council of Danone and Chair of the Works Council of MILUPA GmbH

Director representing employees, Member of the Social Responsibility Committee

Age 56 – German nationality

First appointed to the Board: 2014 Shareholders' Meeting
End of term: 2020 Shareholders' Meeting
DANONE shares: –

Expertise – Experience – Main activities

Bettina THEISSIG began her career 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. After acquiring her first professional experience in Milupa's advertising department, she held various positions 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, Health Officer and Representative to the Works Council of Danone's sites in Germany. She is also a member of Danone's European Works Council and of the Steering Committee. Bettina THEISSIG has also represented employees with disabilities since 1998.

Current terms of office

Danone companies

- Director representing employees and member of the Social Responsibility Committee of DANONE SA
- Chair of the Works Council and of the Central Works Council of *MILUPA GmbH* (Germany)

Other companies

–

Terms of office that expired over the past five years

–

SERPIL TIMURAY

CEO Europe Cluster and Member of the Executive Committee of the VODAFONE group

Independent Director, Member of the Social Responsibility Committee

Age 49 – Turkish nationality

First appointed to the Board: 2015 Shareholders' Meeting
End of term: 2021 Shareholders' Meeting
DANONE shares: 7,271

Expertise – Experience – Main activities

Serpil TIMURAY 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 joined the Executive Committee of Vodafone Group and was appointed as the Regional CEO of Africa, Middle East, Asia-Pacific. In October 2016, she was appointed as the Group Chief Commercial Operations and Strategy Officer of Vodafone Group. She has been CEO Europe Cluster of Vodafone since October 2018 and continues to be a member of the group's Executive Committee.

Current terms of office

Danone companies

- Director and member of the Social Responsibility Committee of DANONE SA

Other companies

Foreign unlisted companies

- Chair of the Board of Directors of *VODAFONE TURKEY* [a] (Turkey)

Terms of office that expired over the past five years

- Director, member of the Nomination Committee, member of the Compensation Committee of *VODACOM GROUP* [a] (South Africa), *SAFARICOM KENYA* [a] (Kenya), *VODAFONE HUTCHISON AUSTRALIA* [a] (Australia)
- Director, Chair of the Social Responsibility Committee, member of the Nomination Committee, member of the Compensation Committee of *VODAFONE INDIA* [a] (India)
- Director of *VODAFONE EGYPT* (Egypt), *VODAFONE QATAR* [a] (Qatar)
- 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, Member of the Audit Committee and of the Nomination and Compensation Committee

Age 64 – French and Beninese nationalities

First appointed to the Board: 2014 Shareholders' Meeting
End of term: 2020 Shareholders' Meeting
DANONE shares: 4,369

Expertise – Experience – Main activities

Lionel ZINSOU-DERLIN 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 to the Prime Minister of the French Republic. 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.

Current terms of office

Danone companies

Director and member of the Audit Committee and of the Nomination and Compensation Committee of DANONE SA

Other companies

Foreign listed companies

- Director of *AMERICANA* (United Arab Emirates)
- Director of *ATTIJARI WAFA BANK* (Morocco)

French unlisted companies

- Vice-Chairman of the Supervisory Board of *PAI PARTNERS SAS*
- Chairman of *SOUTHBRIDGE (SAS)*
- Chairman of the Supervisory Board of *LES DOMAINES BARONS DE ROTHSCHILD (LAFITE) SCA*
- Member of the Supervisory Board of *AP-HP INTERNATIONAL (SAS)*
- Chairman of the Advisory Committee of *BAOBAB (SAS)*

Foreign unlisted companies

- 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)

Terms of office that expired over the past five years

- Director of *KAUFMAN & BROAD SA, ATOS*
- Chairman of *PAI PARTNERS SAS*
- Chairman and Chief Executive Officer of *SOUTH BRIDGE FRANCE*
- 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)
- 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)
- Manager of *SOFIA – SOCIÉTÉ FINANCIÈRE AFRICAINE SARL*

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 2019 fiscal year.

General principles

Role of the Nomination and Compensation Committee

Danone's compensation policy is regularly reviewed by the Nomination and Compensation Committee. Three-fourths of this Committee, which is chaired by the Lead Independent Director, is composed of independent Directors.

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). 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.

This 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;
- long-term 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;
- balanced and in line with investors' and shareholders' expectations;
- subject to stringent conditions, aligned with shareholders' interests and in line with best market practices;
- consistent with the principles that Danone applies to its 1,800 senior executives worldwide;
- determined by the Board of Directors on the basis of the Nomination and Compensation Committee's recommendations and in compliance with the AFEP-MEDEF Code, to which the Company adheres;
- reflective of the manager's responsibilities;
- determined in a general way, including, where applicable, 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 the section hereinafter *Compensation for other members of the Board of Directors*), 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 established 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, experience and 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 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.

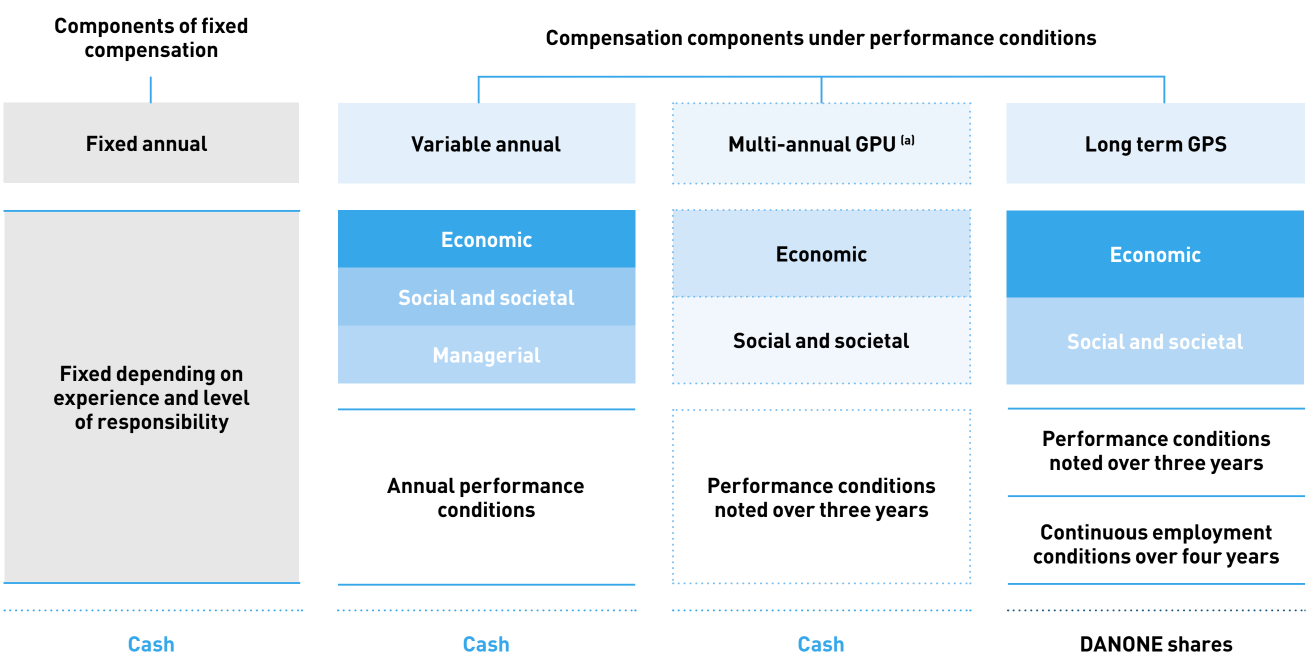
If such compensation is granted, it will, pursuant to Article L. 225-37-2 of the French Commercial Code, only be paid after it has been approved by the Shareholders' Meeting.

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 would take into account the commitments authorized under Article L. 225-42-1 of the French Commercial Code.

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 C*ompensation for other members of the Board of Directors*), executive corporate officers are not entitled to receive directors' fees.

Fixed compensation and other benefits

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; and
- reviewed at relatively long intervals. For example, the fixed compensation of Mr. Emmanuel FABER has remained unchanged since 2014.

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).

Social security benefits

Corporate officers are entitled to the same group insurance, healthcare and pension benefits offered by the Company to all Danone SA managers.

Variable compensation

The short-term and long-term performance criteria are mainly based on the Company's objectives for 2020 as communicated to the market and consistent with its strategic roadmap to 2030.

These demanding criteria are primarily economic in nature (60% over the short term and 80% over the long term), but also social and environmental (20% over both the short and the long term), as well as managerial in nature (20% over the short term only).

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 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, approximately 50% of the overall compensation in value for executive corporate officers and cannot exceed 60% of this total compensation.

Multi-annual compensation (GPU)

Multi-annual compensation is a cash compensation granted for a given year, subject to performance conditions over three years 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 2018 and review of the potential fulfillment of performance conditions for 2018; and (v) detailed information on the plans in effect as of December 31, 2018.

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 1,800 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. These criteria are generally as follows:
  - 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.
- is set by the Board of Directors, which also reviews the potential fulfillment 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 temporis* 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 conditions; (iii) other applicable rules; (iv) GPS granted in 2018 and review of the potential fulfillment of performance conditions under previous plans; and (v) detailed information on the plans in effect as of December 31, 2018.

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 and where applicable 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, such as the pension plan.

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 AWARDED TO THE CORPORATE OFFICER FOR 2018 AND COMPENSATION PRINCIPLES FOR 2019

Summary of the situation of the Chairman and Chief Executive Officer of Danone

Overall amount of compensation payable and the value, on the grant date, of GPU and GPS granted in 2017 and 2018 to the Chairman and Chief Executive 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 €)	**2017**	**2018**
Emmanuel FABER		
Annual compensation [(a)]	2,200,000	2,050,000
Benefits in kind [(b)]	7,313	7,347
Multi-annual compensation (maximum value of the GPUs granted for the year)	–	–
Long-term compensation (book value of the GPS granted for the year) [(c)]	2,013,007	2,007,135
Total	**4,220,320**	**4,064,482**

(a) Fixed and variable amounts due.
(b) Benefits in kind correspond to the group insurance and cars and drivers' pool made available to all officers.
(c) The amount corresponds to the full amount of the estimated value as of the grant date in accordance with IFRS 2, assuming the performance conditions have been met (see details above and Note 8.4 of the Notes to the consolidated financial statements).

Summary of the corporate officers' contracts, plans and indemnities for 2018

Contracts, plans and indemnities applicable to Danone's Chairman and Chief Executive Officer in 2018 (information required by Table 11 of the AMF recommendation on compensation of corporate officers)

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
Emmanuel FABER Chairman and Chief Executive Officer First appointment: 2002 Current appointment ends: 2019	✓		✓		✓		✓	

Through a letter dated January 25, 2019, Mr. Emmanuel FABER terminated his employment contract and waived his severance pay as well as the defined-benefit pension commitment in his favor. His non-compete commitment also ended concurrently with the termination of the employment contract.

Therefore he currently benefits only from the defined contribution pension plan ("article 83"), which will cease to vest on the termination date of his employment contract.

2018 compensation of Mr. Emmanuel FABER

Compensation and benefits granted in 2018

Analysis of monetary compensation and benefits due and paid to the Chairman and Chief Executive Officer

Amount of annual compensation due and paid, as well as in-kind benefits granted to the Chairman and Chief Executive Officer in 2017 and 2018 (information required by Table 2 of the AMF recommendation on compensation of corporate officers)

Year ended December 31

(in €)		2017		2018
	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	1,200,000	1,050,000	1,200,000
Multi-annual compensation [b]	–	468,000	–	580,000
Benefits in kind [c]	7,313	7,313	7,347	7,347
Extraordinary compensation	N/A	N/A	N/A	N/A
Directors' fees [d]	N/A	N/A	N/A	N/A
Total	**2,207,313**	**2,675,313**	**2,057,347**	**2,787,347**

(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 GPUs for the fiscal year. The amounts paid are the GPUs actually paid during the fiscal year.
(c) Benefits in kind include the group insurance and cars and drivers' pool made available to all officers.
(d) Mr. Emmanuel FABER is not entitled to directors' fees.

Annual fixed compensation for 2018

The fixed compensation due to Mr. Emmanuel FABER for 2018 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 2018

Compensation target and annual cap set for 2018

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
Economic Quantifiable portion, calculated on the basis of Danone's economic targets	Like-for-like sales growth	25%	0% to 200%	0% to 50%
	Recurring operating margin growth	25%	0% to 200%	0% to 50%
	Free cash flow generation	10%	0% to 200%	0% to 20%
	Total	**60%**	**0% to 200%**	**0% to 120%**
Social and societal Reference to Danone's societal and environmental initiatives	"One Person, One Voice, One Share" program	10%	0% to 200%	0% to 20%
	2018 environmental targets	10%	0% to 200%	0% to 20%
	Total	**20%**	**0% to 200%**	**0% to 40%**
Managerial Reference to the implementation of Danone's strategy	2030 goals and B Corp™	10%	0% to 200%	0% to 20%
	Product Innovation	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 fulfillment of objectives and weightings

At its meeting on February 18, 2019, upon recommendation of the Nomination and Compensation Committee, the Board of Directors determined the level of fulfillment for Mr. Emmanuel FABER's annual variable compensation.

It determined Mr. Emmanuel FABER's annual variable compensation for 2018 to be 105% of the target compensation on the basis of the following fulfillment figures:

Indicators	Weighting	Percentage of fulfillment	Percentage after weighting	Fulfillment amount (in €)
Economic	60%	100%	60%	600,000
Social and societal	20%	125%	25%	250,000
Managerial	20%	100%	20%	200,000
Total	**100%**	**–**	**105%**	**1,050,000**

Economic component: 100% of the target

Indicators	Weighting	Percentage of fulfill-ment	Weighted
Organic growth	25%	90%	22.5%
Margin	25%	100%	25%
Free cash flow	10%	125%	12.5%
Total	**60%**	**–**	**60%**

Regarding the quantifiable economic component, following the review of financial information by the Audit Committee and Board of Directors, the Board determined the fulfillment level for each of the targets, namely:

- partial fulfillment of the criterion related to like-for-like sales growth, in light of 2.9% growth;
- fulfillment of the target related to the recurring operating margin thanks to a 51 basis point increase on a like-for-like basis; and
- exceeded the free cash flow generation target given to roughly a €2.2 billion in free cash flow generated.

Social and societal component: 125% of the target

Indicators	Weighting	Percentage of fulfillment	Weighted
"One Person, One Voice, One Share" program	10%	130%	13%
Climate commitments	10%	120%	12%
Total	**20%**	**–**	**25%**

The Board of Directors determined the fulfillment level based on the following achievements:

- regarding the social aspect, the "One Person. One Voice. One Share" program, which made it possible to receive input from more than 75% of Danone employees with respect to the overall roadmap toward Danone's 2030 goals, thanks to the launch of an inclusive dialogue using a digital platform through a worldwide employee consultation; and
- as for the societal aspect, the progress made by Danone on its commitments in the area of climate change, and notably the upgrade of its ranking by the CDP Climate from A- to A, and the announcement of new commitments and actions aimed at accelerating Danone's transition toward a circular economy for packaging, which includes initiatives to ensure a second life for its packaging, investments to develop collection and recycling networks, actions to develop the use of recycled and/or reusable materials.

Managerial component: 100% of the target

Indicators	Weighting	Percentage of fulfillment	Weighted
2030 goals	10%	100%	10%
Brand model transformation	10%	100%	10%
Total	**20%**	**–**	**20%**

The Board of Directors took namely the following points into consideration:

- launch of Danone's new 2030 goals and accelerated progress with respect to the company's B Corp™ plan, with the certification of Danone entities representing more than 30% of its sales (notably certification of Danone North America, the largest B Corp™ certified entity in the world);
- continued advances by Danone in the transformation of its brand model as it seeks to develop committed brands; this has enabled the Manifesto brands to reach a weighting that represents 20% of Danone's sales.

Multi-annual compensation and long-term compensation

Group Performance Units

Grants in 2018 and the two previous years

Date of Board meeting that granted the GPU	7/27/2016	7/26/2017	7/26/2018
Number of GPU	20,000	–	–
Value of GPU granted during the year [a]	600,000	–	–
Amount paid	Pending	–	–
Payment date	2019	–	–

(a) The unit value of the 2016 GPU was set at €30 by the Board of Directors of February 18, 2019.

Amounts paid

	Year ended December 31	
(in €)	**2017**	**2018**
Emmanuel FABER	468,000 [a]	580,000 [b]

(a) Amount paid in connection with GPU granted in 2014 based on partial fulfillment of targets for the years 2014 and 2015 and total fulfillment of targets set for 2016.
(b) Amount paid in connection with GPU granted in 2015 based on partial fulfillment of targets for the years 2015 and total fulfillment of targets for 2016 and 2017.

Group Performance Shares

Grants in 2018 and the four previous years (information required by Table 6 and 10 of the AMF recommendation on compensation of corporate officers)

Date of Board meeting that granted the GPS	7/24/2014	7/23/2015	7/23/2016	7/26/2017	7/26/2018
Number of GPS	36,000	36,000	34,200	35,021 [c]	34,475 [c]
Value of the GPS granted for the year [a]	1,809,720	2,034,360	2,012,670	2,013,007	2,007,135
Number of GPS void or canceled [b]	–	–	–	–	–
Number of GPS delivered	36,000	–	–	–	–
Delivery date	7/25/2018	7/24/2019	7/28/2020	7/27/2021	7/27/2022

(a) For each year 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 details above and Note 8.4 of the Notes to the consolidated financial statements).

(b) Void or canceled GPS occur when the continuous employment condition was not met and do not include GPS that were not delivered because performance conditions were not fulfilled.

(c) If the continuous employment condition is satisfied and the performance condition related to free cash flow is met in full and the performance condition with respect to sales is exceeded for the 2017 and 2018 GPS, Mr. Emmanuel FABER could receive 36,772 and 36,199 shares in 2021 and 2022, respectively.

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*.

It should be noted that in the case of a change of control, for the GPS granted to executive corporate officers and members of the Executive Committee as of 2019, the achievement of the condition of continuing employment will be assessed by the Board of Director on a *prorata temporis* basis, calculated between the grant date and the date of the change of control compared to the initial delivery date provided for in the plan. Moreover, regarding the performance conditions, either the Board of Directors will have verified the degree of achievement, if not, the Board, upon the recommendation of the Nomination and Compensation Committee, will assess the degree of achievement of each performance conditions, based on available information.

Stock-options exercised

Since the last stock-options expired 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 the registration documents does not apply.

Approval of the components of compensation paid or granted to the Chairman and Chief Executive Officer in 2018

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 2018 will be subject to approval by the Shareholders' Meeting of April 25, 2019. However, only the variable and extraordinary components granted for the prior fiscal year cannot be paid without the approval of the Shareholders' Meeting.

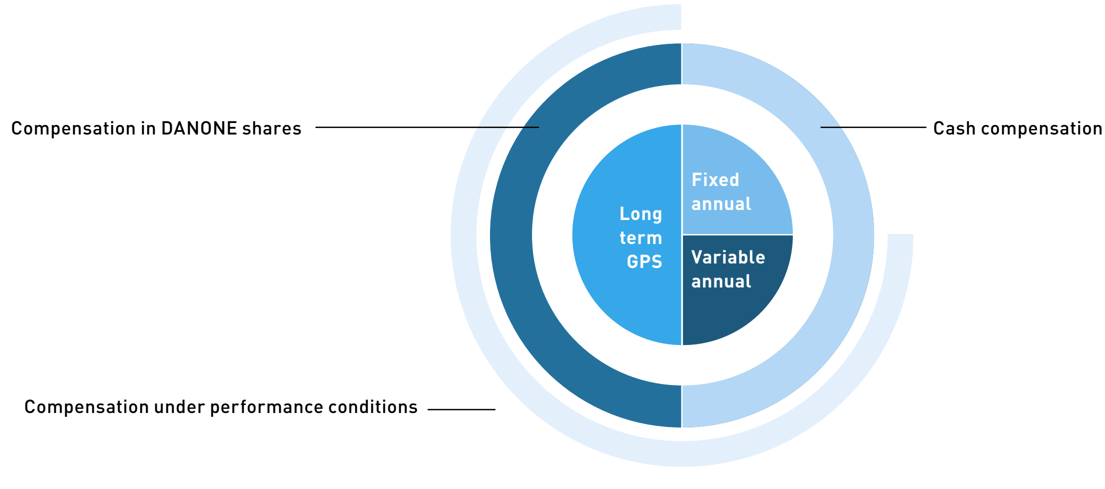
Compensation paid or granted to Mr. Emmanuel FABER for 2018

Components of compensation paid or granted for 2018	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 2018.
Annual variable compensation *(payment of this compensation is subject to approval by the Shareholders' Meeting)*	€1,050,000	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 Mr. Emmanuel FABER, the decision was made in 2017 to no longer grant him Group performance units (GPUs).
Extraordinary compensation	Not applicable	Danone has not established any mechanisms for granting extraordinary compensation to Mr. Emmanuel FABER.
Long-term compensation	GPS: €2,007,135	Long-term compensation takes the form of Group performance shares (GPS). GPS are shares of the Company subject to performance conditions. A total of 34,475 GPS 2018 were granted to Mr. Emmanuel FABER on July 26, 2018. The number could be increased to 36,199 if the continuing employment condition is satisfied, the free cash flow performance condition is met in full and the sales performance condition is exceeded. 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.
Stock-options	Not applicable	None granted. The last stock-options grant to corporate officers occurred 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 2018.
Benefits in kind	€7,347	This amount corresponds to the group insurance plan and cars and drivers' pool made available to officers.
Severance pay	No amount owed for 2018	The severance pay is described below in the section *Severance pay*.
Non-compete indemnity	No amount owed for 2018	The non-compete indemnity is described below in the section *Non-compete indemnity*.
Supplementary retirement plan	No amount owed for 2018	The supplementary retirement plan is described below in the section *Supplementary retirement plan*.

Compensation principles established for 2019

Upon recommendation of the Nomination and Compensation Committee, the Board of Directors determined, at its meeting of February 18, 2019, the principles of the compensation for Mr. Emmanuel FABER for fiscal year 2019.

The structure and components of compensation will be as follows:



Fixed compensation €1,000,000	The amount of Mr. Emmanuel FABER's annual fixed compensation, which remains unchanged since 2014, was confirmed by the Board of Directors at its meeting of February 18, 2019, upon recommendation of the Nomination and Compensation Committee.
Annual variable compensation The target amount of the annual variable compensation for 2019, 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 2018, it will consist of three components – an economic component that is based on Danone's targets, a social and societal component and a managerial component, with the same weightings. In accordance with the French Financial Market 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 granting of this variable performance-based variable compensation will be specifically disclosed at the close of the 2019 fiscal year. It will also be presented in the 2019 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 2019 will be subject to approval by the 2020 Shareholders' Meeting. The variable and extraordinary components of compensation granted for fiscal year 2019 will be paid only after approval by the 2020 Shareholders' Meeting.

OTHER COMPENSATION AND BENEFITS FOR THE CORPORATE OFFICER

Employment contract

At its meeting of February 13, 2008, the Board of Directors approved an amendment to Mr. Emmanuel FABER's 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.

As part of the renewal of his term as a Director, Mr. Emmanuel FABER terminated his employment contract on January 25, 2019, with effect from April 25, 2019, without any compensation.

Benefits: group insurance, healthcare coverage

Mr. Emmanuel FABER is entitled to the same group insurance and healthcare benefits offered to all Danone SA managers.

He is also entitled to the same life and disability insurance applicable to all Danone employees.

Supplementary retirement plan

Defined-benefits retirement plan

A defined-benefits retirement plan was set up for certain senior managers, subject to the provisions of Article L. 137-11 of the Social Security Code. Established in 1976, this plan was designed 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, 2018, 94 Group Directors were members of this plan (excluding plan beneficiaries who had already claimed their pension benefits), compared to 170 potential beneficiaries in 2003.

In connection with the termination of his employment contract, Mr. Emmanuel FABER decided to waive the benefit of this plan.

The amount provisioned for the defined benefit retirement plan constituted Danone's commitment as of December 31, 2018 in accordance with IFRS, *i.e.* a total of €35.7 million for Danone's corporate officers and Executive Committee members. A portion of this plan's coverage has been outsourced to insurance companies.

As for related payroll taxes and social security contributions, beneficiaries do not incur any charges during the vesting period, and premiums paid to the insurance company are deductible from the corporate income tax basis and are subject to the employer's contribution of 24%, pursuant to Article L.137-11, 2° of the French social security code.

A detailed presentation of the methods for calculating the pension annuity and cap that would have applied to Mr. Emmanuel FABER until his renunciation appears in the 2017 Registration Document on pages 254 to 257. It should be noted that:

- for 2017, the Board of Directors, at its April 2018 meeting, noted a 3% increase in the pension rights of Mr. Emmanuel FABER given the fulfillment of predetermined performance conditions;
- the reference compensation amount used to calculate the pension annuity as of December 31, 2018 would have been €2,213,333;
- as of December 31, 2018, the estimated annuity that could have been paid out to Mr. Emmanuel FABER was €1,194,300.

Further information on benefits eligibility is presented extensively in the 2017 Registration Document on pages 253 and seq.

Defined-contributions retirement plan

Mr. Emmanuel FABER is entitled to a defined-contributions retirement plan available to 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 three times the French social security ceiling.

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.

They 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. Danone's employer contributions paid for this plan for the 2018 fiscal year were €16,687 for Mr. Emmanuel FABER.

When Mr. Emmanuel FABER renews his term of office as a Director in 2019, he will receive only this defined-contributions retirement plan ("Article 83") established on behalf of Danone employees, without any additional rights vesting from this time, the termination date of his employment contract.

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, had 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, and it applied in 2018.

All information concerning Mr. Emmanuel FABER's severance pay is provided below in section 6.6 *Related party agreements and commitments*. On January 25, 2019, Mr. Emmanuel FABER waived the full amount of this severance pay.

Non-compete indemnity

Under his employment contract, the non-compete clause that applies to Chief Executive Officer Mr. Emmanuel FABER enabled 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. Emmanuel 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. Emmanuel FABER from his obligations under the clause with no financial compensation.

This non-compete indemnity ended concurrent with the termination of Mr. Emmanuel FABER's employment contract.

COMPENSATION FOR OTHER MEMBERS OF THE BOARD OF DIRECTORS

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 €)	**2017**	**2018**
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	720,000	763,000

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 meetings	–	–	–	–
Director	–	3,000	2,000	4,000
Committee meetings	–	–	–	–
Chairs	–	8,000	2,000	4,000
Members	–	4,000	2,000	4,000

Application

Compensation and benefits of the Board members

Amount of annual compensation due and paid and benefits granted in 2017 and 2018 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

			2017			2018
(in €)	Directors' fees [a]	Other compensation	Total annual compensation	Directors' fees [a]	Other compensation	Total annual compensation
Name	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**
Guido BARILLA [b]	N/A	N/A	N/A	5,000	–	5,000
Bruno BONNELL [c]	60,000	–	60,000	–	–	–
Cécile CABANIS [b]	N/A	N/A	N/A	–	1,708,555 [d]	1,708,555 [d]
Gregg L ENGLES	5,000	–	5,000	38,000	–	38,000
Clara GAYMARD	58,000	–	58,000	45,000	–	45,000
Jacques-Antoine GRANJON [e]	25,000	–	25,000	–	–	–
Michel LANDEL [b]	N/A	N/A	N/A	45,000	–	45,000
Jean LAURENT	126,000	–	126,000	123,000	–	123,000
Gaëlle OLIVIER	46,000	–	46,000	49,000	–	49,000
Benoît POTIER	59,000	–	59,000	69,000	–	69,000
Franck RIBOUD	–	2,499,568 [f]	2,499,568 [f]	27,000	1,430,392 [g]	1,457,392
Isabelle SEILLIER	50,000	–	50,000	51,000	–	51,000
Mouna SEPEHRI [e]	37,000	–	37,000	39,000	–	39,000
Jean-Michel SEVERINO	78,000	–	78,000	85,000	–	85,000
Virginia A. STALLINGS	70,000	–	70,000	62,000	–	62,000
Serpil TIMURAY	51,000	–	51,000	57,000	–	57,000
Lionel ZINSOU-DERLIN	55,000	–	55,000	49,000	–	49,000
Total	**720,000**	**2,499,568**	**3,219,568**	**744,000**	**3,138,947**	**3,882,947**

(a) Gross amount owed during the year before withholding tax.
(b) Mrs. Cécile CABANIS and Mr. Guido BARILLA and Mr. Michel LANDEL were appointed Directors by the Shareholders' Meeting of April 26, 2018.
(c) The Director's term of office of Mr. Bruno BONNELL ended with the Shareholders' Meeting of April 27, 2017.
(d) In addition to the annual compensation noted above (which includes fixed and variable annual compensation, in-kind benefits, profit-sharing and the payment of the 2015 GPU), 7,350 GPU and 12,670 GPS (up to 13,303 GPS if the continuous employment condition is satisfied, the performance condition related to free cash flow is met in full and the performance condition with respect to sales is exceeded) were granted to her in 2018.
(e) The Directors' terms of office of Mr. Jacques-Antoine GRANJON and Mrs. Mouna SEPEHRI ended with the Shareholders' Meeting of April 26, 2018.
(f) In 2017, Mr. Franck RIBOUD received compensation totaling €1,833,333 in his capacity as Chairman of the Board of Directors of Danone. He also received €650,000 in connection with the 2014 GPU delivered in 2017. In addition, a total of 36,334 of 2013 GPS were delivered to him in 2017.
(g) This amount corresponds to the annual pension amount due in 2018, whose payments are made at the end of the term. In addition, he received, for the last time in 2018, GPS granted in 2014 totaling 50,000.

The two Directors representing employees have an employment contract with Danone and therefore, in that capacity, receive compensation 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).

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 (GPS) 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 every year.

Cap on the number of GPS granted

Danone's GPS 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	4/29/2015	4/28/2016	4/27/2017	4/26/2018
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]	*0.03%*	*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 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 26, 2018 will be submitted to the Shareholders' Meeting of April 25, 2019 for approval.

Grant by the Board of Directors

GPS 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 60% of each corporate officer's overall target compensation in terms of accounting valuation (in accordance with IFRS) estimated at the time of the grant.

Review of the achievement of performance conditions by the Board of Directors

After an initial review by the Nomination and Compensation Committee, the Board of Directors determines whether performance objectives have been achieved.

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 8.4 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 in particular the resolution related to GPS.

Performance conditions are determined by the Board of Directors on 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. They 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.

Starting in 2018, an environmental performance condition for Danone was established. This condition, which is weighted 20%, reflects the levels assigned to Danone by CDP as part of its Climate Change program (see the section hereinafter *Review of the conditions related to GPS not yet delivered*).

Regarding the external financial performance criterion, the composition of the peer group panel that has been used to determine the performance conditions of GPS, severance pay of corporate officers and the annual review of the Chief Executive Officer's retirement rights, has been essentially the same since 2007. However, the following adjustments were required:

- the first was 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 occurred 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 performance conditions 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 performance conditions have been reached.

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 vesting period cannot 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 with no exceptions.

Regarding the executive corporate officers, the Board of Directors may, where applicable, decide an exception to the continuous employment condition, only on a partial and 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.

It should be noted that in the event of a change of control, the achievement of the continuing employment condition for GPS granted as of 2019 to executive corporate officers and members of the Executive Committee will be reviewed on a prorata basis, calculated between the date of the grant and change of control relative to the initial delivery date stipulated in the plan. In addition, regarding the achievement of the performance conditions, either the Board of Directors will have made a determination on the level of achievement or no such determination will have been made, in which case the Board, acting on the recommendation of the Nomination and Compensation Committee, will assess the degree of achievement for each performance condition based on the available information.

Definitive grant

The grants of GPS become final and DANONE shares are delivered to their beneficiaries at the end of the vesting period set by the Board of Directors.

Since 2013, the Board of Directors has only set up "4 + 0" plans (four-year vesting period and no holding period).

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.

Other applicable 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. Thus Mr. Emmanuel FABER has made a formal commitment not to use hedging instruments to hedge his risk exposure, in particular regarding GPS that he has received or will receive until such time as he ceases to exercise his functions. To the Company's knowledge, no hedging instrument has been established by the Chairman and Chief Executive Officer.

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, following 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 18, 2019 and when it approved the grant of GPS at its meeting on July 26, 2018.

Summary of GPS delivered in 2018 and not yet delivered

Summary of GPS plans as of December 31, 2018

Characteristics of outstanding GPS plans as of December 31, 2018, grants made under these plans and changes in these plans during 2018 (information required by the Tables 6 and 7 of the French Financial Markets Authority's recommendation related to disclosures in registration documents about the compensation of corporate officers)

Outstanding GPS plans		
Shareholders' Meeting authorizing the GPS	4/29/2014	4/29/2014
Number of GPS authorized by the Shareholders' Meeting	–	1,262,056
Of which, number of GPS not granted	–	*483,685*
Date of the Board of Directors' meeting authorizing the GPS	7/24/2014	10/17/2014
Plans	"4+0"	"4+0"
Number of GPS granted	**776,521**	**1,850**
GPS characteristics		
Share delivery date	7/25/2018	10/18/2018
End date of holding period	–	–
Performance conditions	• weighted two-thirds, average sales growth greater than or equal to that of the Panel over the years 2014, 2015 and 2016; • weighted one-third, positive gains in the average operating margin on a like-for-like basis over the years 2014, 2015 and 2016.	
Assessment of achievement of performance conditions	• Sales growth target between 2014 and 2016: achieved. • Operating margin evolution objective: achieved.	
Changes in 2018 and situation as of December 31, 2018		
Number of GPS as of December 31, 2017	563,268	1,850
GPS granted in 2018	–	–
Of which, GPS granted to corporate officers	–	–
GPS void or canceled in 2018	(40,445)	–
Of which, GPS canceled in 2018 due to non-fulfillment of some performance conditions	–	–
Shares delivered in 2018	(522,823)	(1,850)
Of which, shares delivered to corporate officers	*(36,000)*	–
Of which, shares delivered to the 10 employees (not including corporate officers) who received the largest number of shares in 2018	*(109,150)*	–
Number of GPS as of December 31, 2018	**–**	**–**
Of which, GPS granted to corporate officers	*122,000*	–
Of which, GPS granted to members of the Executive Committee	*217,500*	–
Of which, number of Executive Committee beneficiaries	*10*	–
Of which, GPS granted to 10 Danone employees (excluding corporate officers) who received the largest number of shares in 2018	–	–
Number of beneficiaries[1]	1,327	4
GPS void or canceled as of December 31, 2018	(251,898)	–

(a) Up to 635,043 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(b) Up to 685,932 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(c) Up to 636,777 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(d) Up to 18,711 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(e) Up to 3,348,479 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(f) Up to 655,488 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.

					Total
4/29/2015	4/28/2016	4/27/2017	4/26/2018	4/26/2018	
1,287,584	1,309,902	1,311,784	-	1,341,420	
642,212	*685,074*	*667,364* [a]	-	*717,381* [b]	
7/23/2015	7/27/2016	7/26/2017	7/26/2018	12/05/2018	
"4+0"	"4+0"	"4+0"	"4+0"	"4+0"	
645,372	**624,828**	**644,420**	**606,224** [c]	**17,815** [d]	**3,317,030** [e]
7/24/2019	7/28/2020	7/27/2021	7/27/2022	12/6/2022	
–	–	–	–	–	–
• weighted two-thirds, average sales growth greater than or equal to that of the median of the Panel over the years 2015, 2016 and 2017; • weighted one-third, improvement over three years (2015, 2016 and 2017) in the like-for-like performance of the operating margin.	• weighted 50%, average sales growth greater than or equal to that of the median for the Panel over the years 2016, 2017 and 2018; • weighted 50%, improvement over three years (2016, 2017 and 2018) in the like-for-like performance of the operating margin.	• weighted 50%, average sales growth greater than or equal to that of the median of the Panel over the years 2017, 2018 and 2019; • weighted 50%, achievement of a free cash flow level greater than €6 billion over the years 2017, 2018 and 2019.	• weighted 50%, average sales growth greater than or equal to that of the median of the Panel over the years 2018, 2019 and 2020; • weighted 30%, achievement of a free cash flow level greater than €6 billion over the years 2018, 2019 and 2020; • weighted 20%, achievement of the "Leadership" level attributed to Danone by CDP as part of its Climate Change program for the years 2018, 2019 and 2020		
• Sales growth target between 2015 and 2018: achieved. • Operating margin evolution objective: achieved.	• A review to determine the achievement of these criteria will be performed by the Board of Directors in 2019.	• A review to determine the achievement of these criteria will be performed by the Board of Directors in 2020.	• A review to determine the achievement of these criteria will be performed by the Board of Directors in 2021.		
537,631	568,983	643,258	–	–	2 314 990
–	–	–	606,224 [c]	17,815 [d]	624,039 [f]
–	–	–	*34,475* [g]	–	*34,475* [g]
(79,856)	(83,894)	(50,594)	(7,623)	–	(262,412)
–	–	–	–	–	–
–	–	–	–	–	(524,673)
–	–	–	–	–	*(36,000)*
–	–	–	–	–	*(109,150)*
457,775	**485,089**	**592,664**	**598,601**	**17,815**	**2,151,944**
36,000	*34,200*	*35,021* [h]	*34,475* [g]	–	*261,696* [i]
109,710	*104,268*	*89,158*	*77,141* [j]	–	*597,777*
12	*12*	*8*	*7*	–	–
–	–	–	*93,980* [k]	–	*93,980* [k]
1,332	1,394	1,499	1,415	33	–
(186,472)	(139,268)	(51,756)	(7,623)	–	(637,017)

(g) Up to 36,199 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(h) Up to 36,772 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(i) Up to 265,171 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(j) Up to 81,001 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(k) Up to 98,682 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(l) Combined number of beneficiaries on the "4+0" plans granted by the Board.

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				
GPS granted	644,420	0.10%	624,039 [c]	0.09%
of which GPS granted to the Chief Executive Officer	*35,021*	*0.01%*	*34,475* [d]	*0.01%*
Balance as of December 31 [b]				
GPS not yet vested	2,314,990	0.35%	2,151,944 [e]	0.31%
of which GPS granted to corporate officers	*364,221*	*0.06%*	*261,696* [f]	*0.04%*

(a) Percentage of share capital as of December 31.
(b) Balance of GPS not yet vested as of December 31 of the respective year.
(c) Up to 655,488 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(d) Up to 36,199 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(e) Up to 2,212,645 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.
(f) Up to 143,171 GPS if the continuing employment condition is satisfied, the free cash flow condition is fully achieved, the environmental condition is fully satisfied and the sales growth condition is exceeded.

For the record, it should be noted that two grants were made in 2018, a main grant in July 2018 and a very minor complementary grant in December 2018. Is should also be noted that the practice of making two grants during the year is traditional, since it was implemented in 2011, 2012, 2013 and 2014. The second grant enables new management teams to be offered the benefits of the long-term compensation mechanism.

Presentation of 2019 GPS submitted to the Shareholders' Meeting of April 25, 2019 for approval

General rules

The Shareholders' Meeting of April 25, 2019 is asked to vote on the establishment of a new GPS plan under which 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 2019 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 sales ("CA") is compared, on a like-for-like basis, with that of a benchmark panel over a three-year period, *i.e.* 2019, 2020 and 2021

- 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 75% 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 75% 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 growth in Danone's sales (on a consolidated and like-for-like basis) in 2019, 2020 and 2021, it being specified that "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 in IFRS*).
Each Panel member's CA	Average growth in sales generated (on a consolidated and like-for-like basis) by a given Panel member in 2019, 2020 and 2021.
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 CAs.
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.
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 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 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 Boards' 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 Boards' report to the Shareholders' Meeting, following 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 2022, 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 2019, 2020 and 2021	If the sum of the FCF is: • less than or equal to €6.2 billion, the definitive grant will be 0% of the shares subject to the FCF performance condition; • between €6.2 and €6.7 billion, the definitive grant will be between 0% and 100%, based on a linear progression scale between €6.2 and €6.7 billion; • greater than or equal to €6.7 billion, the definitive grant will be 100%.
DEFINITIONS	
Sum of the "FCF"	Sum of the amounts of "free cash flow" for 2019, 2020 and 2021, 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 in IFRS*), excluding changes in scope and exchange rates.
OTHER APPLICABLE 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 Boards' report to the Shareholders' Meeting, following the Nomination and Compensation Committee's recommendation.
Date of assessment of achievement of the performance condition	In early 2022, after the approval of the 2021 financial statements.

Environmental performance condition, weighted by 20%

PRINCIPLE	
Levels and scores assigned to Danone by CDP as part of its Climate Change program taking into account Danone's environmental performance for the fiscal years 2019, 2020 and 2021	If the "Leadership" level is assigned to Danone for the fiscal years 2019, 2020, and 2021, and the score A has been assigned at least twice during these three years, the definitive grant will be 100% of the shares subject to the environmental performance condition. If the "Leadership" level is assigned to Danone for these three fiscal years and the score A is assigned only one year, the definitive grant will be 50% of the shares subject to the environmental performance condition. In all other cases, and in particular if the "Leadership" level is assigned for the fiscal years 2019, 2020 and 2021 without the assignment of the score A during these three years, the definitive grant will be 0% 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 assess and manage their environmental impacts.
Score	Score assigned by CDP each year to Danone under its Climate Change program, taking into account Danone's environmental performance for the fiscal years 2019, 2020 and 2021.
"Leadership" Level	The "Leadership" level is assigned if a score of A or A- has been assigned by CDP.

Score A	Score assigned by CDP taking into account the environmental performance for a given year, corresponding to the highest ranking 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 eighth of the range of scores assigned by CDP, or the highest score if this new range of scores assigned by CDP includes fewer than eight scores.
Score A-	Score assigned by CDP taking into account the environmental performance for a given year, corresponding to the second highest ranking 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 two highest scores if this new range of scores assigned by CDP includes fewer than eight scores.
OTHER APPLICABLE RULES	
Many levels during the same year	If, for a given year, CDP publishes two different levels, the lower level will be taken into account.
Many scores during the same year	If, for a given year, CDP publishes two different scores, the lower score 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 no score is assigned by CDP to Danone under its Climate Change program, for the fiscal years 2019, 2020 and/or 2021, the following rules will apply, as an exception to the above: • if no score was assigned for the year 2021 by March 31, 2023, whereas the "Leadership" level was assigned for the years 2019 and 2020 and the score A was also assigned for these two years, 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 score was assigned for the year 2021 by March 31, 2023, whereas the "Leadership" level was assigned for the years 2019 and 2020 and the score A- was also assigned for these two years, the definitive grant will be 50% 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 score was assigned for the year 2021 by March 31, 2023, and the "Leadership" level was not assigned for the years 2019 and 2020, the definitive grant will be 0% of the shares subject to this environmental performance condition; • if no score was assigned for the year 2020 whereas the score A was assigned for the year 2019, the definitive grant will be 100% 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 score was assigned for the year 2020 and a score A- was assigned to Danone for the year 2019, the definitive grant will be 50% 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 score was assigned for the year 2020 and the "Leadership" level was not assigned for the year 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 score was assigned for the year 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 will determine the level of achievement of this third performance condition, or its appreciation of this condition in case of change of the Climate Change program, 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 2023.

Review of the conditions related to GPS not yet delivered

GPS granted in 2018

The 2018 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 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 growth in sales (on a consolidated and like-for-like basis) in 2018, 2019 and 2020, it being specified that "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 in IFRS*).
Each Panel member's CA	Average growth in sales generated (on a consolidated and like-for-like basis) by a given Panel member in 2018, 2019 and 2020.
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.

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 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 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 over three years (2018, 2019 and 2020) 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 2018, 2019 and 2020, it being specified that the 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 in IFRS*), excluding changes in scope and exchange rates.
OTHER APPLICABLE 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 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	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 program 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 conditions.
DEFINITIONS	
CDP	CDP, a not-for-profit organization that runs a global disclosure system for investors, companies, cities, states and regions to help them assess 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.
OTHER APPLICABLE 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 this 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 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 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); • 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.

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 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 growth in sales (on a consolidated and like-for-like basis) in 2017, 2018 and 2019.
Each Panel member's CA	Average growth in sales generated (on a consolidated and like-for-like basis) by a given Panel member in 2017, 2018 and 2019.
Like-for-like changes in sales	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.

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 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 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 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 in 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 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 growth in sales (on a consolidated and like-for-like basis) in 2016, 2017 and 2018.
Each Panel member's CA	Average 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 in IFRS* of the 2016 Registration Document).
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.

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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%.
DEFINITIONS	
Trading operating margin 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 2016 Registration Document).

ASSESSMENT OF ACHIEVEMENT OF THE PERFORMANCE CONDITION	
Assessment of achievement of the performance condition	**Upon the recommendation of the Nomination and Compensation Committee, on February 18, 2019 the Board of Directors noted the achievement of the operating margin condition.**

Review of the rules related to the GPS granted in 2015 and to be delivered in 2019

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 growth in Danone's sales in 2015, 2016 and 2017 (on a consolidated and like-for-like basis).
Each Panel member's CA	Average 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* of the 2015 Registration Document).

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.
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 the recommendation of the Nomination and Compensation Committee and based on a report of Lazard bank, on April 26, 2018 the Board of Directors noted the achievement of the sales-related performance condition.**

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 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 2015 Registration Document).
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.**

FORMER STOCK-OPTION PLANS

The last stock-options plans expired in 2017. Therefore, the tables 8 and 9 of the French Financial Market's Authority's recommendation do not apply.

It should be noted that an obligation to hold DANONE shares resulting from the exercise of stock-options applies to all corporate officers and other Executive Committee members. These corporate officers must hold (in registered form) a certain number of shares resulting from the exercise of options granted under each stock option plan approved between and 2009, until their terms of office are terminated. This number of shares corresponds 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.

Moreover, the Board of Directors, at its meeting on February 14, 2012, decided to add 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.

GROUP PERFORMANCE UNITS

Principles

Danone's multi-annual compensation consists of Group Performance Units (GPU) that are subject to multi-annual performance conditions over a three-year period.

GPU were introduced in 2005 to more closely align the compensation of the corporate officers, Executive Committee members and 1,800 senior executives with Danone's overall medium-term operational and economic performance.

GPU are granted each year by a decision of the Board of Directors, upon recommendation of the Nomination and Compensation Committee. Their payment is implemented after a three-year period and is submitted to the achievement of performance conditions.

Value

Each GPU has a maximum value of €30. Information on the valuation of existing GPU is provided hereinafter in section *Objectives applicable to the GPU in effect*.

Performance objectives

The Board of Directors determines the objective(s) for GPU 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 GPU.

Continuous employment condition

The payment of GPU 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 GPU 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 GPU granted during the 12 months preceding his/her departure;
- the GPU 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, 2018

Outstanding GPU plans						
Year of grant	**2015**	**2016**	**2017**	**2018**	**2018**	**Total**
Date of Board meeting that granted the GPU	7/23/2015	7/27/2016	7/26/2017	7/26/2018	12/5/2018	N/A
Number of GPU granted	927,439	943,266	952,130	905,806	14,394	**3,743,035**
of which, number granted to corporate officers	*20,000* [a]	*20,000* [a]	– [b]	– [b]	– [b]	***40,000***
Number of beneficiaries	1,331	1,394	1,498	1,414	22	
GPU characteristics						
Year paid	**2018**	**2019**	**2020**		**2021**	
Objectives [c]	Annual objectives for 2015, 2016 and 2017	Annual objectives for 2016, 2017 and 2018	Objectives set in 2017 for a three-year period		Objectives set in 2018 for a three-year period	
Unit value of GPU	€29, since the 2015 objective was partially achieved and the 2016 and 2017 objectives were fully achieved	€30, since the 2016, 2017 and 2018 objectives were fully achieved for 2018	Maximum €30		Maximum €30	

(a) Grant to Mr. Emmanuel FABER.
(b) Since 2017, Mr. Emmanuel FABER no longer receives GPU.
(c) The objectives and information concerning their achievement are presented in detail hereinafter.

Objectives applicable to the GPU in effect

Objective applicable for 2015

Objective applicable to the first year of 2015 GPU

Objective	**Objective achievement level in 2015**	**Value of each GPU for 2015** *(in €)*	**Level of achievement**	**Valuation**
Increase in like-for-like sales of at least 4.5%	< 4.0%	0	The Board of Directors' meeting of February 22, 2016 determined that this objective had been achieved for a value of €9.	€9
	≥ 4.0%	5		
	≥ 4.1%	6		
	≥ 4.2%	7		
	≥ 4.3%	8		
	≥ 4.4%	9		
	≥ 4.5%	10		

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Objective applicable to 2016

Objective applicable to the second year of 2015 GPU and first year of 2016 GPU

Objective	Objective achievement level in 2016	Value of each GPU for 2016 *(in €)*	Level of achievement	Valuation
Growth in the operating margin	< +25 bp	0	The Board of Directors' meeting of February 14, 2017, upon the recommendation of the Nomination and Compensation Committee, noted the full achievement of the 2016 objective and therefore valued GPU at €10 in 2016.	€10
	⩾ +25 bp	5		
	⩾ +26 bp	6		
	⩾ +27 bp	7		
	⩾ +28 bp	8		
	⩾ +29 bp	9		
	⩾ +30 bp	10		

Objective applicable to 2017

Objective applicable to the third year of 2015 GPU and second year of 2016 GPU

Objective	Objective achievement level in 2017	Value of each GPU for 2017 *(in €)*	Level of achievement	Valuation
Growth in earnings per share	<+10%	0	The Board of Directors' meeting of February 15, 2018, upon the recommendation of the Nomination and Compensation Committee, noted the full achievement of 2017 objective and therefore valued GPU at €10 for 2017.	€10
	⩾ +10%	10		

Objective applicable to 2018

Objective applicable to the third year of 2016 GPU

Objective	Objective achievement level in 2018	Value of each GPU for 2018 *(in €)*	Level of achievement	Valuation
Growth in earnings per share	<+10%	0	The Board of Directors' meeting of February 18, 2019, upon the recommendation of the Nomination and Compensation Committee, noted the full achievement of the 2018 objective and therefore valued 2016 GPU at €10 for 2018.	€10
	⩾ +10%	10		

Objectives of GPU granted in 2017

Objectives	Level of achievement	Value of the objective *(in €)*	Level of achievement	Value
Growth in the recurring operating margin (like-for-like) over a three-year period, *i.e.* 2017, 2018 and 2019	< +60 bp	0	In 2020 the Board of Directors will assess the achievement of these objectives.	Maximum €30
	= +60 bp	12		
	= +70 bp	15		
	= +80 bp	18		
	= +90 bp	21		
	≥ +100 bp	24		
Annual reduction in the carbon footprint over a three-year period, *i.e.* 2017, 2018 and 2019	< +4% ≥ +4%	0 3		
Comparison of employee commitment level based on the Danone People survey relative to the FMCG [a] sector over a three-year period, *i.e.* 2017, 2018 and 2019	≤ FMCG > FMCG	0 3		

(a) Fast-Moving Consumer Goods.

Objectives of GPU granted in 2018

Objectives	Level of achievement	Value of the objective *(in €)*	Level of achievement	Value
Recurring operating margin in 2020	< 15,7%	0	In 2021 the Board of Directors will assess the achievement of these objectives.	Maximum €30
	≥ 15,7%	12		
	≥ 15,8%	15		
	≥15,9%	18		
	≥16,0%	21		
	≥16,1%	24		
Comparison of employee commitment level based on the Danone People survey relative to the FMCG [a] sector over a three-year period, *i.e.* 2018, 2019 and 2020	≤FMCG	0		
	>FMCG	6		

(a) Fast-Moving Consumer Goods.

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6.5 DANONE SHARES HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE COMMITTEE

NUMBER OF DANONE SHARES HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE COMMITTEE (WHICH INCLUDES 2 DIRECTORS)

	As of December 31, 2018
Board of Directors	
Emmanuel FABER	68,571
Franck RIBOUD	195,745
Guido BARILLA	4,000
Frédéric BOUTEBBA	–
Cécile CABANIS	6,681
Gregg L. ENGLES	4,132
Clara GAYMARD	4,235
Michel LANDEL	4,000
Gaëlle OLIVIER	4,340
Benoît POTIER	8,846
Isabelle SEILLIER	4,073
Jean-Michel SEVERINO	4,361
Virginia A. STALLINGS	4,000
Bettina THEISSIG	–
Serpil TIMURAY	7,271
Lionel ZINSOU-DERLIN	4,369
Executive Committee (excluding Emmanuel FABER and Cécile CABANIS)	**59,316**
Total number of shares	**383,940**
Total as a percentage of the Company's share capital	**0.06 %**

TRANSACTIONS ON DANONE SHARES

Transactions on DANONE shares completed in 2018 by individuals with managerial responsibilities

Name	Title	Type of security	Type of transaction	Date of transaction	Gross unit price	Number of shares	Total gross amount [a]
Emmanuel FABER	Chairman and Chief Executive Officer	Shares	Delivery of shares [b]	7/25/2018	€0.00	36,000	€0.00
		Shares	Donation to a non-profit legal entity	8/10/2018	€0.00	36,000	€0.00
		Shares	Acquisition	12/27/2018	€60.8454	4,218	€256,645.90
		Shares	Acquisition	12/27/2018	€59.77	2,398	€143,328.46
Franck RIBOUD	Director	Shares	Disposal	6/21/2018	€63.7986	38,750	€2,472,195.75
		Shares	Delivery of shares [b]	7/25/2018	€0.00	50,000	€0.00
		Shares	Disposal	11/13/2018	€66.40	50,000	€3,320,000.00
A legal entity related to Franck RIBOUD		Shares	Disposal	2/20/2018	€64.3118	3,160	€203,225.29
Bertrand AUSTRUY	Member of the Executive Committee	Shares	Delivery of shares [b]	7/25/2018	€0.00	2,033	€0.00
Guido BARILLA	Director	Shares	Acquisition	6/6/2018	€64.0024	2,000	€128,004.80
		Shares	Acquisition	6/6/2018	€64.20	2,000	€128,400.00
Cécile CABANIS	Member of the Executive Committee	Other [c]	Subscription	6/7/2018	€10.00	4,977	€49,770.00
		Shares	Delivery of shares [b]	7/25/2018	€0.00	2,750	€0.00
Michel LANDEL	Director	Shares	Acquisition	5/22/2018	€65.70	2,110	€138,627.00
		Shares	Acquisition	5/22/2018	€65.70	1,890	€124,173.00
Serpil TIMURAY	Director	Shares	Acquisition	4/27/2018	€67.3258	2,620	€176,393.60
		Shares	Subscription [d]	5/31/2018	€57.17	233	€13,320.61

(a) The amounts have been rounded to two decimals.

(b) These shares were delivered pursuant to the grant of Group performance shares (GPS) on July 24, 2014, in accordance with the conditions set by the Board of Directors for the 2014 GPS plan.

(c) This transaction involved a subscription through a bridge fund (*Fonds Relais*) in connection with an annual capital increase reserved for employees of the Company and its French subsidiaries. The value of each fund share was €10 in 2018. Following the capital increase, the bridge fund was merged into the Danone Company savings fund FCPE Danone.

(d) This subscription was made as part of the option given to shareholders by the Shareholders' meeting of April 26, 2018, to opt to receive the dividend payment in cash or new Company shares.

Corporate officers and Executive Committee members are required to hold their DANONE shares resulting from Group performance shares. This requirement is described in the above section 6.4 *Detailed information on long-term and multi-annual compensation plans, Other applicable rules*.

6.6 RELATED PARTY AGREEMENTS AND COMMITMENTS

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 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 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 past 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 SUBJECT TO THE APPROVAL OF THE SHAREHOLDERS' MEETING

In accordance with Article L. 225-40 of the French Commercial Code, we were informed of the following agreements and commitments entered into during the past year that received prior approval from your board of directors.

Advisory agreements with J.P. Morgan Group dated May 25, 2018

Persons concerned

Mrs. Isabelle Seillier, a director of your company and senior executive at J.P. Morgan.

Nature, purpose and conditions

By a unanimous vote, the board of directors' meeting of April 26, 2018 authorized the signing of two M&A advisory agreements with J.P. Morgan Securities plc ("J.P. Morgan") related to two potential disposal projects.

On May 25, 2018, your company entered into two advisory agreements with J.P. Morgan, under which J.P. Morgan agreed to help your company find buyers, draft a memorandum aimed at potential buyers, review offers, manage a data room, monitor the due diligence procedure and negotiate the documents needed to complete the project.

As consideration for its advisory assignment and subject to the completion of the respective transactions, these two advisory agreements provide for your company to pay J.P. Morgan a fee representing 1.50% of the total value of the assets to be sold, with a minimum of USD 1.5 million for the first transaction and €800,000 for the second. These fees will be due only if the disposal projects are completed.

Reasons justifying the benefits of the agreement for the company

Your board justified this agreement based on the fact that there are objective reasons to use J.P. Morgan in connection with these disposal projects and that doing so is therefore fully consistent with the interests of the company and its shareholders.

In particular, your board noted that:

- it is essential that the company be able to surround itself with first-rate financial advisors to prepare, negotiate and implement each of these disposal projects;
- J.P. Morgan is among the banks used by the company on a regular basis and consequently has a solid understanding of your company and its activities, as well as an in-depth knowledge of the U.S. market and various companies in the food and beverage industry, which makes its advice even more relevant;
- J.P. Morgan also has detailed knowledge of the assets to be sold in connection with one of the proposed disposals, since it advised on their acquisition several years ago; and
- the terms under which J.P. Morgan was retained (and in particular its compensation) are at market conditions.

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. Emmanuel Faber, chairman and chief executive officer of your company, director and chairman of the board of the danone.communities mutual investment fund (SICAV).

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, a director of your company, was also the chairman of the board of directors of Calyon, a subsidiary of the Crédit Agricole group. 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 15, 2018, the board of directors voted unanimously to set your company's annual financial contribution for 2018 at a maximum of €3.7 million. The total amount of financial contributions provided by your company to the Danone Communities project for 2018 therefore totaled €3.6 million.

2. With Mr. Franck Riboud, honorary chairman and a director of your company

Commitment related to the defined benefit pension of Mr. Franck Riboud

Nature, purpose and conditions

On February 13, 2008, the board of directors confirmed 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 Mr. Franck Riboud's term of office as chairman, the board of directors, acting on the recommendation of the nomination and compensation committee, voted 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 commitment was implemented, since Mr. Franck Riboud exercised his rights to the pension as of December 1, 2017. The annuity paid out to him in 2018 totaled €1.4 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, chairman and chief executive officer of your company

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 had voted 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 ended for whatever reason.

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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.

This agreement will end on April 24, 2019, as Mr. Emmanuel Faber terminated his employment contract effective April 24, 2019 through a letter dated January 25, 2019.

2. Amendments to the suspended employment contract of Mr. Emmanuel Faber

Nature, purpose and conditions

On February 10, 2010, the board of directors had amended the suspended employment contract of Mr. Emmanuel Faber 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, 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.

This agreement will end on April 24, 2019, as Mr. Emmanuel Faber terminated his employment contract effective April 24, 2019 through a letter dated January 25, 2019.

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 had decided on the principle and conditions of the indemnification rights in certain cases of termination of his term of office.

These indemnification rights were maintained:

- in 2010, on the same basis, in connection with the renewal of Mr. Emmanuel Faber's term of office as deputy general manager, by a decision of the board of directors' meeting of February 10, 2010, followed by the approval of the shareholders' meeting of April 22, 2010;
- in 2013, in connection with the renewal of Mr. Emmanuel Faber's term of office as deputy general manager, by a decision of the board of directors' meeting of February 18, 2013, followed by the approval of the shareholders' meeting of April 25, 2013. At that time, the indemnification rights were amended slightly in order to ensure consistency with the provisions of the AFEP-MEDEF Code, making their payment terms more restrictive;
- in 2014, on the same basis, in connection with the appointment of Mr. Emmanuel Faber as chief executive officer, by a decision of the board of directors' meeting of September 2, 2014, followed by the approval of the shareholders' meeting of April 29, 2015; and
- in 2016, on the same basis, in connection with the renewal of Mr. Emmanuel Faber's term of office as chief executive officer, by a decision of the board of directors' meeting of February 22, 2016, followed by 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, 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, maintained without changes since that date and valid until January 25, 2019, 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), Mondelēz 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 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.

Through a letter dated January 25, 2019, Mr. Emmanuel Faber waived his rights to indemnification in case of termination of his term of office as chief executive officer.

4. Commitment concerning the defined benefit plan of Mr. Emmanuel Faber

Nature, purpose and conditions

On February 13, 2008, the board of directors had confirmed the company's commitment on behalf of Mr. Emmanuel Faber, acting as 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) 1.50% 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 to:

- recognize that Mr. Emmanuel Faber has 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.

Through a letter dated January 25, 2019, Mr. Emmanuel Faber terminated his employment contract and waived his claim to the defined benefit pension.

The board of directors on February 18, 2019, took note, to the extent necessary, of the decision of Mr. Emmanuel Faber to terminate his employment contract and to waive his claim to the defined benefit pension.

(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.

Acting on the recommendation of the nomination and compensation committee and with Mr. Emmanuel Faber abstaining, the board of directors' meeting of April 26, 2018 voted unanimously that the performance condition had been satisfied and approved the increase in pension rights for the 2017 fiscal year.

Neuilly-sur-Seine and Paris La Défense, March 1, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

7

SHARE CAPITAL AND OWNERSHIP

7.1 SHARE CAPITAL OF THE COMPANY

TRANSACTIONS ON THE SHARE CAPITAL IN THE LAST FIVE YEARS AND SHARE CAPITAL AS OF DECEMBER 31, 2018

Effective date of the transaction	Shares created/ (canceled) 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)*
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
May 31, 2018	13,475,904	Capital increase for the payment of the dividend in shares	3,368,976.00	171,046,576.00	684,186,304
June 7, 2018	868,896	Capital increase reserved for employee members of a company savings plan	217,224.00	171,263,800.00	685,055,200
Share capital as of December 31, 2018				**171,263,800.00**	**685,055,200**

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 HELD BY THE COMPANY AND ITS SUBSIDIARIES

This section 7.2 describes the share buyback program set up in accordance with Articles 241-2 and *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 26, 2018 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 €85 per share. This authorization superseded the authorization previously granted by the Shareholders' Meeting of April 27, 2017.

This authorization was not used during fiscal year 2018 (see section *Transactions on Company shares in 2018 and situation as of December 31, 2018 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 25, 2019 to repurchase up to 10% of the total number of shares comprising the share capital of the Company (*i.e.* for information purposes, 68,505,520 shares as of December 31, 2018, representing a maximum potential purchase amount – excluding transaction fees – of approximately €5.8 billion) at a maximum purchase price of €85 per share.

Subject to the authorization being approved by the Shareholders' Meeting of April 25, 2019, the Company's buyback of its own shares would 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, or without performance conditions in the case of global employee share ownership plans, 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, either directly or through entities acting on their behalf;
- 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 at any time during an 18-month period beginning April 25, 2019 (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

Existing authorization

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. As in 2017, this authorization was not used in 2018.

Authorization subject to approval by the Shareholders' Meeting

The Board of Directors will submit to the April 25, 2019 Shareholders' Meeting a new authorization, for a period of 24 months, that upon its adoption will supersede the previous authorization granted by the Shareholders' Meeting of April 27, 2017, to reduce the share capital through the cancelation, on one or more occasions and within the limit of 10% of the share capital as of the date of the Shareholders' Meeting (per 24-month period), of part or all of the shares held by the Company or that it could acquire through share buyback programs authorized by the Shareholders' Meeting.

TRANSACTIONS ON COMPANY SHARES IN 2018 AND SITUATION AS OF DECEMBER 31, 2018

(number of shares)	**Situation as of December 31, 2017**	**Buybacks**	**Sales/ Transfers**	**Delivery of Group Performance Shares**	**Situation as of December 31, 2018**
Acquisitions	**30,769,360**	–	–	–	**30,769,360**
Employee shareholding plans	**1,757,632**	–	–	(525,007)	**1,232,625**
Share cancelations	**–**	–	–	–	**–**
Treasury shares	**32,526,992**	–	–	(525,007)	**32,001,985**
Shares held by Danone Spain	**5,780,005**	–	–	–	**5,780,005**
Total shares held by the Group	**38,306,997**	**–**	**–**	**(525,007)**	**37,781,990**

Treasury shares held by the Company as of December 31, 2018

(in €, except percentage and number of shares)	As of December 31, 2018
Number of DANONE shares	37,781,990
Percentage of share capital	*5.52%*
Value of DANONE shares held by the Company	
Par value	9,445,498
Gross value	1,639,028,509

Market value of DANONE shares held by Danone and its consolidated subsidiaries

(in €, except number of shares)	As of December 31, 2018
Number of DANONE shares	37,781,990
Closing price	61.51
Value of DANONE shares held by the Group	
At the closing price	2,323,970,205
At the closing price +10%	2,556,367,225
At the closing price -10%	2,091,573,184

7.3 AUTHORIZATIONS TO ISSUE SECURITIES GIVING ACCESS TO THE SHARE CAPITAL

SUMMARY OF FINANCIAL AUTHORIZATIONS IN EFFECT AS OF DECEMBER 31, 2018

Maximum amounts of share capital authorized *(nominal issuance amount)*		**Authorization type**	**Individual maximum amounts authorized** *(nominal amount or percentage)*	**Use in 2018**	**Available balance as of December 31, 2018** *(nominal amount or percentage)*
Maximum amount applicable to all dilutive and non-dilutive issuances: €57 million (approx. 33.3% [a] of the share capital)	Maximum amount applicable to non-dilutive issuances: €57 million (approx. 33.3% [a] of the share capital)	Capital increase with preferential subscription rights for shareholders	€57 million (approximately 33.3% [a] of the share capital) [b]	–	€57 million
	Maximum amount applicable to dilutive issuances: €16 million (or approximately 9.3% [a] of the share capital)	Capital increase without preferential rights but with a priority period for shareholders	€16 million (approximately 9.3% [a] of the share capital) [b]	–	€16 million
		Overallotment (as a % of initial issuance)	15% [b]	–	–
		Public exchange offer initiated by the Company	€16 million (approximately 9.3% [a] of the share capital) [b]	–	€16 million
		Contributions in kind	10% of the share capital	–	10% of share capital
		Capital increase reserved for employees	€3.2 million (approximately 1.9% [a] of the share capital)	€217,224	€3 million
		Grants of Group performance shares (GPS)	0.2% of the share capital at the close of the Shareholders' Meeting	655,488 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 23.9% [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, 2018 (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).

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 26, 2018 and expired on December 31, 2018.

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.

Capital increase reserved for employees	Shareholders' Meeting authorization	Board of Director's decision	Number of new shares	Price	Nominal amount of capital increase	Total amount of capital increase	Percentage of share capital
Carried out in 2018	April 27, 2017	February 15, 2018	868,896	€54.50	€217,224	€47,354,832	0.13%
Pending [a]	April 27, 2017	February 18, 2019	Maximum 1,568,320	€51.01	Maximum €392,080	Maximum €80,000,000	Maximum 0.23%

(a) Will be carried out in May 2019.

FINANCIAL AUTHORIZATIONS SUBJECT TO APPROVAL BY THE SHAREHOLDERS' MEETING

The Shareholders' Meeting of April 25, 2019 will be asked to renew the following authorizations for shares and securities, with and without preferential subscription rights, as well as to approve a new authorization aimed at promoting employee shareholding at the Group's foreign companies, based on the following conditions:

			Authorized limits	
	Authorization date	**Expiration date**	**Ordinary shares** *(nominal amount of ordinary shares issuance)*	**Debt securities**
Capital increase with preferential subscription right for existing shareholders	April 25, 2019	June 25, 2021	€60 million (approximately 35% [a] of the share capital)	Common limit of € 2 billion
Capital increase without preferential subscription right but with a priority period for shareholders	April 25, 2019	June 25, 2021	€17 million (approximately 9.9% [a] of the share capital)	
Overallotment (as a % of the initial issuance)	April 25, 2019	June 25, 2021	15%	
Public exchange offer initiated by the Company	April 25, 2019	June 25, 2021	€17 million (approximately 9.9% [a] of the share capital)	
Contributions in kind	April 25, 2019	June 25, 2021	10% of the share capital	
Capital increase through incorporation of reserves, earnings, additional paid-in capital and other amounts	April 25, 2019	June 25, 2021	€42 million (approximately 24.5% [a] of the share capital)	–
Capital increase reserved for employee members of a company savings plan	April 25, 2019	June 25, 2021	€3.4 million (approximately 2.0% [a] of the share capital) attributable to the common maximum limit of €17 million along with the aforementioned dilutive issues	–
Capital increase reserved for employees of foreign companies	April 25, 2019	October 25, 2020	€1.7 million (approximately 1.0% [a] of the share capital) attributable to the 2% maximum limit authorized for capital increases reserved for employees participating in a company savings plan	–
Allocation of Group performance shares	April 25, 2019	December 31, 2019	0.2% of share capital at the close of the Shareholders' Meeting, attributable to the common maximum limit of €17 million along with the aforementioned dilutive issues	–

(a) The percentage of share capital is calculated for indicative purposes only, based on share capital as of December 31, 2018.

CHANGES TO SHARE CAPITAL AND RIGHTS ATTACHED TO SHARES

Any changes to share capital or rights attached to shares constituting the share capital are subject to statutory law, as the by-laws contain no specific provisions.

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, 2018, 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). This delegation of authority was renewed in advance by the Board of Directors of February 18, 2019, and the maximum outstanding principal amount was reduced from €22 to 18 billion (or the equivalent amount in any other currency or unit of account).

BONDS OUTSTANDING AS OF DECEMBER 31, 2018

As of December 31, 2018, the total outstanding principal amount on bonds issued by the Company (Danone's only bond issuer) was €15,776 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 2018 FISCAL YEAR

A dividend of €1.94 per share will be proposed to the Shareholders' Meeting of April 25, 2019 on shares eligible to receive the dividend as of January 1, 2018. If this dividend is approved, the ex-dividend date is May 7, 2019 and the payment date is May 9, 2019.

DIVIDENDS PAID IN RESPECT OF THE PREVIOUS THREE FISCAL YEARS PRIOR TO 2018

Dividend relating to the fiscal year [a]	Dividend per share *(in € per share)*	Dividend approved *(in € millions)*	Dividend paid [b] *(in € millions)*
2015	1.60	1,048	995
2016	1.70	1,115	275 [c]
2017	1.90	1,274	428 [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 27, 2017 and April 26, 2018 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 corresponds 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 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 on the Danone website in real time or a recorded version stored for one year.

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 bonus shares granted 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 Act", since neither Danone's 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 and *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, 2018 and significant changes over the past three 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 amendments 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 below the average participation rate for shareholders' meetings of CAC 40 companies), 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 26, 2018 was 55.6%.

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 and *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, 2018 AND SIGNIFICANT CHANGES OVER THE PAST THREE YEARS

SHARE OWNERSHIP STRUCTURE AS OF DECEMBER 31, 2018

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*).

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]	53,523,938	7.8%	45,986,075	6.4%	45,986,075	6.7%
BlackRock	37,997,485	5.5%	37,997,485	5.3%	37,997,485	5.6%
Amundi Asset Management	24,930,152	3.6%	24,930,152	3.5%	24,930,152	3.7%
First Eagle Investment Management	16,991,351	2.5%	16,991,351	2.4%	16,991,351	2.5%
Groupe Sofina	14,163,293	2.1%	27,738,263	3.9%	27,738,263	4.1%
Norges Bank	11,933,570	1.7%	11,933,570	1.7 %	11,933,570	1.8%
Lyxor	11,770,974	1.7%	11,713,413	1.6%	11,713,413	1.7%
Groupe CDC	11,235,862	1.6%	11,235,862	1.6 %	11,235,862	1.6%
Employee shareholders –"*Fonds Danone*" company investment fund	8,897,524	1.3%	16,829,164	2.3%	16,829,164	2.5%
Treasury shares held by the Company	32,001,985	4.7%	32,001,985	4.4%	–	–
Treasury shares held by Danone Spain subsidiary	5,780,005	0.8%	5,780,005	0.8%	–	–
Other	455,829,061	66.5%	476,408,679	66.2%	476,408,679	69.9%
Total	**685,055,200**	**100.0%**	**719,546,004**	**100.0%**	**681,764,014**	**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, as well as the double voting rights attached to shares held in registered form for more than 2 years (*i.e.* 34,490,804 shares as of December 31, 2018).
(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 26, 2018 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, 2018, 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, 2018.

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 the Executive Committee*.

SIGNIFICANT CHANGES IN THE COMPANY'S SHARE OWNERSHIP DURING THE PAST THREE FISCAL YEARS

	Year ended December 31								
	2018			2017			2016		
Shareholders	**Number of shares**	**% of total shares**	**% of net voting rights (a)**	**Number of shares**	**% of net voting rights**	**% of net voting rights (a)**	**Number of shares**	**% of total shares**	**% of net voting rights (a)**
MFS	53,523,938	7.8%	6.7%	59,943,156	8.9%	7.78%	70,545,063	10.8%	9.1%
BlackRock	37,997,485	5.5%	5.6%	40,773,191	6.1%	6,1 %	34,552,051	5.3%	5.4%
Amundi Asset Management	24,930,152	3.6%	3.7%	14,909,453	2.2%	2.0%	14,250,441	2.2%	3.4%
First Eagle Investment Management	16,991,351	2.5%	2.5%	16,296,614	2.4%	2.4%	14,155,850	2.2%	2.2%
Groupe Sofina	14,163,293	2.1%	4.1%	14,292,198	2.1%	4.2%	14,110,330	2.2%	3.4%
Norges Bank	11,933,570	1.7%	1.8%	11,954,907	1.8%	1.8%	11,330,020	1.3%	1.8%
Lyxor	11,770,974	1.7%	1.7%	12,770,814	1.9%	1.9%	–	–	–
Groupe CDC	11,235,862	1.6%	1.6%	11,262,220	1.7%	1.7%	10,924,281	1.7%	1.7%
Employee shareholders –"*Fonds Danone*" investment fund	8,897,524	1.3%	2.5%	8,530,765	1.3%	2.5%	8,343,996	1.3%	2.5%
Treasury shares held by the Company	32,001,985	4.7%	–	32,526,992	4.8%	–	33,129,198	5.1%	–
Treasury shares held by Danone Spain subsidiary	5,780,005	0.8%	–	5,780,005	0.9%	–	5,780,005	0.9%	–
Other	455,829,061	66.5%	69.9%	441,670,085	65.9%	69.6%	438,770,765	66.9%	70.5%
Total	**685,055,200**	**100%**	**100%**	**670,710,400**	**100%**	**100%**	**655,892,000**	**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 2016 to 2018, the ownership interest held by Massachusetts Financial Services ("MFS") in the Company's share capital has fallen to 7.8% of the share capital as of December 31, 2018.

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, 2018, MFS informed the Company that it held 53,523,938 DANONE shares (approximately 7.8% of the share capital), including 45,986,075 shares (approximately 6.7% of the share capital) for which MFS exercises voting rights and 7,537,863 shares (approximately 1.1% of the share capital) for which MFS clients have retained voting rights.

Ownership interest held by BlackRock

In the fiscal years 2016 to 2018, the BlackRock group increased its ownership interest in the Company's share capital over the 5% threshold to approximately 5.5% of the Company's shares as of December 31, 2018.

Other significant changes during the past three fiscal years

In May 2018, J.P. Morgan Securities disclosed several crossings in both directions of the 5% threshold for share ownership or voting rights (see disclosures No. 218C0834, No. 218C0856, No. 218C0873). As of December 31, 2018, J.P. Morgan Securities indicated that it held less than 0.5% of the Company's shares.

With the exception of the aforementioned disclosures by J.P. Morgan Securities, no 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 2018.

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, 2018, 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 9,965,758, *i.e.* 1.45% of the Company's share capital, including the 8,897,524 shares (1.30% 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 holders of bearer shares

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 2018 of identifiable holders of bearer shares

		As a percentage of the share capital
Institutional investors		**78%**
of which,	*United States*	*43%*
	France	*20%*
	United Kingdom	*8%*
	Switzerland	*6%*
	Germany	*4%*
	Rest of Europe	*14%*
	Rest of World	*6%*
Individual investors and "*Fonds Danone*" FCPE		**11%**
Treasury shares		**6%**
Other		**6%**
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 corporate responsibility*).

STOCK PRICE AND TRADING VOLUME

Year ended December 31, 2018

	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	31,744,631	1,442,938	2.22	69.85	71.75	68.75
February	43,271,337	2,163,567	2.84	65.67	69.34	63.79
March	37,230,421	1,772,877	2.45	65.76	67.74	63.77
April	33,768,690	1,688,435	2.23	65.83	67.09	64.61
May	35,748,744	1,624,943	2.35	65.69	67.48	64.61
June	37,146,637	1,768,887	2.39	64.25	65.94	62.87
July	33,247,706	1,511,259	2.18	65.40	67.59	63.63
August	28,521,945	1,240,085	1.94	68.12	69.05	66.97
September	34,441,046	1,722,052	2.26	65.79	67.87	64.32
October	46,232,923	2,010,127	2.96	64.32	68.11	61.74
November	35,764,914	1,625,678	2.33	64.89	66.53	62.78
December	33,485,728	1,762,407	2.12	63.07	65.53	60.28

Source: Euronext Paris (closing price). 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, 2018 and significant changes over the past three 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, 2018 and significant changes over the past three 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 26, 2018 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 25, 2019 will be asked to renew this prohibition. Moreover, in accordance with the decision of the Shareholders' Meeting of April 26, 2018, 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 4.5 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 indirectly 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 Group performance unit (GPU) and Group performance share (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 11.3 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.

CROSS-REFERENCE TABLES 310

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
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 of the Company 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 to 6.5

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
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 financial 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 to 2.3, 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 to 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, 3.2
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, 2,4 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
9.	**Operating and financial review**	
9.1	Financial position	3.1 to 3.4, 4.1, 4.2
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*

Document of registration relating to shares		Sections
10.	**Capital resources**	
10.1	Issuer's capital resources	3.4, 4.1
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, 4.2
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, management and supervisory bodies 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 bodies**	
16.1	Expiration date of the terms of office	6.1, 6.2
16.2	Services agreements relating to the members of the administrative, management and supervisory bodies	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	Statement relating to corporate governance	6.1
17.	**Employees**	
17.1	Number of employees	2.6, 4.1, 5.4
17.2	Shareholdings and stock-options held by the members of the Board of Directors and of the Executive Committee	6.3, 6.4, 6.5
17.3	Agreements involving the employees in the capital of the issuer	5.4, 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, 6.6
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	December 31, 2018
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 of the issuer*	*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 law for any change in the capital*	*7.3*

Document of registration relating to shares		Sections
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 OF THE COMPANY AND DANONE GROUP

The cross-reference table hereinafter enables to identify the main information of the Management Report of the Company and Danone Group required by the French Commercial Code.

Information required	Reference text	Sections
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 financial 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 5.3
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. 233-26 of the French Commercial Code	3.1 and 2.5
Major events occurred since the close of the fiscal year	L. 232-1, II and L. 233-26 of the French Commercial Code	3.5
Company and Group foreseeable trends and outlook	L. 232-1, II and L. 233-26 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 and 3.2
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
Corporate Governance		
Board of Directors' Report on corporate governance	L. 225-37 of the French Commercial Code	6.1 to 6.5
Compensation policy for corporate officers	L. 225-37-2 of the French Commercial Code	6.3 and 6.4
Compensation and benefits in 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
Positions and responsibilities of the corporate officers	L. 225-37-4 1° of the French Commercial Code	6.2
Agreements entered into between significant shareholders or corporate officers and subsidiaries	L. 225-37-4 2° of the French Commercial Code	N/A
Mode of exercise of the executive management and limits on the powers of the Chief Executive Officer	L. 225-37-4 4° and 7° of the French Commercial Code	6.1
Composition and work of the Board of Directors	L. 225-37-4 5° of the French Commercial Code	6.1
Diversity policy	L. 225-37-4 6° of the French Commercial Code	6.1 and 5.4
Application of the Afep-Medef Corporate Governance code for listed companies	L. 225-37-4 8° of the French Commercial Code	6.1
Attribution and retention of options by corporate officers	L. 225-185 of the French Commercial Code	6.4
Attribution and retention of free shares 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
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
Participation in Shareholders' Meeting	L.225-37-4 9° of the French Commercial Code	7.6
Extra-financial performance		
Consolidated declaration of extra-financial performance	L. 225-102-1 and R. 225-105 of the French Commercial Code	5.1 to 5.5, 2.1 to 2.5 (business model)
Vigilance plan	L. 225-102-4 of the French Commercial Code	5.1

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FINANCIAL COMMUNICATION CALENDAR 2019

February 19, 2019
2018 Full-Year Results

April 17, 2019
2019 First-Quarter Sales

April 25, 2019
2019 Shareholders' Meeting

July 25, 2019
2019 First-Half Results

October 17, 2019
2019 Third-Quarter Sales

ABOUT DANONE (WWW.DANONE.COM)

Dedicated to bringing health through food to as many people as possible, Danone is a leading global food & beverage company building on health-focused and fast-growing categories in three businesses: Essential Dairy & Plant-Based Products, Waters and Specialized Nutrition. Danone aims to inspire healthier and more sustainable eating and drinking practices, in line with its "One Planet. One Health" vision which reflects a strong belief that the health of people and that of the planet are interconnected. To bring this vision to life and create superior, sustainable, profitable value for all its stakeholders, Danone has defined its 2030 Goals: a set of nine integrated goals aligned with the Sustainable Development Goals (SDGs) of the United Nations. Danone commits to operating in an efficient, responsible and inclusive manner; it holds itself to the highest standards in doing business, as reflected by its ambition to become one of the first multinationals certified as B Corp™. With more than 100,000 employees, and products sold in over 120 markets, Danone generated €24.7 billion in sales in 2018. Danone's portfolio includes leading international brands (*Actimel, Activia, Alpro, Aptamil, Danette, Danio, Danonino, evian, Nutricia, Nutrilon, Volvic,* among others) as well as strong local and regional brands (including *AQUA, Blédina, Bonafont, Cow & Gate, Horizon, Mizone, Oikos, Prostokvashino, Silk, Vega*).
Listed on Euronext Paris and on the OTCQX market *via* an ADR (American Depositary Receipt) program, Danone is a component stock of leading social responsibility indexes including the Dow Jones Sustainability Indexes, Vigeo Eiris, the Ethibel Sustainability Index, MSCI Global Sustainability, MSCI Global SRI Indexes and the FTSE4Good Index.

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